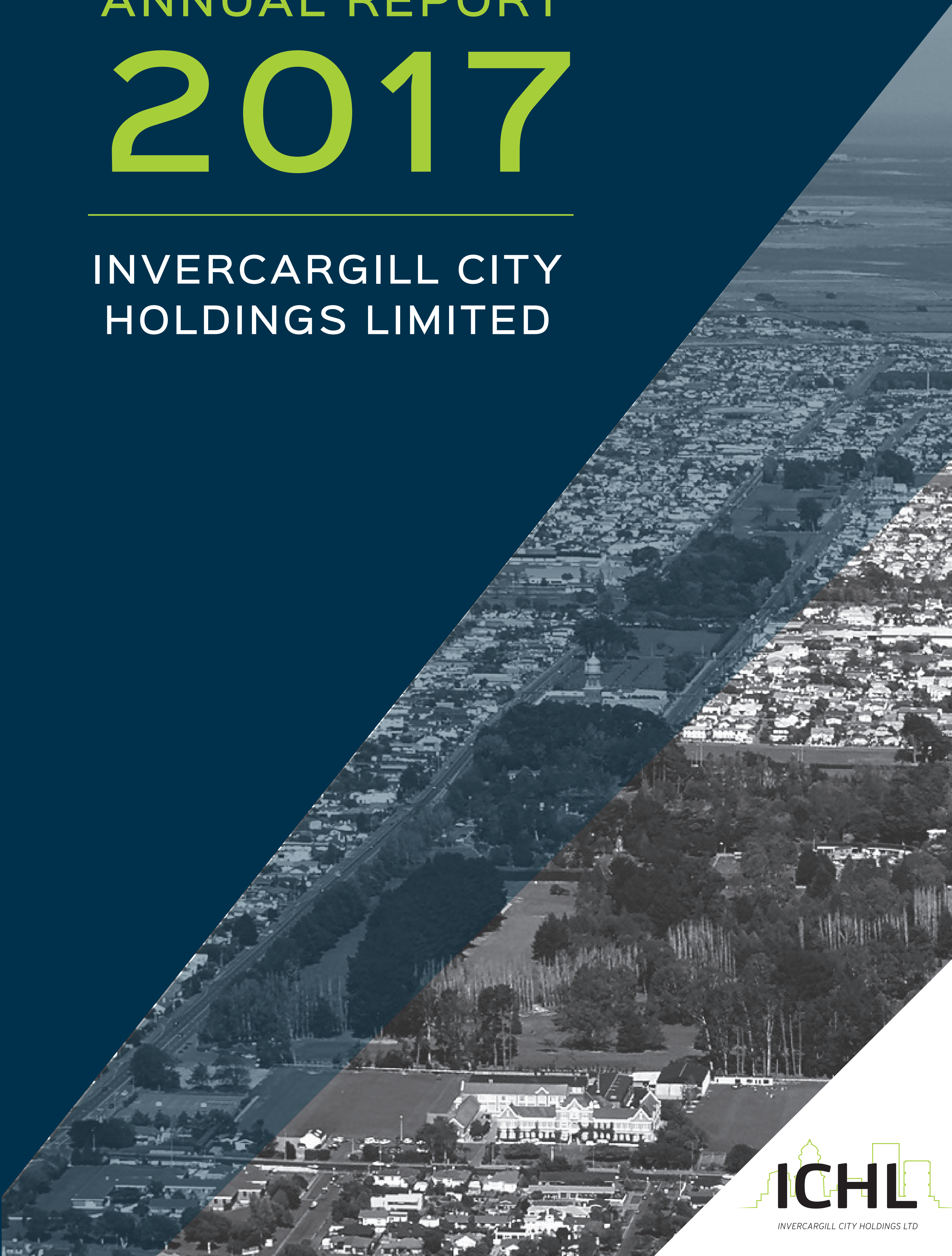
ANNUAL REPORT 2017

INVERCARGILL CITY HOLDINGS LIMITED



ICHL
INVERCARGILL CITY HOLDINGS LTD

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Approval by Directors

The Directors have approved for issue the financial statements of Invercargill City Holdings Limited for the year ended 30 June 2017.

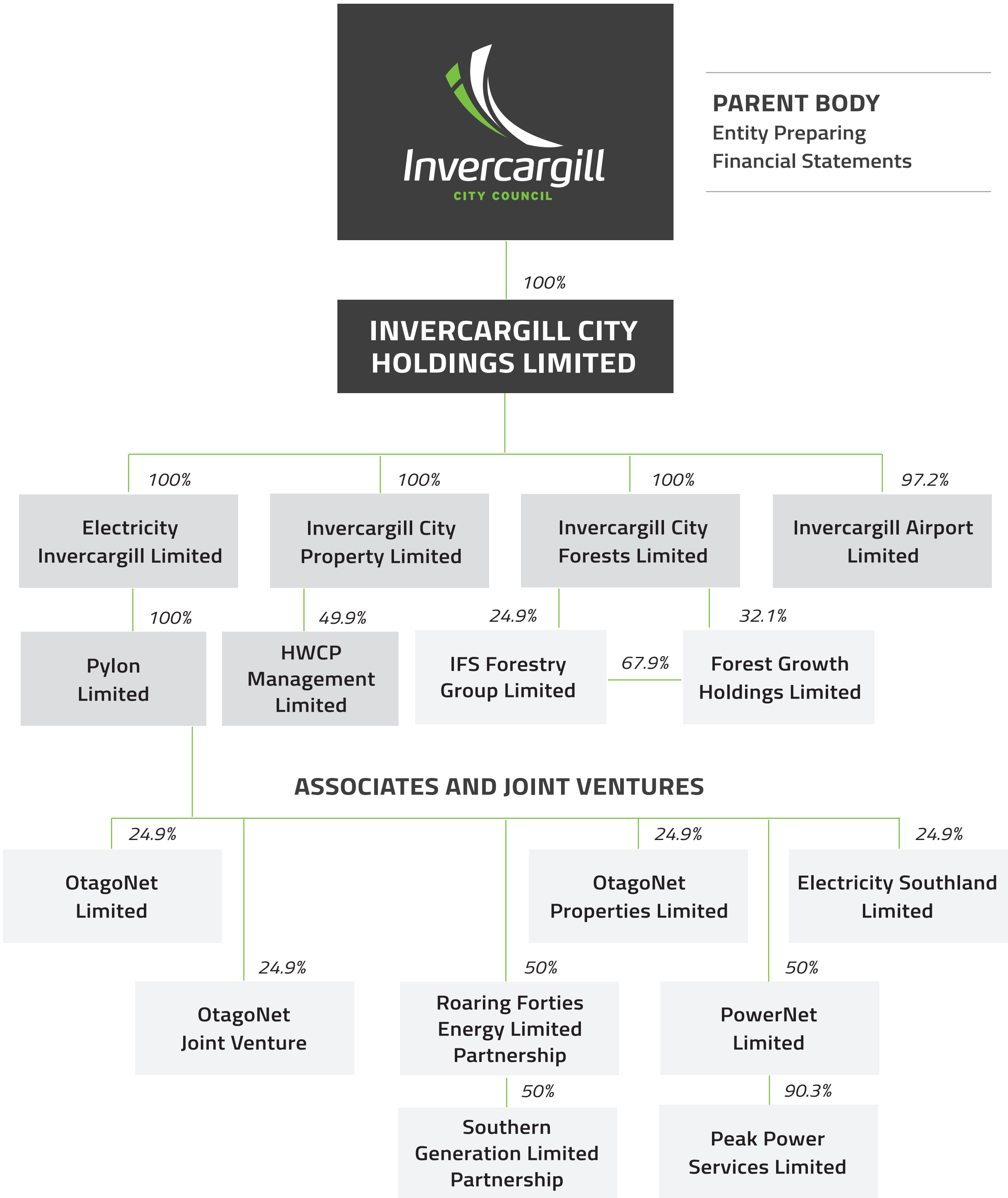
Chairman
C A McCulloch

Director
T D R Loan

For and on behalf of the Board of Directors.
12 September 2017

INVERCARGILL CITY HOLDINGS LTD

Group Structure



Directory

REGISTERED OFFICE

101 Esk Street
Invercargill 9810

AUDITOR

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

SOLICITORS

Preston Russell Law
92 Spey Street
Invercargill 9810

BANKERS

BNZ

TREASURY MANAGER

Bancorp Treasury Services

An Overview

INVERCARGILL CITY HOLDINGS LIMITED

Activities:

- Treasury advice and systems.
- Overview of Group operations.

2017 Financial Year:

- Overall financial result of after tax profit of $9.393 million for the Group.

ELECTRICITY INVERCARGILL LIMITED

Activities:

- Owners of Electricity Network and Generation Assets.
- Management of Electricity Network.

2017 Financial Year:

- The after tax profit for the year of $7.030 million, was lower than last year $7.767 million due to a combination of unseasonably warm weather during the first half of the year which reduced the underlying line charge revenue, and the change in equity accounting for the PowerNet Limited Group.
- Dividend paid to shareholder $5.7 million.
- EIL work this year focused on two key projects, replacing underground substations and link boxes to above ground, that ensure network reliability and safety.

INVERCARGILL AIRPORT LIMITED

Activities:

- Owners and operator of regional airport.

2017 Financial Year:

- The after tax profit was $358,000 compared to $800,000 for the prior year. The 2016 year included an impairment reversal of $874,000.
- Passenger numbers increased from last year by 1.7%.
- The first Redeemable Preference Share redemption was made during the year.
- Health and safety, risk management and operational compliance remain a priority for the company.

INVERCARGILL CITY FORESTS LIMITED

Activities:

- Owners and operators of nine forestry blocks in Southland and Otago.

2017 Financial Year:

- Dividend payment of $ 550,000.
- The financial result for the year is very pleasing with an after tax profit of $2.105 million compared to $1.584 million for the prior year.
- Log prices remained at a very high level all year.
- The company continues to seek new forestry assets and new markets for its logs.

INVERCARGILL CITY PROPERTY LIMITED

Activities:

- Sales and marketing of industrial land owned by Invercargill City Council at Awarua (Southland).
- Shareholding in HWCP Management Limited who own and manage suitable commercial properties in the city area.

2017 Financial Year:

- The Company's management contract with Invercargill City Council expired during the year.

Board of Directors

COMPANY DIRECTORS

C A McCulloch
Chairman

G J Sycamore
Director, City Councillor (until 9 November 2016)

A G Dennis
Director, City Councillor (until 9 November 2016)

T D R Loan
Deputy Chairman

L S Thomas
Director, City Councillor

G D Lewis
Director, City Councillor
(Appointed 9 November 2016)

D J Ludlow
Director, City Councillor
(Appointed 9 November 2016)

ELECTRICITY INVERCARGILL LIMITED

N D Boniface
Chairman (until 30 November 2016)

T Campbell
Director

D J Ludlow
Director, City Councillor (until 9 November 2016)

R L Smith
Director

S J Brown
Director

A J O'Connell
Director (Appointed 1 December 2016)

K F Arnold
Director, City Councillor (Appointed
9 November 2016)

INVERCARGILL AIRPORT LIMITED

A J O'Connell
Chairman (until 30 November 2016)

T M Foggo
Chairman (from 30 November 2016)

J D Green
Director

R M Walton
Director

T R Shadbolt
Director, Mayor

S O'Donnell
Director (appointed 9 December 2016)

INVERCARGILL CITY FORESTS LIMITED

L A Pullar
Chairman

A B McKenzie
Director

B J Nettleton
Director

M L Montgomery
Director

INVERCARGILL CITY PROPERTY LIMITED

G J Sycamore
Chairman

T D R Loan
Director

C A McCulloch
Director

Statement of Governance

The Directors are pleased to present this Governance Statement.

Role of the Board of Directors

The Directors are responsible for the proper direction and control of the Group's activities. This responsibility includes such areas of stewardship as the identification and control of the Group's business risks on behalf of the ultimate shareholder, Invercargill City Council.

The Directors are responsible for the continual overseeing of the investment in the subsidiary companies with the Directors of those companies responsible for the day-to-day operation. Reporting by the subsidiary Boards of financial, market and operational information is received by the Group's Directors on a regular and ongoing basis.

The Directors of Invercargill City Holdings Limited are also responsible for the operation of the Treasury function which is operated within the Holding Company. This section provides a service to the subsidiaries and to the Invercargill City Council by sourcing funds at competitive rates.

The principal purpose of Invercargill City Holdings Limited is to maximise the performance of the Group as a whole.

INVERCARGILL CITY HOLDINGS LTD

Statutory Information

DIRECTORS' REMUNERATION

Invercargill City Holdings Limited	$
C A McCulloch (Chairman)	57,500
G J Sycamore	10,100
A G Dennis	10,100
T D R Loan	30,300
L S Thomas	30,300
G D Lewis	19,526
D J Ludlow	19,526

Electricity Invercargill Limited	$
N D Boniface	37,417
T Campbell (Chairman)	38,392
D J Ludlow	17,367
R L Smith	28,725
S J Brown	28,725
A J O'Connell	9,667
K F Arnold	11,519

Invercargill City Forests Limited	$
L A Pullar (Chairman)	56,000
A B McKenzie	28,000
B J Nettleton	28,000
M L Montgomery	28,000

Invercargill Airport Limited	$
A J O'Connell	20,500
T M Foggo (Chairman)	38,950
J D Green	24,600
R M Walton	24,600
T R Shadbolt	24,600
S O'Donnell	14,350

Invercargill City Property Limited	$
G J Sycamore	4,667
C A McCulloch	-
T D R Loan	-

There was no remuneration or other benefits paid to Directors during the year for any of the following:

- Compensation for loss of office.
- Guarantees given by the Company for debts incurred by a Director.
- Entering into a contract to do any of the above.

DIRECTORS' INTERESTS

During the year, no Directors had an interest in any transaction or proposed transaction with the parent company.

The following listing is where an Invercargill City Holdings Limited director has a position on another entity or organisation that has transactions with Invercargill City Holdings Limited.

Director	Company/Organisation	Position
G D Lewis	Invercargill City Council	Councillor
L S Thomas	Invercargill City Council	Councillor
D J Ludow	Invercargill City Council	Councillor

USE OF COMPANY INFORMATION BY DIRECTORS

No Director of any group company has disclosed, used or acted on information that would not otherwise be available to a Director.

SHAREHOLDING BY DIRECTORS

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

DIRECTORS' AND OFFICERS' INDEMNITY INSURANCE

The Group has insured all its Directors and Executive Officers against liabilities to other parties that may arise from their positions.

EMPLOYEES' REMUNERATION

One employee of the Group received remuneration and other benefits of $100,000 or greater during the year.

$'000	No. of employees
130 - 140	1

AUDITORS' REMUNERATION

Audit fees for the Group totalled $171,411. Details of fees payable are contained in Note 3.

LOANS TO DIRECTORS

There are no loans to Directors.

RECOMMENDED DIVIDEND

It is recommended that a dividend of $5,300,000 be paid.

INVERCARGILL CITY HOLDINGS LTD

Chairman's Report

I am pleased to present the 20th Annual Report of Invercargill City Holdings Ltd group for the year ended 30 June 2017.

This year's trading surplus of $9.393m is only slightly ahead of last year's surplus of $9.167m. However as explained later it does show the strength of the group where reductions in one area can be offset by surpluses in others. When other comprehensive income is taken into account (revaluations and fair value adjustments) the total comprehensive income has risen from $7.406m last year to $12.703m this year.

The Directors have declared a dividend of $5.3m this year which compares with $4.7m last year being an increase of 13%. This follows an increase of 12% last year and assists the Invercargill City Council by providing income that would otherwise need to be raised through rates.

The Group experienced a range of results this year from its subsidiaries.

Electricity Invercargill Limited produced an after tax profit of $7.03m compared with $7.767m last year. This resulted in the dividend to Invercargill City Holdings Limited being reduced by $500,000. The reduced profit was due to reduced electricity consumption across all networks due to the unseasonal warm weather during the first half of the year and also a reduction from 50% to 25% of profit share ex PowerNet Limited (PowerNet). The PowerNet change is consistent with the economic benefit the Group receives based on PowerNet's dividend policy. Electricity Invercargill Limited continues to give high priority to health and safety. In particular it has reprioritised capital expenditure into safety-driven work including relocating substations above ground. In addition the Company's System Average Interruption Duration at 13.47 minutes is well under the target of 31.13 minutes and the System Average Interruption Frequency at 0.29 is well under the target of 0.77.

While the result was down this year, Electricity Invercargill Limited continues to be one of the best performing lines companies in New Zealand.

Invercargill Airport Limited produced an after tax profit of $358,000 this year compared to $800,000 last year. However this was after paying interest to Invercargill City Holdings Limited of $177,000, compared to nil last year, and noting that in 2016 there was a reversal of prior period impairment losses of $874,000 which was reflected in the 2016 profit. In fact pre-tax profit for the year before revaluations and impairment was $532,000 compared to $530,000 in 2016. In June 2017 the Company repaid $800,000 of Redeemable Preference Shares to its Shareholders and plans to increase that amount in 2017/18. This year has been a busy year bedding in the new terminal which was opened in April 2016 and is operating very well with the public and all those working in it enjoying the benefits of this quality asset. Again, health and safety is a priority with a new management role being filled in this area. Passenger numbers have increased by 1.7% this year, this is highly dependent on flight scheduling and aircraft mix with the number of Air New Zealand landings showing a decrease of 2.1%.

Invercargill Airport Limited continues to be a well-run and efficient regional Airport, actively involved in the community via the Southland Regional Development Strategy (SoRDS), and playing an important role in the life of our city.

Invercargill City Forests Limited has produced an after tax profit of $2.105m compared to $1.584m in 2016 being an increase of 33%. This has been achieved on the back of high log prices and a positive valuation of the Company's forests at year end. The investments in IFS Forestry Group Limited and Forest Growth Holdings Limited have been disappointing and the Directors are considering the future of these investments. Again, health and safety is a major focus for the Company in an industry with a poor record in this area. It is pleasing to note these efforts are producing good results to date.

As indicated earlier the excellent results of Invercargill City Forests Limited basically balance out the reduction in profit from Electricity Invercargill Limited and illustrate the advantage of a diversified portfolio of subsidiaries.

Invercargill City Property Limited has moved from its position of managing the Awarua Industrial Estate following the conclusion of its contract with Invercargill City Council, to a partnership with HWR Property Limited which aims to own and manage suitable properties in the central city, the ultimate aim being to rejuvenate the city centre. This is moving at a satisfactory pace and we expect to see this programme develop over the next few years. Meantime the Company produced a profit of $40,000 compared to $42,000 in 2016.

During the year we saw the retirement of Alan Dennis and Graham Sycamore from our Board and I would like to record our appreciation to both of them for the significant contribution they made to the growth and development of the Company. Invercargill City Council appointed Daren Ludlow and Graham Lewis to replace them and we welcome them to our Board. To my other two fellow Directors, Tim Loan and Lindsay Thomas my sincere thanks for your continued contribution and support.

I would also like to express my appreciation to the directors and staff of our subsidiary companies. Their hard work, drive, and enthusiasm are what make our group a success.

Our own management team of Dean Johnston and Amy Wilson, supported by Miles O'Connor of Bancorp, have had a very busy year. Their dedication, along with their support staff, is greatly appreciated.

Finally I would like to thank our Mayor and Councillors for their support and confidence during the year. We have made significant efforts to keep them informed and to listen to any concerns they may have, which will continue. We see ourselves as part of their Team all working for the benefit of the citizens of Invercargill.

Cam McCulloch

Chairman

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Invercargill City Holdings Limited's group financial statements and performance information for the year ended 30 June 2017

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

Opinion

We have audited:

- the financial statements of the Group on pages 17 to 83, that comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on page 84.

In our opinion:

- The financial statements of the Group on pages 17 to 83:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards.
- The performance information of the Group on page 84 presents fairly, in all material respects, the Group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives for the year ended 30 June 2017.

Our audit was completed on 12 September 2017. This is the date at which our opinion is expressed.

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

Basis for opinion

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

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

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

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

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

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

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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

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

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

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

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

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

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 84, but does not include the financial statements and the performance information, and our auditor's report thereon.

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

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

Independence

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

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

Ian Lothian

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

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% owned).
- Invercargill City Property Limited (100%)

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 financial statements of the Company and Group are for the year ended 30 June 2017. The financial statements were authorised for issue by the Board on 12 September 2017. The entities directors do not have the right to amend the financial statements after issue.

BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with the requirements of the Local Government Act 2002, the Companies Act 1993 and the Energy Companies Act 1992.

The financial statements of the Company comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The Company is a Tier 1 for profit entity, as the Company has expenses over $30 million. The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP).

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 accounting policies that have been applied to these financial statements are based on the External Reporting Board A1, Accounting Standards Framework (For-profit Entities Update).

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand ($'000). The functional currency of the Company is New Zealand dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of Comprehensive Income.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the reporting date.

SUBSIDIARIES

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

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

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

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

BASIS OF CONSOLIDATION

The purchase method is used to prepare the consolidated financial statements, which involves adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intragroup balances, transactions, income and expenses are eliminated on consolidation.

The Company's investment in its subsidiaries is carried at deemed cost in the Company's own "parent entity" financial statements. Deemed cost is based on the net asset value of the subsidiary on conversion to NZ IFRS.

ASSOCIATES & JOINT VENTURES

An associate is an entity over which the Company and Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Joint ventures are those entities over which the Group has joint control, established by contractual agreement. The Group's investments in its associates and joint ventures are accounted for using the equity method. The investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the Company's and Group's share of the surplus or deficit after the date of acquisition. The Company's and Group's share of the surplus or deficit is recognised in the Company's and Group's Statement of Comprehensive Income. Distributions received reduce the carrying amount of the investment.

The Company's and Group's share in the associate's surplus or deficits resulting from unrealised gains on transactions between the Company and Group and its associates is eliminated.

REVENUE

Revenue is measured at the fair value of consideration received.

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be reliably estimated and there is no continuing management involvement with the goods.

Interest income is recognised using the effective interest method.

Dividends are recognised when the right to receive payment has been established.

Contributions from customers in relation to the construction of new lines for the network are accounted for as income in the year in which they have been received.

Government grants:

New Zealand Units (NZU's) allocated by the Crown represent non-monetary government grants and are initially recognised at nil value. Gains and losses on disposals are determined by comparing proceeds with the carrying amounts. These are included in the Statement of Comprehensive Income.

BORROWING COSTS

Borrowing costs are recognised as an expense in the period in which they are incurred.

INCOME TAX

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax is charged or credited to the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

OPERATING LEASES

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

INVENTORIES

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at the lower of cost and current replacement cost.

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the FIFO method.

The cost of logs harvested by group companies is the fair value less costs to sell at the time the logs are harvested which becomes the initial cost. Thereafter inventory is carried at the lower of cost and net realisable value.

The write down from cost to current replacement cost or net realisable value is recognised in the Statement of Comprehensive Income.

FINANCIAL ASSETS

Where applicable the Group classifies its investments in the following categories:

Financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

- *Financial Assets at Fair Value through Profit or Loss*
  Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as hedges.

- *Loans and Receivables*
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

  Loans and receivables are included in receivables in the Statement of Financial Position.

- *Held-to-Maturity Investments*
  Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity.

- *Available-for-Sale Financial Assets*
  Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

  Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the Statement of Comprehensive Income within other income or other expenses in the period in which they arise.

  The Company classifies its financial assets (excluding derivatives) as loans and receivables. Loans and receivables are classified as "trade and other receivables" in the Statement of Financial Position. Investments in this category include loans to subsidiaries.

- *Impairment of Financial Assets*
  At each Statement of Financial Position date, the Company assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in the Statement of Comprehensive Income.

FINANCIAL INSTRUMENTS

- *Receivables*
  Trade and other receivables are recognised initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

- *Cash and cash equivalents*
  Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant amount of risk of changes in value.

- *Trade and Other Payables*
  Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost using the effective interest method.

- *Borrowings*
  Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

  Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability at least 12 months after the balance date.

- *Accounting for Derivative Financial Instruments and Hedging Activities*
  The Company uses derivative financial instruments to hedge exposure to foreign exchange and interest rate risks arising from financing activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

  Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance date. However, where derivatives qualify for hedge accounting, recognition for any resultant gain or loss depends on the nature of the hedging relationship.

- *Cash Flow Hedge*
  Changes in the fair value of the derivatives hedging instruments designated as a cashflow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, change in fair value are recognised in Statement of Comprehensive Income.

  If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. The amount recognised in equity is transferred to revenue or expenditure in the same period that the hedged item affects the Statement of Comprehensive Income.

LEASES

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the Statement of Comprehensive Income over a straight-line basis over the period of the lease.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2005, the date of transition to NZ IFRS are measured on the basis of deemed cost, being the revalued amount at the date of transition.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Electricity Invercargill Limited Network Assets acquired between 1 April 2004 and 31 March 2005 (pre transition) are stated at deemed cost, with all Network Assets acquired since that date stated at purchase cost. All other assets are stated at historical cost. Disposals are written back against the asset cost with any necessary adjustments to accumulated depreciation and the revaluation reserve.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Comprehensive Income.

When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

Subsequent Costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on all property, plant and equipment other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

(a)	Buildings	
	- Electricity Invercargill Limited	1% - 15% Straight Line/Diminishing Value
	- Invercargill Airport Limited	3% Straight Line
(b)	Furniture and Fittings	
	- Invercargill Airport Limited	10% - 13% Diminishing Value and 6% to 17.5% Straight Line
(c)	Plant	
	- Invercargill Airport Limited	8.5% - 50% Diminishing Value and 6% - 30% Straight Line
	- Invercargill City Forests Limited	25% - 40% Diminishing Value and 40% Straight Line
(d)	Motor Vehicles	
	- Invercargill Airport Limited	10% - 13% Diminishing Value
(e)	Network Assets	
	- Electricity Invercargill Limited	1.4% - 15% Straight Line
(f)	Other Airport Assets	
	- Fences	5% - 7% Straight Line
	- Runway, Apron and Taxiway (Base-course and sub-base)	3.0% Straight Line
	- Top Surface (Runway)	8.3% Straight Line
	- Top Surface (Apron and Taxiway)	6.7% Straight Line
	- Roads, carparks and stop banks	3.0% Straight Line
(g)	Forestry Road improvements	6.0% Diminishing Value

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Revaluation

Those asset classes that are revalued are valued on a valuation cycle on the basis described below. All other asset classes are carried at depreciated historical cost. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value.

Valuation

All assets are valued at historic cost, except the following:

- The electricity distribution network is valued at fair value. Fair value is determined on the basis of a periodic valuation, at a maximum of every five years based on discounted cash flow methodology.
- Invercargill City Forests' land is revalued to fair value and carried at valuation and is not depreciated. The fair value is determined by independent registered valuers based on the highest and best use of the land. In determing the highest and best use consideration is given as to whether the land has been registered under the New Zealand Emissions Trading Scheme and hence whether there are restrictions on the land use.

  Land is revalued with sufficient regularity to ensure carrying value does not differ materially from that which would be determined as fair value. It is anticipated that the Land revaluation will occur every three years, unless circumstances require otherwise.

  New Zealand units received from the government are recognised at cost in the financial statements, which is nil value.

Accounting For Revaluations

The Company accounts for revaluations of property, plant and equipment on an individual asset basis.

The results of revaluing are credited or debited to an asset revaluation reserve for each asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the Statement of Comprehensive Income.

Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the Statement of Comprehensive Income will be recognised first in the Statement of Comprehensive Income up to the amount previously expensed, and then credited to the revaluation reserve for that asset.

CAPITAL WORK IN PROGRESS

Work in progress includes the cost of direct materials and direct labour used in putting replacement and new systems and plant in their present location and condition. It includes accruals for the proportion of work completed at the end of the period. Capital work in progress is not depreciated.

INTANGIBLE ASSETS

Goodwill

Goodwill is initially measured at its cost, being the excess of the cost of the acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill on acquisition of subsidiaries is included in intangible assets by applying the purchase method. Goodwill on acquisition of associates is included in investments in associates by applying the equity method.

In respect of acquisitions prior to 1 July 2005, goodwill is included on the basis of deemed cost, which represents the amount recorded under previous NZ GAAP at the transition date. The classification and accounting treatment of business combinations that occurred prior to 1 July 2007 has not been reconsidered in preparing the Group's opening NZ IFRS Statement of Financial Position at 1 July 2005.

Goodwill arising in business combinations is not amortised. Instead, goodwill is tested for impairment annually. After initial recognition, the Company measures goodwill at cost less any accumulated impairment losses.
An impairment loss recognised for goodwill will not be reversed in any subsequent period.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination, in which the goodwill arose.

Other Intangible Assets

Other intangible assets that are acquired by the Group, which have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is charged to the Statement of Comprehensive Income over the estimated useful economic lives of the intangible assets.

FORESTRY ASSETS

Forestry assets are independently revalued annually at fair value less estimated point of sale costs. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate.

Gains or losses arising on initial recognition of biological assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the Statement of Comprehensive Income.

Forests are revalued annually by an independent registered valuer.

The costs to maintain the forestry assets are included in the Statement of Comprehensive Income.

INVESTMENT PROPERTY

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

Investment property is measured initially at its cost, including transaction costs.

After initial recognition, the Company measures all investment property at fair value as determined annually by an independent valuer.

Gains or losses arising from a change in the fair value of investment property are recognised in the Statement of Comprehensive Income.

IMPAIRMENT OF ASSETS

Goodwill and indefinite life intangible assets are not subject to amortisation but are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The value in use for cash-generating assets is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets, the impairment loss is recognised against the revaluation reserve for that asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the Statement of Comprehensive Income.

For assets not carried at a revalued amount, the total impairment loss is recognised in the Statement of Comprehensive Income.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that asset was previously recognised in Statement of Comprehensive Income, a reversal of the impairment loss is also recognised in the Statement of Comprehensive Income.

For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

EMPLOYEE BENEFITS

Short-Term Benefits

Employee benefits that the Company expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the Statement of Comprehensive Income as incurred.

BORROWINGS

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

GOODS AND SERVICES TAX (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department ("IRD") is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing these financial statements, the Company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates, assumptions and critical judgements in applying accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Determination of the recoverable amount of the runway and taxiway assets. This is discussed in Note 10.
- Fair value of Investment Property. This is discussed in Note 12.
- Electricity Invercargill Limited Group Estimates and Assumptions. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances and have been used in the following areas:
    - Intangibles
    - Property, plant and equipment
    - Recoverable amount from Cash Generating Units (CGU)
    - Joint arrangement classification

In the process of applying accounting policies, Electricity Invercargill Limited management has made the following judgements, estimates and assumptions that have the most significant impact on the amounts recognised in these financial statements.

The Group operates extensive integrated electricity distribution networks comprising large numbers of relatively minor individual network asset components. These components are replaced over time as part of an ongoing maintenance/refurbishment programme, consistent with the Group's approved network asset management plans. The costs associated with recording and tracking all individual components replaced and removed from the networks substantially outweigh the benefits of doing so. Management has estimated the quantities and the carrying values of components removed from the networks in each reporting period. Any errors in the estimates of such removals are corrected at the next asset revaluation, and are not considered to be material on either an annual or a cumulative basis with respect to either reported net surpluses on carrying values of the networks.

Every five years, the company obtains a valuation of their electricity distribution network, determined by independent valuers, in accordance with their accounting policy. The valuation of the Company's electricity distribution network was performed as at 1 April 2016. The best evidence of fair value is discounted cash flow methodology. The major assumptions used include discount rate, growth rate and future cash flows. Changes in future cash flows arising from changes in regulatory review may result in the fair value of the electricity distribution network being different from previous estimates.

The Group invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, adjusted for the latest wash-up data available from the electricity wholesale market and certain metering data from electricity retailers. Management has made an allowance in revenue and in current assets/ liabilities for any amounts which are estimated to be under/over charged during the reporting period. However, as final wash-up metering data is not available for in excess of 12 months, it is possible for the final amounts payable or receivable to vary from that calculated.

NEW STANDARDS ADOPTED

There have been no new standards adopted during the financial year. The Company and Group has not elected to early adopt any new standards or interpretations that are issued but not yet effective.

NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Standards, amendments and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the Company and Group, are as follows.

Except for changes detailed below there are no other standards or interpretations that have been issued but not yet effective, that have been currently assessed as being applicable to the Company and Group.

Amendments to NZ IFRS 9 - Financial Instruments

The amendment comes into effect for fiscal years beginning on or after 1 January 2018.

The final version of NZ IFRS 9 Financial Instruments brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project. The standard will replace NZ IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of NZ IFRS 9.

Early adoption is permitted. The Company and Group intend to adopt NZ IFRS 9 on its effective date and has yet to assess its full impact.

NZ IFRS 15 - Revenue from Contracts with Customers

The amendment comes into effect for fiscal years beginning on or after 1 January 2017.

NZ IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cashflows arising from an entity's contracts with customers.

NZ IFRS 15 replaces the current revenue recognition guidance of NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts and is applicable to all entities with revenue. The core principle of NZ IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. NZ IFRS 15 sets out a five step model for revenue recognition.

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

Amendments to NZ IAS 7 – Statement of Cash Flows

The amendment comes into effect for fiscal years beginning on or after 1 January 2017.

The amendments are part of the disclosure initiative and require an entity to provide disclosures to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.

Early adoption is permitted. The Company and Group intend to adopt NZ IAS 7 on its effective date and has yet to assess its full impact. On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

NZ IFRS 16 – Leases

NZ IFRS 16 is the new standard on the recognition, measurement, presentation and disclosure of leases. The standard will replace:

- NZ IAS 17 Leases;
- NZ IFRIC 4 Determining whether an Arrangement contains a Lease;
- NZ SIC-15 Operating Leases – Incentives; and
- NZ SIC-27 Evaluating the Substance of Transactions involving the Legal Form of a Lease

The scope of the standard includes leases of all assets, with a few exemptions. The standard requires lessees to account for all leases on the balance sheet in a similar way to how the current NZ IAS 17 accounts for a finance lease. There is an optional exemption for certain short-term, or low value, assets.

Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately. Lessor accounting is substantially the same as it is under NZ IAS 17.

Early adoption is permitted, but only in conjunction with NZ IFRS 15. The Company and Group intend to adopt NZ IFRS 16 on its effective date and has yet to assess its full impact.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during this period. All accounting policies have been consistantly applied throughout the period covered by these financial statements.

INVERCARGILL CITY HOLDINGS LTD

Statement of Financial Position

As at June 30, 2017

	Note	Group 2017 $000	Group 2016 $000
Assets			
Current assets			
Cash and cash equivalents	7	4,703	2,257
Trade and other receivables	8	2,733	2,980
Inventories	9	5	2
Advances to associates and joint ventures	13, 14	250	-
Other financial assets	15	1,500	-
Total current assets		9,191	5,239
Non-current assets			
Property, plant and equipment	10	119,096	115,965
Forestry assets	11	19,867	17,259
Investment property	12	3,835	3,778
Capital work in progress		1,862	2,600
Investments in associates and joint ventures	13,14	85,029	85,269
Advances to associates and joint ventures		16,163	20,350
Derivative financial instruments	15	47	-
Other financial assets	15	1,633	3,118
Deferred tax asset	19	748	1,311
Total non-current assets		248,280	249,650
Total assets		257,471	254,889
Liabilities			
Current liabilities			
Derivative financial instruments	15	13	128
Trade and other payables	16	9,521	11,650
Employee benefit liabilities	17	39	26
Borrowings	18	16,777	16,777
Tax payable		580	1,029
Total current liabilities		26,930	29,610
Non-current liabilities			
Derivative financial instruments	15	2,705	4,553
Borrowings	18	108,462	110,862
Deferred tax liability	19	24,725	22,618
Total non-current liabilities		135,892	138,033
Total liabilities		162,822	167,643
Equity			
Share capital	20	25,298	25,298
Retained earnings	20	40,960	36,767
Other reserves	20	28,391	25,181
Total equity attributable to the equity holders of the company		94,649	87,246
Equity is attributable to:			
Parent entity	20	91,766	84,373
Minority interest	20	2,883	2,873
		94,649	87,246

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.

Statement of Comprehensive Income

For the year ended June 30, 2017

	Note	Group 2017 $000	Group 2016 $000
Income			
Operating revenue	1	33,663	31,431
Other gains	2	4,210	3,150
Total income		37,873	34,581
Expenditure			
Employee expenses	4	923	912
Depreciation and amortisation	10	5,618	5,139
Biological asset Cost of Goods Sold		1,545	1,031
Administration expenses	3	7,739	5,990
Other expenses		12,250	11,507
Total operating expenditure		28,075	24,579
Finance income	5	451	758
Finance expenses	5	4,228	3,678
Net finance expense		(3,777)	(2,920)
Operating surplus/(deficit) before tax		6,021	7,082
Share of associate & joint ventures surplus/(deficit)	13,14	6,325	4,896
Surplus/(deficit) before tax		12,346	11,978
Income tax expense	6	2,953	2,811
Surplus/(deficit) after tax		9,393	9,167
Surplus/(deficit) after tax attributable to:			
Equity holders of the Company		9,371	9,145
Minority interest		22	22
		9,393	9,167
Other comprehensive income			
Items that will not be classified to surplus or deficit in subsequent periods:			
Property, Plant and Equipment revaluation gains/(losses) - pre tax		1,863	-
Items that may be classified to surplus or deficit in subsequent periods:			
Cash flow hedges	20	1,447	(1,761)
Total other comprehensive income		3,310	(1,761)
Total comprehensive income		12,703	7,406
Total comprehensive income attributable to:			
Equity holders of the Company		12,681	7,384
Minority interest		22	22
		12,703	7,406

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.

INVERCARGILL CITY HOLDINGS LTD

Statement of Changes in Equity

For the year ended June 30, 2017

	Note	Group 2017 $000	Group 2016 $000
Balance at 1 July		87,246	84,540
Total Comprehensive Income for the year	20	12,703	7,406
Distributions to Shareholders			
Dividends paid/declared	20	(5,300)	(4,700)
Contributions from Shareholders			
Shares issued and paid up	20	-	-
Balance at 30 June		94,649	87,246
Attributable to:			
Equity holders of the company		91,766	84,373
Minority interest		2,883	2,873
Balance at 30 June		94,649	87,246

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.

Statement of Cash Flows

For the year ended June 30, 2017

	Note	Group 2017 $000	Group 2016 $000
Cash flows from operating activities			
Interest received		1,316	1,779
Receipts from other revenue		33,500	30,448
Payments to suppliers and employees		(22,655)	(19,229)
Interest paid		(4,820)	(4,096)
Income tax (paid) / refund		(2,020)	(2,313)
Goods and services tax [net]		(176)	681
Net cash from operating activities	21	5,145	7,270
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		9	95
Proceeds from sale of investments		-	4,700
Purchase of biological assets		-	(960)
Purchase of property, plant and equipment		(5,817)	(13,904)
Advances made to subsidiaries/associates/joint ventures		4,173	(4,128)
Advances made to non-subsidiaries/associates		1,500	1,800
Investments in associates/joint ventures		6,035	(36,016)
Net cash from investing activities		5,900	(48,413)
Cash flows from financing activities			
Proceeds from borrowings		2,000	45,900
Repayment of borrowings		(5,899)	(7,300)
Dividends paid		(4,700)	(4,200)
Net cash from financing activities		(8,599)	34,400
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		2,446	(6,743)
Cash, cash equivalents and bank overdrafts at the beginning of the year		2,257	9,000
Cash, cash equivalents and bank overdrafts at the end of the year	7	4,703	2,257

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.

Notes to the Financial Statements

For the year ended June 30, 2017

1 Operating revenue

	Group 2017 $000	Group 2016 $000
Rendering of services	24,916	24,625
Sale of goods	6,740	4,077
Interest on advances to subsidiaries and associates	410	376
Carbon Credits	-	448
Other income	1,597	1,905
	33,633	31,431

2 Other gains and losses

	Group 2017 $000	Group 2016 $000
Change in fair value of biological assets	4,153	2,276
Change in fair value of investment property	57	-
Reversal of prior impairment loss	-	874
	4,210	3,150

3 Administrative expenses (includes)

	Group 2017 $000	Group 2016 $000
Director fees	644	682
Loss on sales of property, plant and equipment	407	569
Impairment of investment in associate	279	-
Audit remuneration to other auditors comprises		
· audit of financial statements	48	38
· other audit-related services	56	53
Auditor's remuneration to Audit New Zealand comprises:		
· audit of financial statements	67	63

4 Employee expenses

	Group 2017 $000	Group 2016 $000
Wages and salaries	923	912
Total employee expenses	923	912

5 Finance income and expense

	Group 2017 $000	Group 2016 $000
Finance Income		
Interest income on bank deposits	451	758
Total finance income	451	758
Financial expense		
Interest expense on financial liabilities measured at amortised cost	4,228	3,678
Total financial expenses	4,228	3,678
Net finance costs	(3,777)	(2,920)

6 Income tax expense in the Income Statement

	Group 2017 $000	Group 2016 $000
Current tax expense		
Current period	1,571	2,083
Adjustment for prior periods	-	-
Total current tax expense	1,571	2,083
Deferred tax expense		
Origination and reversal of temporary differences	991	367
Adjustment for prior periods	-	-
Other	391	361
Total deferred tax expense	1,382	728
Total income tax expense	2,953	2,811

6 Income tax expense in the Income Statement

	Group 2017 $000	Group 2016 $000
Reconciliation of effective tax rate		
Profit for the year	12,346	11,978
Permanent differences	-	-
Profit excluding income tax	12,346	11,978
Tax at 28%	3,457	3,354
Group loss offset	(331)	(90)
Permanent Differences	34	(415)
Change in recognised temporary differences	-	-
Under/(over) provided in prior periods	(207)	38
Total income tax expense	2,953	2,811
Effective Tax Rate	24%	23%

Invercargill City Holdings Limited will transfer tax losses to Electricity Invercargill Limited of $136,587 (2016: $1,613,549).

From the above tax position of loss offsets transferred to other Group companies for the year ended 30 June 2017, there are no unrecognised tax losses of the Group (2016: nil).

	Group 2017 $000	Group 2016 $000
Imputation credits available for use in subsequent periods	7,848	6,766

7 Cash and cash equivalents

	Group 2017 $000	Group 2016 $000
Call deposits	1,668	95
Cash and cash equivalents	3,035	2,162
Cash and cash equivalents in the statement of financial position and statement of cash flows	4,703	2,257

8 Trade and other receivables

	Group 2017 $000	Group 2016 $000
Trade receivables	2,511	2,274
GST receivable	-	346
Prepayments	97	84
Related party receivables	120	261
Sundry debtors	5	15
Less provision for impairment of receivables	-	-
	2,733	2,980

The status of trade receivables at the reporting date is as follows:

	Group 2017 $000	Group 2016 $000
Not past due	2,508	2,191
Past due 30-60 days	3	83
Past due 61-90 days	-	-
Past due more than 90 days	-	-
Total	2,511	2,274

9 Inventories

	Group 2017 $000	Group 2016 $000
Other	5	2
Total inventories	5	2

10 Property, Plant and Equipment

2017 - Group ($000)

	Cost/ revaluation 1 July 2016	Accumulated depreciation and impairment charges 1 July 2016	Carrying amount 1 July 2016	Current year additions - Cost	Current year disposals - Cost	Current year disposals - Depreciation
Land	6,514	-	6,514	-	-	-
Gravel and Fencing	3,814	677	3,137	149	-	-
Buildings, Yards & Terminals	6,752	257	6,495	291	-	-
Network assets	101,368	17,349	84,019	5,768	887	476
Plant and equipment	2,574	1,658	916	142	36	32
Motor vehicles	2,606	2,476	130	-	-	-
Furniture and fittings	4,945	638	4,307	109	13	1
Runway, taxiways & apron	14,731	5,871	8,854	15	-	-
Roading	1,922	329	1,593	114	-	-
Total assets	145,226	29,261	115,965	6,588	936	509

2016 - Group ($000)

	Cost/ revaluation 1 July 2015	Accumulated depreciation and impairment charges 1 July 2015	Carrying amount 1 July 2015	Current year additions - Cost	Current year disposals - Cost	Current year disposals - Depreciation
Land	6,027	-	6,027	487	-	-
Gravel and Fencing	2,126	580	1,546	1,688	-	-
Buildings, Yards & Terminals	3,762	83	3,679	2,990	-	-
Network assets	95,306	15,387	79,919	8,232	2,170	1,605
Plant and equipment	2,250	2,039	211	907	582	482
Motor vehicles	2,606	2,459	147	-	-	-
Furniture and fittings	2,811	380	2,431	2,172	38	30
Runway, taxiways & apron	14,251	5,957	8,294	480	-	-
Roading	1,801	229	1,572	121	-	-
Total assets	130,940	27,114	103,826	17,077	2,790	2,117

Current year impairment charges	Current year depreciation	Revaluation surplus	Cost/ revaluation	Accumulated depreciation and impairment charges	Carrying amount
			30-Jun-2017	30-Jun-2017	30-Jun-2017
-	-	-	6,514	-	6,514
-	159	-	3,963	836	3,127
-	210	-	7,043	467	6,576
-	3,795	251	106,500	18,331	88,169
-	145	-	2,680	1,771	909
-	15	-	2,606	2,491	115
-	381	-	5,041	1,018	4,023
-	814	-	14,746	6,691	8,055
-	99	-	2,036	428	1,608
-	5,618	251	151,129	32,033	119,096

Current year impairment charges	Current year depreciation	Revaluation surplus	Cost/ revaluation	Accumulated depreciation and impairment charges	Carrying amount
			30-Jun-2016	30-Jun-2016	30-Jun-2016
-	-	-	6,514	-	6,514
-	97	-	3,814	677	3,137
-	174	-	6,752	257	6,495
-	3,567	-	101,368	17,349	84,019
-	102	-	2,574	1,658	916
-	17	-	2,606	2,476	130
-	288	-	4,945	638	4,307
(874)	794	-	14,731	5,877	8,854
-	100	-	1,922	329	1,593
(874)	5,139	-	145,226	29,261	115,965

Revaluation:
The following classes of assets are carried at fair value and are categorised as Level 3 in the fair value hierarchy:

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

The value of the land owned by Invercargill City Forests Limited, had it been carried at the cost model, would be $4,427,678 at 30 June 2017 ($4,427,678 at 30 June 2016).

Forestry land is revalued with sufficient regularity to ensure carrying value does not differ materially from that which would be determined as fair value. It is anticipated that the land revaluation will occur every three years, unless circumstances require otherwise. The land was valued by Thayer Todd Valuations Limited (independent valuers) as at 30 June 2015. The fair value was determined on the highest and best use of the land using the market comparable method on sales of comparable land, based on the Valuers sales database. This resulted in a revaluation increase movement of $2,558,000.

Network assets:
The value of the network assets owned by Electricity Invercargill Limited, had it been carried at the cost model, would be $63,475,000 at 30 June 2017 ($61,502,000 at 30 June 2016).

The network assets of Electricity Invercargill Limited were revalued to fair value using discounted cash flow methodology on 1 April 2016 by Ernst & Young, who is an independent valuer. This resulted in a revaluation increase movement of $2,588,000.

The following valuation assumptions were adopted;
o The free cash flows is based on the company's five year business plan and asset management plan adjusted for non recurring or non-arms length transactions and for transactions that arise from expansionary growth in the network after the date of the valuation.
o The corporate tax rate used is 28%
o The weighted average cost of capital (WACC) used is 5.5%
o The sustainable growth adjustment used is 0%.

These comments should be read in conjunction with the previous two pages.

The aeronautical assets of Invercargill Airport Limited are shown at cost less accumulated depreciation and impairment. An annual impairment assessement using discounted cash flow methodology was carried out by Airbiz Aviation Strategies Limited, an independent expert effective 30 June. This resulted in an increase of $ - (2016: $874,000), being a reversal of the accumulated impairment from prior years.

The following valuation assumptions were adopted;

o The forecast free cash flows reflect the charges determined following the 2016 aeronautical pricing consultation with airline customers (2016: 2015 aeronautical pricing consultation with airline customers). Expected revenues also reflect expected passenger numbers and other contractual revenues.
o The forecast free cash flows reflect the company's business and asset management plans.
o The forecasts do not include future reseal capex as it is assumed that future reseals would be priced so the net present value (NPV) is zero.
o The continuing value has been estimated as the forecast optimised depreciated replacement cost of the aeronautical assets at the end of the explicit cash flow forecast period.
o The corporate tax rate used is 28%.
o The weighted average cost of capital (WACC) used is 5.98% (2016: 5.86%).

11 Biological assets

	Group Forestry $000
Balance at 1 July 2015	15,054
Additions	960
Forest Assets logged at cost	(1,031)
Forest Assets held in Inventory	-
Change in fair value less estimated point-of-sale costs	2,276
Balance at 30 June 2016	17,259
Balance at 1 July 2016	17,259
Additions	-
Forest Assets logged at cost	(1,545)
Forest Assets held in Inventory	-
Change in fair value less estimated point-of-sale costs	4,153
Balance at 30 June 2017	19,867

Biological assets held by the Group are forestry assets, which comprise of standing timber. At 30 June 2017, standing timber comprised approximately 2,624 hectares of plantations at nine different locations (2016: 2,617 hectares of plantations at nine different locations).

The forests were revalued as at 30 June 2017 by an independent valuer, Mr Geoff Manners of Woodlands Pacfic. The valuation excludes funding and taxation. The discount rate is based on the mid-point of CFK's analysis of the implied pre-tax discount rates from actual transactions. The pre-tax discount rate chosen for the 2017 valuations is 7.5% (2016: 8.0%).

Biological assets are categorised as Level 3 in the fair value hierarchy.

Carbon credits (Emissions Trading Scheme)

Invercargill City Forest Limited has received and sold the following carbon credits:

	2017 Units	2017 $000	2016 Units	2016 $000
Received:				
Post 1989		-	31,281 units	438
Pre 1990		-		-
		-		438
Sold:		-	31,281 units	438
Post 1989		-		-
Pre 1990		-		438

As at 30 June 2017 there are nil carbon credits units on hand (30 June 2016: nil).

Pre-1990 Forest:

Pre-1990 forests are forests that were established before 1 January 1990. NZUs cannot be earned for an increase in the carbon stock (through forest growth) in a pre-1990 forest, but NZU's are allocated based on the size of the forested area in three tranches. Provided that pre-1990 forests are re-established after harvesting (by replanting or regeneration), there are no liabilities or obligations under the ETS. Landowners of pre-1990 forests must surrender NZUs equivalent to the carbon emissions from any deforestation.

Post-1989 Forests:

Post-1989 forests are exotic or indigenous forests established after 31 December 1989 on land that was not forest land on 31 December 1989. These forests earn credits under the Kyoto Protocol rules. Therefore, they are also known as "Kyoto Protocol-compliant" forests. Participating in the ETS is voluntary for post-1989 forest owners. If they are part of the ETS, then they earn NZUs for the carbon sequestered in the forest from 1 January 2008, but will need to surrender NZUs to the Crown when the carbon held in their trees decreases, whether through harvest or natural causes (such as by fire or storm). Any liability for post-1989 participants is capped at the amount of NZUs previously claimed for that area of forest land.

Invercargill City Forests has harvested a total of 48 hectares of pre-1990 forest that has to be replanted. It is Invercargill City Forests Limited's intention to replant all forests.

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

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Supply and Demand Risk

The Company is exposed to risks arising from fluctuations in the price and sales volume of pine. Where possible the Company manages this risk by aligning its harvest volume to market supply and demand.

The Company is exposed to movements in the price of NZU's to the extent that, the Company has insufficient NZU's to offset a deforestation liability and has to purchase NZU's on the market.

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

Climate and Other Risks

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

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

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

12 Investment Property

	Group 2017 $000	Group 2016 $000
Balance at 1 July	3,778	4,000
Acquisitions		-
Change in fair value	57	(222)
Balance at 30 June	3,835	3,778

Investment property comprises a number of commercial properties that are leased to third parties.

The Group's investment properties are valued annually at fair value effective 30 June. All investment properties are related to Invercargill Airport Limited. For 2017 and 2016, all investment properties were valued based on open market evidence except for two properties being less than 20% of the portfolio value. These two properties are planned to be replaced within the next year (2016: next year), hence the open market evidence valuation has been adjusted by management to be valued on a discounted cash flow basis of their remaining expected earnings. The 2017 and 2016 open market evidence valuation was performed by Robert Todd, an independent valuer from Thayer Todd Valuations Limited. The valuer is an experienced valuer who holds a recognised and relevant qualification and has extensive market knowledge in the types of investment properties owned by the Group.

Investment property is categorised as Level 3 in the fair value hierarchy.

13 Equity Accounted Associates

Associate Companies	Principal activity	Country of Incorporation	Percentage Held by Group 2017	Percentage Held by Group 2016	Balance date
Electricity Southland Limited	Electricity network owners	NZ	24.9%	24.9%	31-March
Forest Growth Holdings Limited	Forest aggregator	NZ	32.1%	32.1%	30-June
IFS Forestry Group Limited	Forestry consulting	NZ	24.9%	24.9%	30-June
HWCP Management Limited	Property investment	NZ	49.9%	-	30-June

	Group 2017 $000	Group 2016 $000
Balance at beginning of year	4,674	4,809
Investments in associates	200	108
Share of profit from associates recognised in surplus or deficit the statement of comprehensive income	(157)	512
Goodwill on acquisition	-	2,642
Impairment of goodwill	(280)	-
Transfer to advance to associate	(250)	-
Distributions from associates	-	(1,026)
Disposal of associates	-	(2,371)
Balance at end of year	**4,187**	**4,674**

The following information reflects the amounts presented in the financial statements of each entity and not the Group's share. 31 March figures are used for the Electricity Invercargill Limited associates as this is the balance date for the Group. It would be impracticable and the Group would incur undue costs to prepare additional financial statements at 30 June.

Summarised Balance Sheet

	Electricity Southland Ltd	
	100%	100%
	2017	2016
	$000	$000
Cash and cash equivalents	457	74
Other current assets	562	280
Total current assets	1,019	354
Non-current assets	16,947	13,729
Total assets	17,966	14,083
Current liabilities	744	734
Non-current liabilities	10,921	7,108
Total Liabilities	11,665	7,842
Net assets	6,301	6,241

Summarised Statement of Comprehensive Income

	Electricity Southland Ltd	
	100%	100%
	2017	2016
	$000	$000
Operating revenue	1,837	999
Interest revenue	-	-
Interest expense	(334)	(255)
Depreciation	(367)	(289)
Profit before tax from continuing activities	432	(146)
Income tax expense	(372)	38
Total comprehensive income	60	(108)

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the associate:

	Electricity Southland Ltd	
	100%	100%
	2017	2016
	$000	$000
Closing net assets	6,301	6,241
Interest in associate	1,569	1,554

Summarised Balance Sheet

	Otago Power Services Ltd	
	100%	100%
	2017	2016
	$000	$000
Cash and cash equivalents	-	-
Other current assets	-	-
Total current assets	-	-
Non-current assets	-	-
Total assets	-	-
Current liabilities	-	-
Non-current liabilities	-	-
Total Liabilities	-	-
Net assets	-	-

Summarised Statement of Comprehensive Income

	Otago Power Services Ltd	
	100%	100%
	2017	2016
	$000	$000
Operating revenue	-	14,770
Interest revenue	-	-
Interest expense	-	(74)
Depreciation	-	(812)
Profit before tax from continuing activities	-	1,410
Income tax expense	-	(395)
Total comprehensive income	-	1,015

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the associate:

	Otago Power Services Ltd	
	100%	100%
	2017	2016
	$000	$000
Closing net assets	-	-
Interest in associate	-	-

The 50% shareholding in Otago Power Services Limited was purchased by PowerNet Limited on 16 February 2016. Following the completion of the aquisition, Otago Power Services Limited was amalgamated with PowerNet Limited on 31 March 2016.

Summarised Balance Sheet

	Forest Growth Holdings Ltd	
	100%	100%
	2017	2016
	$000	$000
Cash and cash equivalents	89	1,303
Other current assets	6,912	5,248
Total current assets	7,001	6,551
Non-current assets	-	45
Total assets	7,001	6,596
Current liabilities	6,109	5,424
Non-current liabilities	3	20
Total Liabilities	6,112	5,444
Net assets	889	1,152

Summarised Statement of Comprehensive Income

	Forest Growth Holdings Ltd	
	100%	100%
	2017	2016
	$000	$000
Operating revenue	945	35,504
Interest revenue	3	10
Interest expense	(373)	(526)
Depreciation	-	-
Profit before tax from continuing activities	(263)	642
Income tax expense	-	(390)
Total comprehensive income	(263)	252

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the associate:

	Forest Growth Holdings Ltd	
	100%	100%
	2017	2016
	$000	$000
Closing net assets	889	1,152
Interest in associate	285	370

Summarised Balance Sheet

	IFS Forestry Group Ltd	
	100%	100%
	2017	2016
	$000	$000
Cash and cash equivalents	171	505
Other current assets	9,174	5,522
Total current assets	9,345	6,027
Non-current assets	1,017	889
Total assets	10,362	6,916
Current liabilities	9,345	5,750
Non-current liabilities	523	733
Total Liabilities	9,868	6,483
Net assets	494	433

Summarised Statement of Comprehensive Income

	IFS Forestry Group Ltd	
	100%	100%
	2017	2016
	$000	$000
Operating revenue	5,203	4,749
Interest revenue	-	245
Interest expense	(393)	(1)
Depreciation	(128)	(12)
Profit before tax from continuing activities	(285)	34
Income tax expense	-	-
Total comprehensive income	(285)	34

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the associate:

	IFS Forestry Group Ltd	
	100%	100%
	2017	2016
	$000	$000
Closing net assets	494	433
Interest in associate	123	108
Transfer to advances to associates	(250)	-
Goodwill on acquisition	2,277	2,642
Carrying value of interest in associate	2,150	2,750

In June 2016 Invercargill City Forests Limited purchased a 24.9% interest in IFS Forestry Group Limited.

Summarised Balance Sheet

	HWCP Management Ltd	
	100%	100%
	2017	2016
	$000	$000
Cash and cash equivalents	1	-
Other current assets	5	-
Total current assets	6	-
Non-current assets	3,142	-
Total assets	3,148	-
Current liabilities	2,782	-
Non-current liabilities	-	-
Total Liabilities	2,782	-
Net assets	366	-

Summarised Statement of Comprehensive Income

	HWCP Management Ltd	
	100%	100%
	2017	2016
	$000	$000
Operating revenue	34	-
Interest revenue	-	-
Interest expense	(30)	-
Depreciation	-	-
Profit before tax from continuing activities	(34)	-
Income tax expense	-	-
Total comprehensive income	(34)	-

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the associate:

	HWCP Management Ltd	
	100%	100%
	2017	2016
	$000	$000
Closing net assets	366	-
Interest in associate	183	-

In March 2017 Invercargill City Property Limited purchased a 49.9% interest in HWCP Management Limited, therefore no prior year comparatives are available and 2017 figures are from the incorporation date.

14 Equity Accounted Joint Ventures

Joint Ventures	Principal activity	Country of Incorporation	Percentage Held by Group 2017	Percentage Held by Group 2016	Balance date
PowerNet Limited Group	Electricity network management	NZ	50.0%	50.0%	31 March
OtagoNet Joint Venture	Electricity network owners	NZ	24.9%	24.9%	31 March
Roaring Forties Energy Limited Partnership	Electricity generation	NZ	50.0%	50.0%	31 March

The information below reflects the amounts presented in the financial statements of each entity and not the Group's share.

	Group 2017 $000	Group 2016 $000
Balance at beginning of year	80,595	43,950
Investments in joint ventures	-	36,913
Share of profit from joint ventures recognised in surplus or deficit the statement of comprehensive income	6,482	4,384
Reversal of gain on Intragroup restructure	-	(2,031)
Goodwill on aquisition	-	-
Distributions from joint ventures	(6,235)	(2,621)
Balance at end of year	80,842	80,595

The following information reflects the amounts presented in the financial statements of each entity and not the Group's share. 31 March figures are used for the Electricity Invercargill Limited joint ventures as this is the balance date for the Group. It would be impracticable and the Group would incur undue costs to prepare additional financial statements at 30 June.

Summarised Balance Sheet

	PowerNet Limited Group	
	100%	100%
	2017	2016
	$000	$000
Cash and cash equivalents	2,217	4,456
Other current assets	30,230	32,879
Total current assets	32,447	37,335
Non-current assets	26,595	26,241
Total assets	59,042	63,576
Current liabilities	14,125	12,463
Non-current liabilities	39,866	45,451
Total Liabilities	53,991	57,914
Net assets	5,051	5,662

Summarised Statement of Comprehensive Income

	PowerNet Limited Group	
	100%	100%
	2017	2016
	$000	$000
Operating revenue	75,795	78,754
Interest revenue	20	72
Interest expense	(1,030)	(1,318)
Depreciation	(2,723)	(1,851)
Profit before tax from continuing activities	3,383	1,715
Income tax expense	(970)	(496)
Total comprehensive income	2,413	1,219

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the joint venture:

	PowerNet Limited Group	
	100%	100%
	2017	2016
	$000	$000
Closing net assets	5,051	5,662
Interest in joint venture	2,526	2,831

Summarised Balance Sheet

	OtagoNet Joint Venture	
	100%	100%
	2017	2016
	$000	$000
Cash and cash equivalents	142	603
Other current assets	3,305	2,755
Total current assets	3,447	3,358
Non-current assets	177,788	173,920
Total assets	181,235	177,278
Current liabilities	5,530	4,138
Non-current liabilities	-	12
Total Liabilities	5,530	4,150
Net assets	175,705	173,128

Summarised Statement of Comprehensive Income

	OtagoNet Joint Venture	
	100%	100%
	2017	2016
	$000	$000
Operating revenue	35,231	36,001
Interest revenue	13	10
Interest expense	(29)	(111)
Depreciation	(7,152)	(7,007)
Profit before tax from continuing activities	13,327	14,532
Income tax expense	-	-
Other comprehensive income	-	-
Total comprehensive income	13,327	14,532

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the joint venture:

	OtagoNet Joint Venture	
	100%	100%
	2017	2016
	$000	$000
Closing net assets	175,705	173,128
Interest in joint venture	43,751	43,109

Summarised Balance Sheet

	Roaring Forties Energy Limited Partnership 100% 2017 $000	Roaring Forties Energy Limited Partnership 100% 2016 $000
Cash and cash equivalents	14	23
Other current assets	-	-
Total current assets	14	23
Non-current assets	72,033	73,441
Total assets	72,047	73,464
Current liabilities	32	2
Non-current liabilities	-	-
Total Liabilities	32	2
Net assets	72,015	73,462

Summarised Statement of Comprehensive Income

	Roaring Forties Energy Limited Partnership 100% 2017 $000	Roaring Forties Energy Limited Partnership 100% 2016 $000
Operating revenue	5,292	374
Profit before tax from continuing activities	5,133	275
Income tax expense	-	-
Total comprehensive income	5,133	275

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the joint venture:

	Roaring Forties Energy Limited Partnership 100% 2017 $000	Roaring Forties Energy Limited Partnership 100% 2016 $000
Closing net assets	72,015	73,462
Interest in joint venture	36,008	36,731

15 Other Financial Assets & Liabilities

	Group 2017 $000	Group 2016 $000
Non-current investments - Assets		
Investment in other entities	118	118
Loans to non-subsidiaries	1,515	3,000
Total non-current investments	1,633	3,118
Current investments - Assets		
Loans to non-subsidiaries	1,500	-
Total current investments	1,500	-
Total investments - Assets	3,133	3,118
Non-current financial instruments		
Interest rate swaps (cash flow hedges) - assets	47	-
Interest rate swaps (cash flow hedges) - liabilities	(2,705)	(4,553)
Non-current derivatives	(2,658)	(4,553)
Current financial instruments		
Interest rate swaps (cash flow hedges) - assets	-	-
Interest rate swaps (cash flow hedges) - liabilities	(13)	(128)
Current derivatives	(13)	(128)

16 Trade and Other Payables

	Group 2017 $000	Group 2016 $000
Trade payables	541	567
Directors fee payable	-	4
Accrued expenses	2,179	2,522
Retentions	175	208
Amounts due to other related parties	1,183	3,559
Income in advance	32	90
GST payable	111	-
Dividends payable	5,300	4,700
Total trade and other payables	9,521	11,650

Trade and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of trade and other payables approximate their fair value.

17 Employee benefit liabilities

	Group 2017 $000	Group 2016 $000
Accrued pay	-	-
Annual leave	39	26
	39	26
Comprising:		
Current	39	26
Non-current	-	-
Total employee benefit liabilities	39	26

18 Borrowings

	Group 2017 $000	Group 2016 $000
Current		
Redeemable preference shares	16,777	16,777
Total current borrowings	16,777	16,777
Non-current		
Secured loans	108,462	110,862
Total non-current borrowings	108,462	110,862

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

The weighted average interest rate for the multi-option note facility was 4.47% (2016: 5.13%) with hedging refer note 27.

The total borrowing facility was extended to $100m during the 2017 year (2016: $90m). The facility of $35m for 2 years and $65m for 3 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.

19 Deferred Tax Liabilities/(Assets)

Group :	Balance	Recognised in profit or loss	Recognised in equity	Balance	Recognised in profit or loss	Recognised in equity	Balance
	1-Jul-15			**30-Jun-16**			**30-Jun-17**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Property, plant and equipment	19,148	63	-	19,211	112	725	20,048
Biological assets	3,168	388	-	3,556	768	-	4,324
Investment property	756	(62)	-	694	16	-	710
Derivatives	(626)	-	(685)	(1,311)	-	563	(748)
Other items	63	91	-	154	(19)	-	135
Tax losses	(1,245)	248	-	(997)	505	-	(492)
Total movements	21,266	728	(685)	21,307	1,382	1,288	23,977

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20 Equity

Group

	Attributable to equity holders of the Company				
	Share capital	**Cashflow Hedging reserve**	**Revaluation reserve**	**Retained earnings**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
Balance at 1 July 2015	25,298	(1,610)	28,606	32,246	84,540
Surplus/(deficit) after tax	-	-	-	9,167	9,167
Other comprehensive income					
Property, Plant and Equipment Revaluation gains/(losses) - pre tax	-	-	(55)	55	-
Transfer of revaluation reserve to retained earnings due to asset disposal	-	-	-	-	-
Effective portion of changes in fair value of cash flow hedges, net of tax	-	(1,761)	-	-	(1,761)
Distributions to Shareholders					
Dividends paid/declared	-	-	-	(4,700)	(4,700)
Contributions from Shareholders					
Shares issued and paid up	-	-	-	-	-
Balance at 30 June 2016	**25,298**	**(3,371)**	**28,551**	**36,767**	**87,246**
Balance at 1 July 2016	25,298	(3,371)	28,551	36,767	87,246
Surplus/(deficit) after tax	-	-	-	9,393	9,393
Other comprehensive income					
Property, Plant and Equipment Revaluation gains/(losses) - pre tax	-	-	1,863	-	1,863
Transfer of revaluation reserve to retained earnings due to asset disposal					
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	(100)	100	-
Distributions to Shareholders	-	1,447	-	-	1,447
Dividends paid/declared	-	-	-	(5,300)	(5,300)
Contributions from Shareholders	-	-	-	-	-
Shares issued and paid up					
Balance at 30 June 2017	**25,298**	**(1,924)**	**30,314**	**40,960**	**94,649**

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

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Minority interest	Parent interest
$000	$000
2,851	81,689
22	9,145
-	-
-	-
-	(1,761)
-	(4,700)
-	-
2,873	**84,373**
2,873	84,373
10	9,383
-	1,863
-	-
-	1,447
-	(5,300)
-	-
2,883	**91,766**

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

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

	Group 2017 $000	Group 2016 $000
Reconciliation with reported operating surplus		
Net surplus after tax	9,393	9,166
Add/(deduct) non-cash items:		
Depreciation	5,617	5,140
Impairment of Property, Plant and Equipment	-	(874)
Net (profit)/loss on sale of fixed assets	403	569
Derecognition of term loan	(168)	(168)
Change in fair value of investment property	(57)	222
Change in fair value of biological assets	(4,153)	(2,276)
Biological assets - Cost of Goods Sold	1,545	1,031
Increase/(decrease) in deferred taxation	1,381	729
Associate /joint venture post-acquisition profits	(6,325)	(4,896)
Loss on sale of associate/joint venture	-	(298)
Impairment of investment in associate	279	-
Add/(less) movements in working capital:		
(Increase)/decrease in receivables	(104)	79
(Increase)/decrease in inventories	(3)	2
Increase/(decrease) in accounts payable and accruals	(2,674)	(1,540)
Increase/(decrease) in GST/taxation	11	384
Net cash inflow (outflow) from operating activities	5,145	7,270

22 Related party transactions

The Company is the sole shareholder of Electricity Invercargill Limited, Invercargill City Forests Limited, Invercargill City Property Limited and holds a 97% stake in Invercargill Airport Limited. During the year, the following transactions took place with the group companies. All transactions with the subsidiaries have been eliminated upon consolidation.

	Group 2017 $000	Group 2016 $000
Ultimate parent:		
(a) Invercargill City Council		
Revenue		
Provision of services	113	140
Expenditure		
Provision of services	425	439
Dividends from Subsidiary to Parent	5,300	4,700
Outstanding at balance date by Parent and Group	5,300	4,700
Outstanding at balance date to Parent and Group	-	10
Subsidiaries:		
(b) Electricity Invercargill Limited		
Revenue		
Provision of services and interest charges		-
Dividends from Subsidiary to Parent		-
Expenditure		
Provision of services		-
Outstanding at balance date by Parent and Group		-
Outstanding at balance date to Parent and Group		-
Loan outstanding at balance date to Parent and Group		-
(c) Invercargill City Forests Limited		
Revenue		
Provision of services and interest charges		-
Dividends from Subsidiary to Parent		-
Expenditure		
Provision of services		-
Outstanding at balance date by Parent and Group		-
Outstanding at balance date to Parent and Group		-
Loan outstanding at balance date to Parent and Group		-

	Group 2017 $000	Group 2016 $000
(d) Invercargill Airport Limited		
Revenue		
Provision of services, depreciation subsidy, interest charges		-
Expenditure		
Provision of services, depreciation subsidy, interest charges		-
Outstanding at balance date by Parent and Group		-
Outstanding at balance date to Parent and Group		-
Loans outstanding at balance date to Parent and Group		-
(e) Invercargill City Property Limited		
Revenue		
Provision of services		-
Expenditure		
Provision of goods and services		-
Outstanding at balance date by Parent and Group		-
Outstanding at balance date to Parent and Group		-
Other related parties:		
(f) AWS Legal		
Revenue		
Provision of services	-	-
Expenditure		
Provision of services	8	41
Outstanding at balance date by Parent and Group	-	-
Outstanding at balance date to Parent and Group	-	-

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22 Related party transactions	Group 2017 $000	Group 2016 $000
(g) AJO Management Limited		
Revenue		
Provision of services and interest charges	-	-
Expenditure		
Provision of goods and services	21	70
Outstanding at balance date by Parent and Group	-	4
Outstanding at balance date to Parent and Group	-	-
(h) OtagoNet Joint Venture		
Revenue		
Provision of services	-	14
Expenditure		
Provision of services	-	-
Outstanding at balance date by Parent and Group	-	-
Outstanding at balance date to Parent and Group	-	-
(i) PowerNet Limited		
Revenue		
Provision of services	160	245
Expenditure		
Provision of goods and services	8,931	11,042
Outstanding at balance date by Parent and Group	1,029	3,545
Outstanding at balance date to Parent and Group	34	76
(j) Electricity Southland Limited		
Revenue		
Provision of services	87	71
Expenditure		
Provision of goods and services	-	-
Outstanding at balance date by Parent and Group	-	-
Outstanding at balance date to Parent and Group	24	19

22 Related party transactions

	Group 2017 $000	Group 2016 $000
(k) Otago Power Services Limited		
Revenue		
Provision of services	-	33
Expenditure		
Provision of goods and services	-	-
Outstanding at balance date by Parent and Group	-	-
Outstanding at balance date to Parent and Group	-	-
(l) IFS Forestry Group Limited		
Revenue		
Provision of services	-	-
Expenditure		
Provision of goods and services	-	-
Outstanding at balance date by Parent and Group	-	-
Outstanding at balance date to Parent and Group	3	3
(m) HWCP Management Limited		
Revenue		
Provision of services	23	-
Expenditure		
Provision of goods and services	-	-
Outstanding at balance date by Parent and Group	-	-
Outstanding at balance date to Parent and Group	23	-
(n) R M Walton		
Revenue		
Provision of services	-	-
Expenditure		
Provision of goods and services	-	19
Outstanding at balance date by Parent and Group	-	-
Outstanding at balance date to Parent and Group	-	-

22 Related party transactions

	Group 2017 $000	Group 2016 $000
(o) Forest Growth Holdings Limited		
Revenue		
Provision of services	526	462
Expenditure		
Provision of goods and services	-	-
Outstanding at balance date by Parent and Group	-	-
Outstanding at balance date to Parent and Group	34	48
(p) IFS Growth Limited		
Revenue		
Provision of services	-	438
Expenditure		
Provision of services	751	888
Outstanding at balance date by Invercargill City Forests Ltd	111	71
Outstanding at balance date to Invercargill City Forests Ltd	-	-
(q) OneForest Limited		
Revenue		
Provision of services	6,740	4,077
Expenditure		
Provision of services	3,185	2,230
Outstanding at balance date by Invercargill City Forests Ltd	-	46
Outstanding at balance date to Invercargill City Forests Ltd	-	92

22 Related party transactions

	Group 2017 $000	Group 2016 $000
(r) Invercargill Venue and Events Management		
Revenue		
Provision of services	-	-
Expenditure		
Provision of goods and services	4	4
Outstanding at balance date by Parent and Group	-	-
Outstanding at balance date to Parent and Group	-	-
(s) Southland Indoor Leisure Centre Charitable Trust		
Revenue		
Provision of services	110	211
Expenditure		
Provision of services	-	-
Outstanding at balance date by Parent and Group	-	-
Outstanding at balance date to Parent and Group	1,500	3,000

22 Related party transactions

No related party transactions have been written off or were forgiven during the 2017 year (2016: nil).

Electricity Invercargill Limited through its joint venture interest in PowerNet Limited and OtagoNet joint venture, uses AWS Legal as its solicitors, of which A B Harper is a Partner.

Invercargill Airport Limited purchased services from AJO Management Limited, a management company, in which AJ O'Connell is the Director. These services included director fees.

Invercargill Airport Limited purchased services from RM Walton (Director).

No debt has been written off or forgiven during the period and all transactions are at arms - length. The outstanding balances are not subject to interest and are repayable on demand.

Refer note 6 for details on tax loss offsets within the group.

Key management personnel compensation comprises:

	Group 2017 $000	Group 2016 $000
Short term employment benefits	624	659
Directors Fees	642	682

Short term employee benefits relate to:

Invercargill City Holdings Limited, and consist of salaries.

Invercargill City Forests Limited, and consist of salaries.

Invercargill City Property Limited, and consist of salaries.

Invercargill Airport Limited, and consist of salaries and does not include any costs for the following: post employment benefits, other long term benefits and termination benefits as they are not provided for by Invercargill Airport Limited.

Electricity Invercargill Limited group, and consists of salaries and other short term benefits.

23 Capital commitments and operating leases

	Group 2017 $000	Group 2016 $000
Capital commitments		
Capital expenditure contracted for at balance date but not yet incurred for property, plant and equipment	1,988	2,149

Operating leases as lessee

The Group does not have any opearting leases where it is the lesee (2016: Nil).

Operating leases as lessor

The Group leases its investment property under operating leases. The majority of these leases have a non-cancellable term of 36 months. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

	Group 2017 $000	Group 2016 $000
Non-cancellable operating leases as lessor		
Not later than one year	326	366
Later than one year and not later than five years	986	1,148
Later than five years	598	886
Total non-cancellable operating leases	1,910	2,400

There are no restrictions placed on the Company by any of the leasing arrangements.

24 Contingencies

Contingent assets: (refer note 11)

2017 Year: Nil

2016 Year: Nil

Contingent liabilities:

Invercargill City Forests has harvested a total of 48 hectares of pre-1990 forest (2016: 68 hectares). This harvested land will be replanted but at balance date carried a potential deforestation liability of $593,068 (2016: $836,659). It is Invercargill City Forests Limited's intention to replant all forests. Refer note 11.

Electricity Invercargill Limited has a contingent liability as at 31 March 2017 of $415,000 (31 March 2016: $415,000). This liability relates to an agreement with Smart Co for the Company to provide a subordinated loan to Smart Co once a number of terms have been met.

25 Key Management Personnel

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

A number these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

26 Events after the Balance Sheet date

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

27 Financial Instruments

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.

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.

• Credit risk

Credit risk is the risk that a counterparty will default on its obligation causing the Company/Group to incur a financial loss.

Financial instruments that potentially subject the Company/Group to concentrations of credit risk consist principally of cash, short-term investments, trade receivables, foreign exchange transactions and other financial instruments. Cash and short-term investments are placed with banks with high credit ratings assigned by international credit-rating agencies, or other high credit quality financial institutions.

The Company has no significant concentrations of credit risk. The Company invests funds only in deposits with registered banks and local authority stock and its Investment policy limits the amount of credit exposure to any one institution or organisation.

The Group manages its exposure to credit risk from trade receivables by performing credit evaluations on all customers requiring credit whenever possible, and continuously monitoring the outstanding credit exposure to individual customers. The Group does not generally require or hold collateral against credit risk.

The Electricity Invercargill Limited group is exposed to a concentration of credit risk with regards to the amounts owing by energy retailers for line charges. However, these entities are considered to be high credit quality entities.

Credit quality of financial assets: For counterparties with credit ratings the cash at bank and deposits are held in banks with credit ratings from BBB to AA-. Derivative financial instruments assets are held with banks with credit ratings of AA-. For counterparties without credit ratings the community and related party loans are with parties that have had no defaults in the past.

• Liquidity risk

Liquidity risk represents the Company/Group's ability to meet its contractual obligations. The Company/Group evaluates its liquidity requirements on an ongoing basis. In general the Group generates sufficient cash flows from its operating activities to meet its contractual obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls and meet capital expenditure requirements. The Company aims to maintain flexibility in funding by keeping committed credit lines available.

In meeting its liquidity requirements, the Company maintains a target level of investments that must mature within the next 12 months.

The Company manages its borrowings in accordance with its funding and financial policies, which includes a Liability Management policy.

The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The table below analyses the Company/Group's financial assets and liabilities (excluding derivatives) into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

Group 2017	**Carrying amount**	**Contractual cash flows**	**Maturity Dates**			
			< 1 year	**1-3 years**	**> 3 years**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
Financial Assets						
Cash and cash equivalents	4,703	4,703	4,703	-	-	4,703
Trade and other receivables	2,713	2,713	2,713	-	-	2,713
Advances	1,500	1,570	1,570	-	-	1,570
	8,916	8,986	8,986	-	-	8,986
Financial Liabilities						
Trade and other payables	4,163	4,163	4,163	-	-	4,163
Dividends payable	5,300	5,300	5,300	-	-	5,300
Borrowings - secured loans	108,461	117,709	3,083	3,084	111,542	117,709
Borrowings - redeemable preference shares	16,777	16,777	16,777	-	-	16,777
	137,701	143,949	29,323	3,084	111,542	143,949

The following table details the exposure to liquidity risk as at 30 June 2016:

Group 2016	Carrying amount	Contractual cash flows	Maturity Dates			
			< 1 year	1-3 years	> 3 years	Total
	$000	$000	$000	$000	$000	$000
Financial Assets						
Cash and cash equivalents	2,257	2,257	2,257	-	-	2,257
Trade and other receivables	2,986	2,986	2,986	-	-	2,986
Advances	3,000	3,322	161	3,161	-	3,322
	8,243	8,565	5,404	3,161	-	8,565
Financial Liabilities						
Trade and other payables	6,893	6,893	6,893	-	-	6,893
Dividends payable	4,700	4,700	4,700	-	-	4,700
Borrowings - secured loans	110,861	127,296	5,478	5,478	116,340	127,296
Borrowings - redeemable preference shares	16,777	16,777	16,777	-	-	16,777
	139,231	155,666	33,848	5,478	116,340	155,666

The interest rates on the Company's borrowings are disclosed in note 18.

The ultimate parent (ICC) being the holder of the redeemable preference shares has indicated that the shares will not be called for redemption in the next financial year. As the shares are callable the debt is classified as current in the statement of financial position.

The table below analyses the Company derivative financial assets and liabilities that are settled on a net basis into their relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

Group 2017	**Carrying amount**	**Contractual cash flows**	**Maturity Dates**			
			< 1 year	**1-3 years**	**> 3 years**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
Financial Assets						
Derivative financial instruments	47	(35)	(37)	27	(25)	(35)
	47	(35)	(37)	27	(25)	(35)
Financial Liabilities						
Derivative financial instruments	2,718	3,828	1,101	1,557	1,170	3,828
	2,718	3,828	1,101	1,557	1,170	3,828
Net derivative financial liabilities	2,671	3,863	1,138	1,530	1,195	3,863

The following table details the exposure to liquidity risk as at 30 June 2016:

Group 2016	Carrying amount	Contractual cash flows	Maturity Dates			
			< 1 year	1-3 years	> 3 years	Total
	$000	$000	$000	$000	$000	$000
Financial Assets						
Derivative financial instruments	-	-	-	-	-	-
	-	-	-	-	-	-
Financial Liabilities						
Derivative financial instruments	4,681	5,789	1,195	2,009	2,585	5,789
	4,681	5,789	1,195	2,009	2,585	5,789
Net derivative financial liabilities	4,681	5,789	1,195	2,009	2,585	5,789

• Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits and derivative financial instruments.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk through Invercargill City Forests Limited as it sells logs to overseas markets, which require it to enter into transactions denominated in a foreign currency. The Company/Group has mitiaged this risk by selling the majority of its logs at wharf gate in New Zealand dollars.

Interest Rate Risk

Interest Rate Risk : Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. Borrowing issued at fixed rates expose the Company to fair value interest rate risk. The Company's Liability Management policy outlines the level of borrowing that is to be secured using fixed rate instruments. Fixed to floating interest rate swaps are entered into to hedge the fair value interest rate risk arising where the Company has borrowed at fixed rates.

The Group has interest bearing debt which is subject to interest rate variations in the market. The debt is raised from the Group's parent company, Invercargill City Holdings Limited's bank borrowing facility and then advanced onto the group companies.

The Group through the Parent uses interest rate swaps to manage its exposure to interest rate movements on its multi option facility borrowings.

The interest rates on the Company's borrowings are disclosed in note 18.

The financial assets and liabilities are exposed to interest rate risk as follows:

Financial Assets

Cash and cash equivalents	Variable interest rates
Trade and other receivables	Non interest bearing
Dividends receivable	Non interest bearing
Capital work in progress	Non interest bearing
Derivative financial instruments (interest rate swaps)	Variable interest rates
Advances	Fixed and variable interest rates
Short term investments	Variable interest rates

Financial Liabilities

Trade and other payables	Non interest bearing
Dividends payable	Non interest bearing
Advances	Variable interest rates
Derivative financial instruments (interest rate swaps)	Variable interest rates
Borrowings - secured loans	Variable interest rates
Borrowings - redeemable preference shares	Non interest bearing

Interest Rate Risk : Cash Flow Interest Rate Risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings and investments issued at variable interest rates expose the Company to cash flow interest rate risk.

The Company manages its cash flow interest rate risk on borrowings by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings at floating rates and swaps them into fixed rates that are generally lower than those available if the Company borrowed at fixed rates directly. Under the interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

The notional principal outstanding in regard to the interest rate swaps is as follows:

	Group	
	2017	**2016**
	$000	**$000**
	Liability	**Liability**
Maturity < 1 year	1,700	10,300
Maturity 1-2 years	21,500	1,700
Maturity 2-3 years	7,500	21,500
Maturity 3-4 years	10,000	7,500
Maturity 4-5 years	8,000	10,000
Maturity 5-6 years	13,000	8,000
Maturity 6-7 years	13,000	13,000
Maturity 7-10 years	19,000	18,000
	93,700	90,000

- Effectiveness of Cash Flow Hedges

The matched terms method is used in applying hedges. In all cases the terms of both the hedge instrument and the underlying transaction are matched. All hedges are interest rate swaps.

	Company/Group	
	2017	**2016**
	%	**%**
Effectiveness	100	100

- Sensitivity analysis on Financial Instruments

Borrowings: If interest rates on borrowings at 30 June 2017 had fluctuated by plus or minus 0.5%, the effect would have been to decrease/increase the surplus after tax by $116,599 (2016: $139,405) as a result of higher/lower interest expense on floating rate borrowings.

Cash and cash equivalents included deposits at call which are at floating interest rates. Sensitivity to a 0.5% movements in rates is immaterial as these cash deposits are very short term.

Derivative Asset: Cash Flow hedge

The derivatives are hedge accounted and managed by the company to be 100% effective and thus there is no sensitivity to the profit and loss to change in the interest rates.

Sensitivity to a 0.5% movements in rates is as follows and affect the equity balance of the Group:

	Carrying amount	**Equity change**	
	Year 2017	**+0.5%**	**-0.5%**
	$000	**$000**	**$000**
Net Derivative financial asset/(Liability) - Cashflow Hedge	(2,671)	1,350	(1,396)

	Year 2016	**+0.5%**	**-0.5%**
	$000	**$000**	**$000**
Net Derivative financial asset/(Liability) - Cashflow Hedge	(4,681)	1,477	(1,525)

28 Fair Value Measurement

- Fair Value measurements recognised in the Statement of Comprehensive Income

The following classes of assets 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)

	Group 2017				**Group 2016**			
	Level 1	**Level 2**	**Level 3**	**Total NZ**	**Level 1**	**Level 2**	**Level 3**	**Total NZ**
Fair Value Measurement	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Assets at Fair Value								
Derivatives	-	47	-	47	-	-	-	-
Biological Assets	-	-	19,867	19,867	-	-	17,259	17,259
Network Assets	-	-	82,980	82,980	-	-	79,916	79,916
Investment Property	-	-	3,835	3,835	-	-	3,778	3,778
Total Assets at Fair Value	-	47	106,682	106,729	-	-	100,953	100,953
Liabilities at Fair Value								
Derivatives	-	2,718	-	2,718	-	4,681	-	4,681
Total Liabilities at Fair Value	-	2,718	-	2,718	-	4,681	-	4,681

Opening Balance/Closing Balance Level 3 fair value Measurements	Group 2017 $000	Group 2016 $000
Balance at Beginning of year	100,953	96,476
Unrealised net change in value of assets	6,798	2,054
Purchases	4,134	6,759
Sales	(1,884)	(1,165)
Reclassified from fair value	-	-
Depreciation and impairment	(3,319)	(3,171)
Balance at the end of the year	106,682	100,953

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.

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

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

The Group's investment properties are valued by external valuation on the basis of fair value using open market evidence with the exception of two properties that are planned to be replaced within the next year (2016: One year), where a discounted cash flow (DCF) method is used. The investment properties are revalued annually. The key inputs include yield sensitivity being 8.0% for 2017 (2016: 9.30%).

29 Publication of Financial Statements

Invercargill City Holdings Limited is a Council-Controlled Trading Organisation operating under the Local Government Act 2002. The Act requires the Board to deliver to the shareholders and make public the audited annual report within three months of the end of the financial year. This time frame has been met.

Statement of Service Performance

For the year ended June 30, 2017

The performance targets established in the 2017 Statement of Corporate Intent for Invercargill City Holdings Limited and the results achieved for the year ended 30 June 2017 follow.

Performance Targets

1 That a rate of return before tax on shareholders funds of 12.79% be achieved.
Achieved - rate of return of 13.04%

That a rate of return after tax on shareholders funds of 9.21% be achieved.
Achieved - rate of return of 9.92%

2 Half yearly reports are provided to the Shareholder within two months of the end of the period and that the annual statements and report are provided within three months of the end of the financial year.
Achieved

3 All statutory requirements for reporting under the Companies Act 1993 and the Local Government Act 2002 are achieved.
Achieved

4 Draft Statement of Intent will be submitted for approval to Invercargill City Council by 1 March each year.
Achieved

5 Invercargill City Holdings Limited will keep Invercargill City Council informed of all significant matters relating to Invercargill City Holdings Limited and its subsidiaries, within the constraints of commercial sensitivity. Invercargill City Holdings Limited will run at least one workshop with Councillors per financial year.

Invercargill City Holdings Limited (ICHL) has continued its communication programme with Council. As part of this, ICHL held an Annual General Meeting (AGM) on 21 November 2016. During the AGM Electricity Invercargill Limited (EIL), Invercargill Airport Limited (IAL) and Invercargill City Forests Limited (ICFL) made presentations.

ICHL ran a workshop with Councillors on 29 March 2017 where each of the subsidiary companies gave a presentation with information included in the ICHL draft Statement of Intent.
The Chairman of ICHL has attended Council Finance & Policy meetings when appropriate during the year.

Invercargill City Holdings Limited will maintain contact with subsidiary company boards, and remain aware of their strategic business issues. Invercargill City Holdings Limited will meet subsidiary company boards and their representatives at least once per financial year.

6 Invercargill City Holdings Limited will maintain contact with subsidiary company boards, and remain aware of their strategic business issues. Invercargill City Holdings Limited will meet subsidiary company boards and their representatives at least once per financial year.
Achieved

ICHL has continued with its communications programme with each of the subsidiary companies. Each of the subsidiary companies, with the exception of Invercargill City Property Limited, are required to attend ICHL meetings regularly to discuss their financials and any other issues. Last year, ICHL implemented a subsidiary reporting template for reports to ICHL which include financial results, strategic issues, health and safety information and any current issues facing the company. The reporting template has been further bedded down this year.

ICHL

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