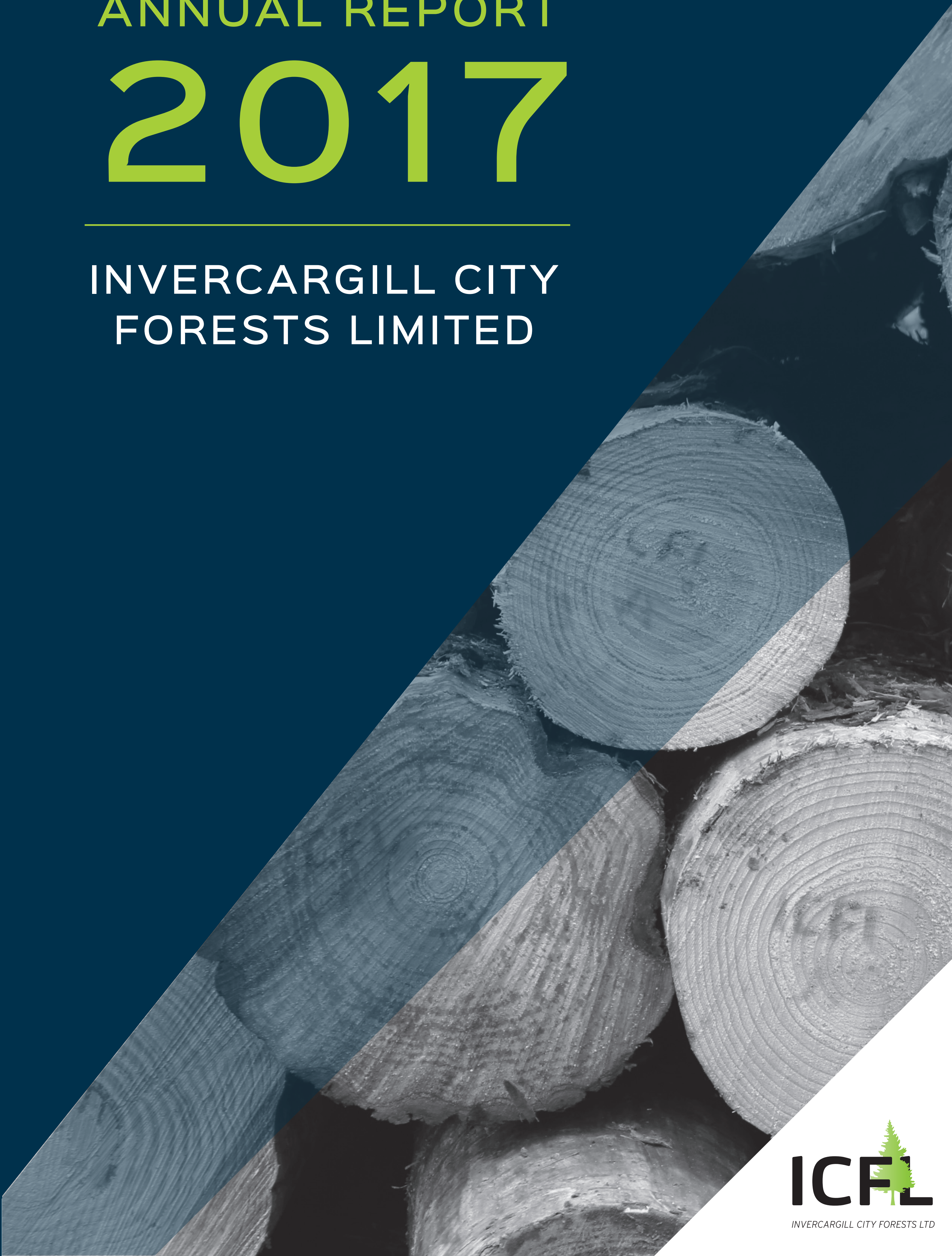
ANNUAL REPORT 2017

INVERCARGILL CITY FORESTS LIMITED



ICFL
INVERCARGILL CITY FORESTS LTD

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Company Directory

Directors

Mr L A Pullar (Chairman)
Mr A McKenzie
Mr B Nettleton
Mrs M L Montgomery

Chief Executive Officer

Mr D J Johnston

Registered Office

C/- Invercargill City Council
101 Esk Street
Invercargill

Postal Address

Private Bag 90104
Invercargill 9840

Phone (03) 211 1777
Fax (03) 211 1433

Auditor

Audit New Zealand
Dunedin

Bankers

BNZ

Solicitors

Cruickshank Pryde
42 Don Street
Invercargill

Forestry Consultant

IFS Growth
Invercargill

INVERCARGILL CITY FORESTS LTD

Approval by Directors

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

L A Pullar Chairman	A B McKenzie Director

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

Chairman's Report

On behalf of my fellow Directors, Alastair McKenzie, Ben Nettleton, Mel Montgomery and myself I have pleasure in presenting this Annual Report for the year ending 30 June 2017.

The operational financial report for the year shows a very pleasing result of a $2.1 million profit but a disappointing performance from our two investment companies. Our involvement in the future of these two investments is being reviewed at the time of writing this report.

Log prices remained at a very high level all year and this is positively reflected in the valuation of our forests. Overall our tree crop grew in value to $19.8 million compared with $17.26 in 2016. No new forests have been purchased in 2017, in the main due to the higher prices and a general lack of good quality forests for sale in the Otago/Southland region. The Directors have agreed that the company may need to move beyond its self-imposed borders to achieve continuing good results.

Health and Safety continues as a major focus throughout the Company. The Board receives monthly reports on all aspects of Health and Safety effecting our contractors and other related parties. One aspect of Health and Safety which we have never faced previously was a fire ignited by spontaneous combustion within a harvesting skid site at Cairn Peak. Whilst there is no way of predicting this phenomenon it could have resulted in many thousands of dollars of damage had the Rural Fire Service and its many separate brigade forces not been able to contain this very deep-seated fire. It has been estimated the fire is burning down to a depth of 15 metres and continues to erupt from time to time.

I wish to personally acknowledge the great support from the other three Directors of the Company and from the Directors of Invercargill City Holdings Ltd and the Invercargill City Council. Also to be thanked are our Administration team of Dean, Amy and Anj. Thank you all for a great year's work.

Les Pullar
Chairman
21 July 2017

INVERCARGILL CITY FORESTS LTD

Statutory Information

REMUNERATION AND OTHER BENEFITS TO DIRECTORS

Mr L A Pullar	$56,000
Mr A B McKenzie	$28,000
Mr B Nettleton	$28,000
Ms M L Montgomery	$28,000

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

- Compensation for loss of office.
- Guarantees given by the Company for debts incurred by a Director.

SHAREHOLDINGS BY DIRECTORS

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

RECOMMENDED DIVIDEND

$550,000 payable to Invercargill City Holdings Limited.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has insured all its Directors against liabilities to other parties that may arise from their positions.

DONATIONS

The Company has made no donations during the period.

AUDITOR'S REMUNERATION

Auditor's fees of $21,295 were paid during the year. There were no other fees payable for other services provided by the Auditor.

USE OF COMPANY INFORMATION BY DIRECTORS

During the period the Board received no notice from Directors of the Company requesting to use Company information received in their capacity as Directors which would not otherwise be available to them.

INTERESTS IN TRANSACTIONS

During the period, no Directors had an interest in any transaction or proposed transaction with the Company.

REMUNERATION

No employees received remuneration and other benefits exceeding $100,000 during the period.

Accounting Policies

For the year ended June 30, 2017

REPORTING ENTITY

Invercargill City Forests Limited (the Company) is a company incorporated in New Zealand under the Companies Act 1993 and is domiciled in New Zealand. The Company is a wholly owned subsidiary of Invercargill City Holdings Limited.

The Company is a Council Controlled Trading Organisation as defined in Section 6(1) of the Local Government Act 2002. The financial statements have been prepared in accordance with the requirements of the Local Government Act 2002, Companies Act 2013 and Financial Reporting Act 1993.

The Company is primarily involved in forestry activities. Accordingly, the Company has designated itself as a profit orientated entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements of the Company are for the year ended 30 June 2017. The financial statements were authorised for issue by the Directors on 7 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 Financial Reporting Act 2013 and the Companies Act 1993.
The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and comply with the New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

The Company is a Tier 2 for-profit entity and has elected to report in accordance with the NZ IFRS Reduced Disclosure Regime on the basis that it does not have public accountability and is not a large for-profit public sector entity.

The general accounting principles as appropriate for the measurement and reporting of results and financial position under the historical cost method have been followed in preparation of these financial statements. The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and forestry assets.

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

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 re translated at the rate of exchange at the reporting date.

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ASSOCIATES

The Company accounts for an investment in an associate in the financial statements using the equity method. An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. The investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the Company's share of the surplus or deficit of the associate after the date of acquisition. The Company's share of the surplus or deficit of the associate is recognised in the Company's Statement of Comprehensive Income. Distributions received from an associate reduce the carrying amount of the investment.

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

REVENUE

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

Interest income is recognised using the effective interest method.

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

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

INCOME TAX

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

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

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

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

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

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

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

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

CASH AND CASH EQUIVALENTS

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

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

TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially measured at fair value and subsequently measured at 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.

INVENTORY

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

FINANCIAL ASSETS

Where applicable the Company 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 income statement 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.
- *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 income statement 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.

- *Derivative Financial Instruments*
  The Company uses derivative financial instruments (forward currency contracts) to hedge exposure to foreign exchange. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value at each balance date. Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are recognised in 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.

Property, consists of land and improvements. Land is held in two classes being Land and Roading Improvements. Roading Improvements are carried at depreciated historical cost.

Land is revalued to fair value and carried at valuation and is not depreciated. The fair value is determined by independent registered valuers based on the highest and best use of the land. In determining the highest and best use consideration is given as to whether the land has been registered under the New Zealand Emissions Trading Scheme and hence whether there are restrictions on the land use.

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

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

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.

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) Forestry Roading Improvements
6% Diminishing Value

(b) Plant
25% - 40% Diminishing Value
and 40% Straight Line

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

FORESTRY ASSETS

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

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

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

GOODS AND SERVICES TAX (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.
The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

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

Commitments and contingencies are disclosed exclusive of GST.

IMPAIRMENT OF NON-FINANCIAL 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.

BORROWING COSTS

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

NEW STANDARDS ADOPTED

There have been no new standards adopted during the financial year. The company 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 are:

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.

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 intends to adopt NZ IFRS 9 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 the period. All accounting policies have been consistently applied throughout the period covered by these financial statements.

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Statement of Financial Position

As at June 30, 2017

	Note	2017 $000	2016 $000
Assets			
Current assets			
Cash and cash equivalents		216	398
Trade and other receivables	7	83	182
Advance to associate	10	250	-
Tax receivable		-	47
Total current assets		549	627
Non-current assets			
Property, plant and equipment	8	7,629	7,620
Forestry assets	9	19,867	17,259
Investment in associates	10	2,435	3,120
Advance to associate	10	5,800	5,200
Total non-current assets		35,731	33,199
Total assets		36,030	33,826
Liabilities			
Current liabilities			
Trade and other payables	11	774	852
Employee benefit liabilities	12	-	-
Total current liabilities		774	852
Non-current liabilities			
Borrowings	13	20,656	20,556
Deferred tax liability	14	4,313	3,436
Total non-current liabilities		24,969	23,992
Total liabilities		25,743	24,844
Equity			
Share capital	15	2,774	2,774
Retained earnings	15	6,216	4,661
Other reserves	15	1,547	1,547
Total equity attributable to the equity holders of the company		10,357	8,982

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	2017 $000	2016 $000
Income			
Operating revenue	1	6,798	4,605
Other gains	2	4,153	2,574
Total income		10,951	7,179
Expenditure			
Employee expenses	4	99	99
Depreciation and amortisation	8	105	133
Biological asset Cost of Goods Sold		1,545	1,031
Forestry costs		4,599	2,960
Administration expenses	3	764	475
Total operating expenditure		7,112	4,698
Finance income	5	394	413
Finance expenses	5	1,096	1,068
Net finance expense		(702)	(655)
Operating profit/(loss) before tax		3,137	1,826
Share of associate profit/(loss)	10	(155)	31
Profit/(loss) before tax		2,982	1,857
Income tax expense	6	877	273
Profit/(loss) after tax		2,105	1,584
Profit/(loss) after tax attributable to:			
Equity holders of the Company		2,105	1,584
		2,105	1,584
Other comprehensive income			
Increase/(decrease) in fair value of property, plant and equipment - land	8	-	-
Total other comprehensive income		-	-
Total comprehensive income		2,105	1,584

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 Changes in Equity

For the year ended June 30, 2017

	Note	2017 $000	2016 $000
Balance at 1 July		8,982	7,948
Total Comprehensive Income for the year	15	2,105	1,584
Distributions to shareholders			
Dividends paid/declared	15	(550)	(550)
Balance at 30 June		10,537	8,982

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	2017 $000	2016 $000
Cash flows from operating activities			
Interest received		363	382
Receipts from customers		6,931	4,703
Payments to suppliers and employees		(5,261)	(3,585)
Interest paid		(1,096)	(1,068)
Income tax (paid) / refund		47	(10)
Goods and services tax [net]		(2)	16
Net cash from operating activities	16	982	438
Cash flows from investing activities			
Purchase of biological assets		-	(960)
Purchase of property, plant and equipment		(114)	(547)
Advances made to associates		(600)	1,262
Investments in associates		-	(1,724)
Net cash from investing activities		(714)	(1,969)
Cash flows from financing activities			
Proceeds from advance from Invercargill City Holdings Limited		700	5,108
Repayment of advance from Invercargill City Holdings Limited		(600)	(2,950)
Dividends paid		(550)	(550)
Net cash from financing activities		(450)	1,608
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		(182)	77
Cash, cash equivalents and bank overdrafts at the beginning of the year		398	321
Cash, cash equivalents and bank overdrafts at the end of the year		216	398

The GST(net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST(net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

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

Notes to the Financial Statements

For the year ended June 30, 2017

1 Operating revenue

	2017 $000	2016 $000
Rendering of services	56	90
Log Sales	6,741	4,077
Carbon Credits - pre 1990	-	-
Carbon Credits - post 1989	-	438
Other income	1	-
	6,798	4,605

2 Other gains and losses

	2017 $000	2016 $000
Change in fair value of biological assets	4,153	2,276
Gain/(loss) on sale of shares in associate	-	298
	4,153	2,574

3 Administrative expenses (includes)

	2017 $000	2016 $000
Director fees	143	120
Loss on sale of property, plant and equipment	-	13
Impairment of investment	279	-
Auditor's remuneration to Audit New Zealand comprises:		
· audit of financial statements	21	18

4 Employee expenses

	2017 $000	2016 $000
Wages and salaries	99	99
Total employee expenses	99	99

5 Finance income and expense

	2017 $000	2016 $000
Finance Income		
Interest income	6	38
Interest income on advance to associate	388	375
Total finance income	394	413
Financial expense		
Interest expense	1,096	1,068
Total financial expenses	1,096	1,068
Net finance costs	(702)	(655)

6 Income tax expense in the Income Statement

	2017	2016
	$000	$000
Current tax expense		
Current period	-	-
Adjustment for prior periods	-	-
Total current tax expense	-	-
Deferred tax expense		
Origination and reversal of temporary differences	877	273
Total deferred tax expense	877	273
Total income tax expense	877	273
Reconciliation of effective tax rate		
Profit for the year	2,982	1,857
Profit excluding income tax	2,982	1,857
Tax at 28%	835	520
Permanent Differences	121	(92)
Imputation credit adjustment	-	(155)
Loss offset	(79)	-
	877	273
Under/(over) provided in prior periods	-	-
Total income tax expense	877	273

7 Trade and other receivables

	2017 $000	2016 $000
Trade receivables	15	105
GST receivable	29	26
Related party receivables	39	51
	83	182
Less provision for impairment of receivables	-	-
	83	182

Trade receivables are non-interest bearing and are generally on terms of 30 days.
For terms and conditions relating to related party receivables, refer to note 17.

As at 30 June, the ageing analysis of trade receivables is, as follows:

	Total	Neither past due nor impaired
2017	15	15
2016	105	105

See Note 20 on credit risk of trade receivables, which explains how the Company manages trade receivables.

8 Property, Plant and Equipment

2017

	Cost/ revaluation	Accumulated depreciation	Carrying amount	Current year additions (Cost)	Current year disposals (Cost)
	1 July 2016 $000	**1 July 2016 $000**	**1 July 2016 $000**	**$000**	**$000**
Land	6,005	-	6,005	-	-
Plant and equipment	31	9	22	-	-
Roading	1,922	329	1,593	114	-
Total assets	7,958	338	7,620	114	-

2016

	Cost/ revaluation	Accumulated depreciation	Carrying amount	Current year additions (Cost)	Current year disposals (Cost)
	1 July 2015 $000	**1 July 2015 $000**	**1 July 2015 $000**	**$000**	**$000**
Land	5,518	-	5,518	487	-
Plant and equipment	194	65	129	26	189
Roading	1,801	229	1,572	121	-
Total assets	7,513	294	7,219	634	189

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

Forestry land is revalued with sufficient regularity to ensure the 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 Ltd (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.

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 30th June 2017 ($4,427,678 at 30 June 2016).

Current year disposals - Depreciation $000	Current year depreciation $000	Current year revaluation 30 June 2017 $000	Cost/ revaluation 30 June 2017 $000	Accumulated depreciation 30 June 2017 $000	Carrying amount 30 June 2017 $000
-	-	-	6,005	-	6,005
-	6	-	31	15	16
-	99	-	2,036	428	1,608
-	105	-	8,072	443	7,629

Current year disposals - Depreciation $000	Current year depreciation $000	Current year revaluation 30 June 2016 $000	Cost/ revaluation 30 June 2016 $000	Accumulated depreciation 30 June 2016 $000	Carrying amount 30 June 2016 $000
-	-	-	6,005	-	6,005
89	33	-	31	9	22
-	100	-	1,922	329	1,593
89	133	-	7,958	338	7,620

9 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

At 30 June 2017, standing timber comprised approximately 2,624 hectares of plantations at nine different locations. At 30 June 2016, standing timber comprised approximately 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 Pacific The valuation excludes funding and taxation. The discount rate is based on the the mid-point of Woodland Pacific'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%).

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

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	- units	-	31,281 units	438
Pre 1990		-		-
		-		438
Sold:				
Post 1989	- units	-	31,281 units	438
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 yet to be replanted. It is Invercargill City Forests Limited's intention to replant all forests.

Supply and Demand Risk

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

The Company is exposed to movements in the price of NZU's to the extent that, the Company has insufficient NZU's to offset a deforestoration 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.

10 Investment in associates

Associate Companies	Country of Incorporation	Percentage Held by Group 2017	Percentage Held by Group 2016	Balance date
Forest Growth Holdings Limited	NZ	32.1%	32.1%	30-June
IFS Forestry Group Limited*	NZ	24.9%	24.9%	30-June

*The Company holds 2,490,000 ordinary Class A shares that have been fully paid. The Class A shares have equal voting rights.

The Company holds 1,000,000 preferential Class B non-voting shares of which 750,000 remain uncalled at balance date.

	2017 $000	2016 $000
Investment in associates	2,435	3,120
Total investment in associates	2,435	3,120

The Forest Growth Holdings Limited associate has contingent liabilities as at 30 June 2017 of nil (2016: nil). The liabilities relate to agreements for purchase of Forestry that have not settled by balance date.

The IFS Forestry Group Limited has contingent liabilities as at 30 June 2017 of nil (2016: nil).

Advances to Associate

The Company's advances to associate are as follows:

	2017 $000	2016 $000
Forest Growth Holdings Limited	5,800	5,200
IFS Forestry Group Limited	250	-
	6,050	5,200

The Forest Growth Holdings Limited advance is unsecured and repayable on demand. Interest is charged at 2% above the average interest rate charged to Invercargill City Forests Limited by Invercargill City Holdings Limited.

The IFS Forestry Group Limited advance is unsecured with interest payable at 6% and repayable on demand.

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11 Trade and Other Payables

	2017 $000	2016 $000
Trade payables	123	193
Accrued expenses	101	109
Amounts due to other related parties	-	-
Dividends payable	550	550
Total trade and other payables	774	852

Terms and conditions of the above financial liabilities:
Trade and other payables are non-interest bearing and are normally settled on 30-day terms
Other payables are non-interest bearing and have an average term of six months
For terms and conditions relating to related party payables, refer to note 17.

For explanations on the Company's credit risk management processes, refer to Note 21.

12 Employee benefit liabilities

	2017 $000	2016 $000
Annual leave	-	-
	-	-
Comprising:		
Current	-	-
Non-current	-	-
Total employee benefit liabilities		-

13 Borrowings

	2017 $000	2016 $000
Non-current		
Shareholder advances	20,656	20,556
Total non-current borrowings	20,656	20,556

The term loan has been advanced by Invercargill City Holdings Limited under its multi-option facility. The current average interest rate payable is 4.74% (2016: 5.63%). The advance and interest rate are renegotiated as required. Therefore, the repayment period for the entire loan is greater than five years from now. The loan is unsecured. The fair value of the loan is also its carrying value.

14 Deferred Tax Liabilities/(Assets)

	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	-	-	-	-	(5)	-	(5)
Biological assets	3,168	388	-	3,556	768	-	4,324
Other items	(5)	(1)	-	(6)	-	-	(6)
Tax loss not recognised	-	(114)	-	(114)	114	-	-
Total movements	3,163	273	-	3,436	877	-	4,313

15 Equity

	Share capital	Cashflow Hedging reserve	Revaluation reserve	Retained earnings	Total
	$000	**$000**	**$000**	**$000**	**$000**
Balance at 1 July 2015	2,774	-	1,547	3,627	7,948
Profit / (loss)	-	-	-	1,584	1,584
Other comprehensive income					
Increase/(decrease) in fair value of property, plant and equipment - land	-	-	-	-	-
Distributions to Shareholders					
Dividends paid/declared	-	-	-	(550)	(550)
Contributions from Shareholders					
Shares issued and paid up	-	-	-	-	-
Balance at 30 June 2016	2,774	-	1,547	4,661	8,982
Balance at 1 July 2016	2,774	-	1,547	4,661	8,982
Profit / (loss)				2,105	2,105
Other comprehensive income					
Increase/(decrease) in fair value of property, plant and equipment - land	-	-	-	-	-
Distributions to Shareholders					
Dividends paid/declared	-	-	-	(550)	(550)
Contributions from Shareholders					
Shares issued and paid up	-	-	-	-	-
Balance at 30 June 2017	2,774	-	1,547	6,216	10,537

At 30 June 2017, share capital comprised 2,774,070 ordinary, fully paid up shares with equal rights (2016: 2,774,070)

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16 Reconciliation of net profit / (loss) to net cash inflows (outflows) from operating activities

	2017 $000	2016 $000
Reconciliation with reported operating surplus		
Net profit after tax	2,105	1,584
Add/(deduct) non-cash items:		
Depreciation	105	134
Net (profit)/loss on derivatives	-	13
Change in fair value of biological assets	(4,153)	(2,276)
Change in fair value of associate	155	(31)
Biological assets - Cost of Goods Sold	1,545	1,031
Increase/(decrease) in deferred taxation	877	273
Impairment in investment	279	-
Net (profit)/loss on sale of shares in associate	-	(298)
	(1,192)	(1,154)
Add/(less) movements in working capital:		
(Increase)/decrease in receivables	103	66
Increase/(decrease) in accounts payable and accruals	(78)	(64)
Increase/(decrease) in GST/taxation	44	6
	69	8
Net cash inflow (outflow) from operating activities	982	438

17 Related party transactions

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

	2017 $000	2016 $000
(a) Invercargill City Holdings Limited		
Revenue		
Provision of services	-	-
Expenditure	-	-
Provision of services and interest payments	1,162	1,134
Dividends from Subsidiary to Parent	550	550
Loan balance outstanding to Invercargill City Holdings	20,656	20,556
Outstanding at balance date by Invercargill City Holdings	-	-
Outstanding at balance date to Invercargill City Holdings	-	-
(b) Invercargill City Council		
Revenue		
Provision of services	-	-
Expenditure	-	-
Provision of services	88	119
Outstanding at balance date by Invercargill City Council	-	-
Outstanding at balance date to Invercargill City Council	-	-
(c) Forest Growth Holdings Limited		
Revenue		
Provision of services	526	462
Expenditure	-	-
Provision of services	-	-
Loan balance outstanding to Invercargill City Forests Ltd	5,800	5,200
Outstanding at balance date by Invercargill City Forests Ltd	-	-
Outstanding at balance date to Invercargill City Forests Ltd	34	48
(d) IFS Forestry Group Limited		
Revenue		
Provision of services	-	3
Expenditure	-	-
Provision of services	-	-
Outstanding at balance date by Invercargill City Forests Ltd	-	-
Outstanding at balance date to Invercargill City Forests Ltd	3	3

	2017 $000	2016 $000
(e) 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	-	-
(f) 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

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

Key management personnel compensation comprises:

	2017	2016
	$000	$000
Short term employment benefits	99	99
Directors Fees	140	120

Short term employee benefits relate to the CEO's salary, Executive and Financial Management services.

18 Capital commitments

There are no commitments contracted for at 30 June 2017 (2016: nil).

19 Contingencies

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: $603,519). It is Invercargill City Forests Limited's intention to replant all forests. Refer note 9.

20 Events after the Balance Sheet date

Subsequent to balance date the associate company, Forest Growth Holdings Limited (FGH) received notice from the Overseas Investment Office (OIO) of an investigation into an alleged breach of the Overseas Investment Act 2005. At the time of approving the financial statements the FGH Directors are taking legal advice on the notice and have not been able to conclude their response to the OIO. In the event the alleged breach is accepted, and / or the FGH Directors decide to settle the matter with the OIO, there may be financial penalties imposed by the OIO. The FGH Directors are not able to determine the likelihood of such an outcome at this time, nor quantify the potential settlement in the event a fine is imposed.

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

21 Financial Instruments

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

Credit risk

Financial instruments that potentially subject the Company consist principally of cash, cash equivalents and receivables. Cash is placed with banks with high credit ratings assigned by international credit-rating agencies, or other high credit quality financial institutions.

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

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty raising liquid funds to meet commitments as they fall due. The Company evaluates its liquidity requirements on an ongoing basis. The Company has credit lines in place with its parent entity.

The following table details the exposure to liquidity risk as at 30 June 2017:

	Maturity Dates			
	< 1 year	**1-3 years**	**> 3 years**	**Total**
	$000	**$000**	**$000**	**$000**
Financial Assets				
Cash and cash equivalents	216	-	-	216
Trade and other receivables	83	-	-	83
	299	-	-	299
Financial Liabilities				
Trade and other payables	774	-	-	774
Borrowings	-	-	20,656	20,656
	774	-	20,656	21,430

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

	Maturity Dates			
	< 1 year	1-3 years	> 3 years	Total
	$000	$000	$000	$000
Financial Assets				
Cash and cash equivalents	398	-	-	398
Trade and other receivables	182	-	-	182
	580	-	-	580
Financial Liabilities				
Trade and other payables	852	-	-	852
Borrowings	-	-	20,556	20,556
	852	-	20,556	21,408

Commodity price risk

The Company is subject to changes in the price of logs, which in turn is subject to foreign exchange risk. This risk is discussed further in note 9.

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company sells logs to overseas markets, which require it to enter into transactions denominated in a foreign currency. The Company has mitigated this risk by selling the majority of its logs at wharf gate in New Zealand dollars during the 2017 financial year.

22 Publication of Financial Statements

Invercargill City Forests 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.

Company Statement of Service Performance

For the year ended June 30, 2017

The performance targets established in the 2017 Statement of Intent and the results achieved for the year ended 30 June 2017 are as follows:

Financial:

That Invercargill City Forests Limited will achieve a EBIT% - Percentage Earnings before Tax and interest on Assets Employed of 7.87%
- Achieved
- EBIT% on assets employed is 10.15%

That Invercargill City Forests Limited will achieve a Percentage of Equity to Total Assets of 24.23%
- Achieved
- Equity to total assets % is 29.04%

Non Financial:

Health and Safety
Health and Safety (H&S) is an important part of our operation. We receive regular reports on any incidents however minor.

Mortality rates are below 10%
- Achieved
- The 2016 plantings at Cairn Peak, Dunrobin and Whare Creek forests have had good survival rates with mortality rates below 10%.

The company complies with all consent conditions and has no breaches
- Achieved
- The Company has complied with all consent conditions that have been imposed.

Net stocked area remains above 80% of productive area
- Achieved
- The Company aims to maintain the net stocked area of its forests above 80% to ensure future harvesting success. All harvested areas have been replanted within a 12-month period.

All silviculture is completed in a timely manner
- Achieved
- The Company is very proud of its forests and continues to ensure standards of silviculture, road/track maintenance, weed and pest control and signage are all maintained at a high level

Auditor's Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

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

The Auditor-General is the auditor of Invercargill City Forests Limited (the company). 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 performance information of the company on his behalf.

Opinion

We have audited:

- the financial statements of the company on pages 6 to 37, 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 company on pages 38.

In our opinion:

- the financial statements of the company on pages 6 to 37:
    - 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 Reduced Disclosure Regime.

- the performance information of the company on pages 38 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2017.

Our audit was completed on 7 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 company 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 company.

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 company for assessing the company'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 company 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 company'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 company'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 company'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 company 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 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 during 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 5, 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 that fact. We have nothing to report in this regard.

Independence

We are independent of the company 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 the New Zealand Auditing and Assurance Standards Board.

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

Ian Lothian

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

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