

Working Paper 2016/02

New Zealand King Salmon: A financial perspective

A case study exploring the financial
information of a for-profit, foreign-owned
company using publicly owned resources

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Note (August 2016): Based on publicly available information to 9 July 2016.

This paper is not yet final as we are waiting for a small number of Official Information Requests. These are marked with ** in the document. The responses may impact on our recommendations.

Note (May 2017): This working paper remained in draft until 27 March 2017 when it was published in final on the Institute's website. It was not published in hard copy until 1 May 2017.

It is important to note that this working paper does not reflect more recent financial information and therefore does not discuss the significant restructuring that has occurred as a result of the company going public late in 2016. As noted in the disclaimer and the third paragraph of the Executive Summary, we do not have access to all the relevant information. For this reason it is our practice to release our work to the public in draft and then update it as further information becomes available. The current version of this working paper would not have been possible without input from a number of people including Grant Rosewarne, CEO of NZKS. This in no way suggests NZKS agrees with the content or conclusions of this working paper. With regard to our updates and inclusion of new information as it becomes available, we note that NZKS's practice of retrospectively changing figures in their financial statements based on different reporting standards has presented ongoing challenges. This is another reason why the publication date of this working paper was fixed at 7 July 2016. The only exception to this is the table on page 55.

In May 2017 we have prepared a letter to the Minister of Primary Industries, which contains more updated financial information. This letter can be found on our website and forms part of our submission to MPI on their Marlborough salmon relocation proposal. It is referred to as *Working Paper 2017/02 – Letter to the Minister on New Zealand King Salmon*.

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Executive summary

This working paper is written with two audiences in mind;

i) firstly policy analysts and planners in local or central government dealing with a for-profit company wishing to use public resources and ii) secondly the executive teams of for-profit companies wishing to engage with stakeholders and work with government officials to support their business enterprises.

It explores the relationship between public policy and actual practice by reviewing the approvals granted to New Zealand King Salmon Investments Limited and Subsidiaries (NZKS) to use water space in the Marlborough Sounds. It looks at how the New Zealand government might best develop public policy for entities that use publicly owned resources and how public reporting could be improved.

This working paper is not a detailed report; it does not undertake any economic analysis of the salmon market or undertake any in-depth financial analysis of the company into the future. It is intentionally narrow in focus and retrospective in nature – we have focused on events before 9 July 2016. This paper focuses on the benefits (and touches on the risks and costs) of NZKS operations in the Marlborough Sounds as discussed at the 2012 Board of Inquiry (BOI) and more recently in the press. As this paper is dependent on and primarily concerned with the information that is in the public domain (primarily NZKS Financial Statements and articles in the press), it is not comprehensive. Decision makers may have access to or could demand additional timely and comprehensive data.

The purpose of this paper is to illustrate that there is an information gap between what is provided and what is required. This is achieved by examining what information is currently available in the public domain and suggesting what more is needed in order to ensure well-informed decisions regarding the use of public resources in future. A high level of accountability is required if unique public assets such as water space in the Marlborough Sounds are to be placed in the hands of for-profit, foreign-owned companies such as NZKS.

This paper was prepared in response to a meeting with officials from the Ministry for Primary Industries (MPI), the Ministry for the Environment (MfE) and the Department of Conservation (DoC) on 14 June 2016. The NZKS business model and the New Zealand government's approach to NZKS's proposals were discussed at the meeting.

As stated previously, this paper focuses on events before 9 July 2016, therefore the sources we have used were all published prior to this date. Relevant events, publications and information after this date are noted in the postscript. Please note that any NZKS Financial Statements from a specific year (e.g. 2015 Financial Statements) refer to the financial reporting year and are valid as at 30 June of that year. Where adjustments have been made in the following financial year, we have used the later figures.

1.0 Background

While the Institute has a number of specific concerns regarding NZKS's activities in the Marlborough Sounds, our overarching concern is about the quality of decision-making in public policy – particularly in terms of accessing timely and comprehensive information, and reporting that information in the public domain. In undertaking this work, it has become apparent that the information available in the public domain is highly fragmented and difficult to follow. The Institute is an advocate for wider corporate reporting that integrates financial and non-financial information. Notably, NZKS is now a member of the Global Salmon Initiative (GSI)¹ – the GSI website contains searchable analytics by topic, country and company on salmon farming, including data on NZKS.² This is the type of information we believe should be included in NZKS's annual report.

New Zealand communities will continue to contend with the impacts of business practices on public resources. It is therefore essential to develop reliable lines of engagement between businesses and the communities in which they operate, as well as robust reviewing practices for those businesses, so that public policy can be effective and durable, and lessons can be learnt over time. This paper takes into account NZKS's desire to use additional water space in the Tory Channel for salmon farming where aquaculture is currently banned.³ Tory Channel links Cook Strait with Queen Charlotte Sound in Marlborough.⁴

This working paper forms part of the Institute's *Project OneOceanNZ* and *Project ReportingNZ*. The Institute has previously prepared *Working Paper 2013/01: Notes on the New Zealand King Salmon Decision* (May 2013) and *Think Piece 16: New Zealand King Salmon: Was it a good decision for New Zealand?* (March 2013). These publications looked more broadly at the economic implications for the Marlborough region, including the need to assess alternative uses of the water space (such as turning the Marlborough Sounds into a marine park) and the growing appetite to impose coastal occupancy charges for the use of water space. The Institute has also published *Report 10 – One Ocean: Principles for the stewardship of a healthy and productive ocean* (March 2015) and *Think Piece 22: Proposal for the Creation of an Oceans Institution* (November 2015) as part of *Project OneOceanNZ*. In these publications, we concluded that one key building block of robust ocean governance is missing – an oceans institution. This government institution would act as both a chronicler and a steward of ocean policy. It would become the central landing pad for all aspects of ocean policy. We consider that many of the challenges faced by the Marlborough community and NZKS stem from a lack of guidance around more inclusive and considered ocean policy, which could be provided by an oceans institution.

Further background is provided in the appendices to this paper. Appendix 1 is a timeline of key events impacting salmon farming in the Marlborough Sounds, including government publications, judicial decisions and new monitoring processes implemented by NZKS. Appendix 2 contains graphs of NZKS's financial information according to the company's financial statements covering the period 1 July 2009 to 30 June 2015. Appendix 3 contains an excerpt from rebuttal evidence given by NZKS at the 2012 BOI hearing, and Appendix 4 contains excerpts from the BOI's final report and decision. Appendix 5 shows the NZKS 'Shareholdings' page on the Companies Office website in June 2016; Appendix 6 contains an excerpt from the most recent NZKS Financial Statements regarding accounting policies; and Appendix 7

1 GSI. (n.d.). *About Us: Members*. Retrieved 29 July 2016 from www.globalsalmoninitiative.org/about-us/members.

2 GSI. (2016). *Sustainability Report*. Retrieved 29 July 2016 from www.globalsalmoninitiative.org/sustainability-report/sustainability-indicators.

3 'New Zealand King Salmon is not looking to grab more space for farms in the Marlborough Sounds, its chief executive says. But it does want failing farms moved to better sites in an area where aquaculture is currently banned. [...] King Salmon was willing to give up their farms in "low flow" sites, in the Queen Charlotte Sound, if the equivalent sized sites in Tory Channel were opened up, Rosewarne said. "King Salmon have never said we want additional surface hectares ... We don't want to be fighting anyone. The Tory Channel could be the best spot in the world ... for environmental, social and economic outcomes."' Stuff. (10 May 2016). *New Zealand King Salmon says failing farms should be moved to Tory Channel*. Retrieved 29 July 2016 from www.stuff.co.nz/business/farming/aquaculture/79637662/new-zealand-king-salmon-says-failing-farms-should-be-moved-to-tory-channel.

4 McKinnon, M. (2015) Marlborough places – Arapawa Island to Port Underwood. In *Te Ara – Encyclopedia of New Zealand*. Retrieved 14 July 2016 from www.teara.govt.nz/en/marlborough-places/page-5.

shows the NZKS 'Documents' page on the Companies Office website. Appendix 8 contains excerpts from the NZKS Financial Statements for the years ending 30 June 2013 (also showing adjustments for 2012), and 30 June 2015 (also showing adjustments for 2014). Appendix 9 contains a map of salmon farms in the Pelorus Sound, Queen Charlotte Sound and the Tory Channel that was initially prepared for the Institute's *Working Paper 2013/01: Notes on the New Zealand King Salmon Decision* and was updated for the purposes of this paper, as well as a list of New Zealand King Salmon Coastal Permits. Appendix 10 contains the terms of reference for the Marlborough Salmon Working Group. This was set up after the Cawthron Institute found that three farms were not meeting the 2015 *Best Management Practice Guidelines for salmon farms in the Marlborough Sounds*. Appendix 11 contains the original and amended *Marlborough Express* article titled 'McGuinness Institute report attacks King Salmon financial position'.

2.0 General considerations

New Zealand's current public policy approach is narrow and short term, whereas the impact of salmon farming on the environment and Marlborough community is both complex and long term (NZKS's 2012 BOI proposal asked for nine farms for 35 years). Under the current scenario, the New Zealand Government is supporting salmon farming, an industry with a wide range of known public risks, costs and benefits. This suggests that entities not only require 'government permission' but also a form of 'social permission'. Social permissions commonly known as social licence to operate refers to the level of acceptance or approval of for-profit companies that use publicly owned resources by local communities and other stakeholders. In such cases requiring social licence, there tend to be demands by stakeholders on Government and permit (or licence) holders for higher levels of transparency and rigour.

A recent *Harvard Business Review* article, 'Where Financial Reporting Still Falls Short', noted that '[i]n order for financial statements to fulfil their important social and economic function, they must reveal the underlying economic truth of a business. To the extent that they deviate from that truth, scarce capital will continue to be misallocated and wealth – and jobs – will be destroyed.'⁵ Underlying this case study is a concern that we are failing to report on the economic truth of businesses, particularly those using publicly owned resources. We set out four concerns we have about the general policy landscape below.

2.1 Government entities working together to align information systems and improve accessibility

This case study illustrates why companies that are reliant on the use of public resources to make a profit should be required to report on the impact of this use. Further, as in the case with NZKS, if data is produced by the company in support of further use of water space, that information should be publicly accessible and verifiable on an ongoing basis and in a form that is rigorous and reliable. Non-financial data in terms of export earnings promised and the number and types of jobs claimed are shaping the narrative around how much water space companies like NZKS obtain under the Resource Management Act. There needs to be better alignment between reporting financial data and reporting non-financial data. Specific concerns are set out in Section 3.

The indirect benefits claimed by NZKS (specifically export earnings and employment and income flows) were weighed up with costs and risks in the BOI's assessment of NZKS's proposal. As both of these non-tangible benefits are also reliant on the financial stability of the company over the long term, we discuss export earnings, employment and income flows and financial sustainability in Section 4 of this working paper.

2.2 Questioning the level of ongoing support by government

The Institute queries whether the New Zealand government should re-evaluate the level of support it contributes to NZKS based on our view that this business might be unable to deliver sustainable outcomes over the long term. This support includes the cost of decision making, the ongoing governance costs of salmon farming and labour, research into feed, research into mortalities, grants from NZ Trade and Enterprise and the opportunity costs of MPI officials not putting effort into other areas.⁶ In addition, NZKS operations may ultimately damage an important ecosystem that could alternatively be used to build sustainable and durable businesses for the Marlborough community, and contribute positively to the wider New Zealand economy.

5 Sherman, H. D., & Young, S. D. (July–August 2016). p 84, 'Where Financial Reporting Still Falls Short' *Harvard Business Review*.

6 Grants received from NZ Trade and Enterprise include \$195,000 (2015) and \$173,000 (2014). NZKS. (2015). *New Zealand King Salmon Investments Limited and Subsidiaries: Financial Statements for the year ended 30 June 2015*, p. 14, Note 4(a). Retrieved 27 June 2016 from www.business.govt.nz/companies/app/service/services/documents/CA4C13F3C56BAC09A942F0687B3B3ED0.

2.3 Seeking tangible benefits in terms of taxes on feed and occupancy charges

The New Zealand government should be seeking tangible benefits for both the Marlborough Sounds community and the general New Zealand public. It seems logical that a direct benefit be sought (such as coastal occupancy charges⁷ or a tax on fish feed) to help cover the pollution of the water and the wider seabed, to facilitate the recovery of council costs from managing and policing salmon farming and to allow reinvestment in the community to cover negative impacts on the tourist industry. The New Zealand public is being asked by NZKS to subsidise salmon farming – an industry with a wide range of existing risks, costs and benefits.

The government needs to think more broadly about who benefits and who bears the cost and risks, and whether New Zealand is getting a good deal from supporting salmon farming in the Marlborough Sounds.

2.4 Information on alternative uses

When public policy decisions affect an area for at least 35 years, it is imperative that the decision made is the right one. This means exploring all options and ensuring that an exit strategy exists for the option chosen. Increasing the stock of King Salmon in the Tory Channel would prevent a number of alternative, innovative uses for the water space in the Marlborough Sounds. For example, the Energy Efficiency and Conservation Authority (EECA) have consulted Energy Pacifica Limited (EPL) on the development of marine power in the Tory Channel and indicated that this work is ongoing. The EECA themselves do not currently have a marine energy programme, as New Zealand is pursuing alternative renewable energy resources.⁸ Another possible use of Marlborough Sounds water space is the creation of a UNESCO biosphere reserve.⁹

7 *'Marine farmers had previously indicated they were willing to pay coastal occupancy charges if they were transparent and equitable... But others argued as it was the marine farming industry that had prompted the need for marine environmental monitoring, they should be levied the bulk of the charging.'* Stuff. (26 June 2016). *Coastal occupancy charges to be levied in Marlborough*. Retrieved 27 June 2016 from www.stuff.co.nz/environment/81408853/coastal-occupancy-charges-to-be-levied-in-marlborough.

8 EECA. (22 August 2016). *Official Information Act 1982 request: 31 July 2016 on Tory Channel*. Personal Communication. Received 22 August 2016.

9 *'A Biosphere Reserve is an international designation given by UNESCO (United Nations Educational, Scientific and Cultural Organization) under its Programme on Man and the Biosphere (MAB). There are currently 610 Biosphere Reserves listed around the world in 117 countries (although as yet New Zealand remains one of the few first world nations that still has none). The first Biosphere Reserve was listed in 1976.'* Guardians of the Sounds, *An Environmentally Sustainable Future for the Marlborough Sounds*. Retrieved 27 June 2016 from www.guardiansofthesounds.co.nz/environmentally-sustainable-marlborough.

3.0 Specific considerations

Given that a for-profit, foreign-owned company is asking the New Zealand public to allow it free use of a unique natural resource for 35 years, we believe more rigour must be applied before any further decisions are made as to the addition of new farms to an already populated Tory Channel or the outstanding natural landscapes of the Outer Pelorus Sound.

In the Institute’s view, the 2012 BOI should have undertaken a more rigorous economic assessment of NZKS. We consider that the BOI’s assessment would have significantly benefited from having access to timely audited financial data rather than having confidential data filtered through a consultant employed by NZKS. In addition, the Institute believes that a number of other considerations should come into any assessment of NZKS, namely foreign ownership, current decision-making processes, timely financial reporting, comprehensive financial reporting, public accountability and other relevant data (such as transparency over feed content, impact on Hector’s dolphins and rising water temperatures). The importance of these considerations is explained in further detail throughout this section.

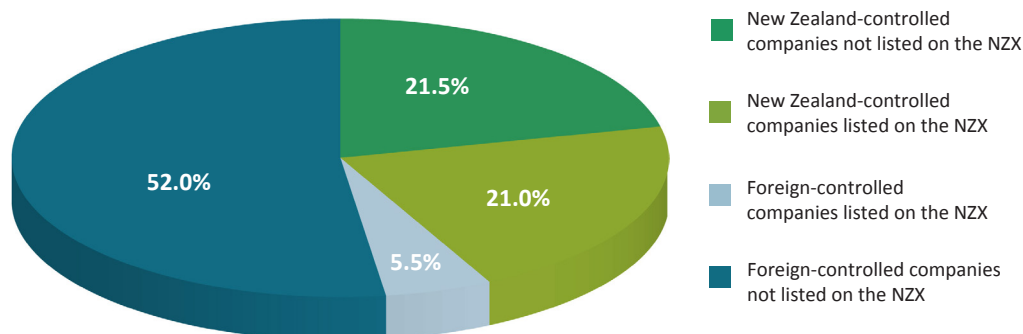
3.1 Foreign ownership

NZKS’s foreign ownership does not seem to have been taken into account by the BOI when assessing net benefits. Notably over 50% of NZKS is owned by Oregon Group Limited whose three shareholders are registered in Liberia (80%), Singapore (10%) and Hong Kong (10%) (see Appendix 5). NZKS, as a foreign-owned company whose proposal was determined to be of national significance by the Minister of Conservation in 2011 (see Appendix 1), should be held to the highest standard of reporting.

In 2011, the Institute (then known as the Sustainable Future Institute) carried out a survey titled *Integrated Annual Report Survey of New Zealand’s Top 200 Companies: Exploring Responses from Chief Financial Officers on Emerging Reporting Issues*.¹⁰ Part of this work looked at the relationship between reporting requirements and foreign ownership. The following extract, including Figure 1, is taken from this survey:

The economies of small countries can be strongly influenced by overseas-controlled companies, and New Zealand is no exception. 57.5% of the Top 200 companies are ‘50% or more controlled by overseas interests’, and only 26.5% are listed on the New Zealand Stock Exchange (NZX). In other words, almost three quarters of our Top 200 companies are not traded publicly on the New Zealand Stock Exchange (see Figure 1). Therefore, it is in our interests to ensure that the more invisible companies – those that are owned and traded elsewhere – treat our citizens and country well. Thus, like other small countries, New Zealand has a significant interest in the development of international standards that improve the quality of integrated reporting.¹¹

Figure 1: Top 200 Companies by NZX and by Foreign Control



10 In 2016 the Institute is undertaking a research project in collaboration with the External Reporting Board looking at Extended External Reporting (EER) in New Zealand, which will build on the findings from 2011. For more information see www.reportingnz.org.

11 McGuinness Institute. (2011). *Integrated Annual Report Survey of New Zealand’s Top 200 Companies: Exploring Responses from Chief Financial Officers on Emerging Reporting Issues*, p.9. Retrieved 27 June 2016 from www.mcguinnessinstitute.org/publications/.

3.2 Current decision-making processes

The Institute is concerned that the existing decision-making processes are becoming increasingly muddled. Two separate and independent processes are currently being discussed:

- Improving farming practices on existing sites.
The Marlborough Salmon Working Group was set up after the Cawthron Institute found that three NZKS farms were not meeting the 2015 *Best Management Practice Guidelines for salmon farms in the Marlborough Sounds*. It includes MDC, Ministry for Primary Industries, iwi, NZKS and key community and interest groups. Their aim is to develop a series of recommendations to implement the *Best Management Practice Guidelines*. See Appendix 10 for the terms of reference.
- Adding new sites to the Tory Channel.
NZKS has been suggesting moving farms from low to high flow sites: '[t]heir preferred option to meet best practice was to shift their farms in "low flow" sites in Queen Charlotte Sound to "high flow" sites in Tory Channel'.¹² However, NZKS will need to apply under the Resource Management Act 1991 for any new water space.¹³

These separate processes appear to be integrated under the Marlborough Salmon Working Group, which means that the legal process around moving from low to high flow sites is unclear. We are concerned that the current situation may act as a barrier to well-informed analysis and decision making over new sites, and may prevent public engagement. It is important to note that the Minister of Conservation considered NZKS's application for nine new farms to be of national significance in 2011 and the BOI decision in 2013 decided against two new farms on the southwest mouth of the Tory Channel (see Appendix 9). Any further proposal to place new farms in the Channel should demand an equally high level of scrutiny.

3.3 Timely financial reporting

At the time of the BOI hearing in 2012, members of the board and the public only had access to the 2011 Financial Statements (making the data 14 months old). The 2012 Financial Statements were registered on 22 November 2012 and showed a loss of -\$5,961,000. This 2012 loss was further adjusted to -\$9,431,000 in the 2013 Financial Statements.

Without more timely financial information, the BOI relied on the economic assessment of Dr Douglas Fairgray (a consultant acting for NZKS) who was in the unique position of having access to more recent confidential data from NZKS. The BOI stated in their decision that they were 'surprised that an appropriate application was not made for the release of the [financial] information' by submitters (see Appendix 4, paragraph 241). However, this was no doubt due to a lack of awareness and we believe that if BOI submitters had known that access to this information was possible, an appropriate application would have been made. This means that neither BOI members nor the public had access to the 2012 Financial Statements, and this information was not taken into account at the High Court hearing or the Supreme Court hearing. It is critical that timely information is sought and taken into account in any new process for assessing the profitability and financial sustainability of companies that use publicly owned resources over long periods of time (in the case of NZKS, 35 years).

The NZKS 2014 Financial Statements were not registered until 17 February 2016, almost 20 months after the company's balance date (30 June 2014). We contacted the Companies Office by phone on 4 July 2016 to understand why these statements were registered so late. The Companies Office said that they were not in a position to disclose the reason why the NZKS 2014 Financial Statements were so late, and they suggested we make a formal request by email. We sent this formal request on 6 July 2016.

12 Stuff. (13 July 2016). *Marlborough Salmon Working Group looks for sustainable salmon farming solutions*. Retrieved 28 July 2016 from www.stuff.co.nz/business/farming/aquaculture/82045883/Marlborough-Sounds-Salmon-Working-Group-looks-for-sustainable-salmon-farming-solutions.

13 This point is clarified in the terms of reference of the Marlborough Salmon Working Group. '*The group will not replace statutory consultation processes required to establish any potential new salmon aquaculture space under the Resource Management Act 1991*'. See Appendix 10 of this working paper.

We received a reply on 27 July 2016, which stated that ‘the financial reporting obligations of New Zealand King Salmon Limited and its subsidiaries for the 2014 and 2015 financial years were governed by the Financial Reporting Act 2013.’ This means that under section 19 of the Financial Reporting Act (FRA) 2013, NZKS was required, within five months and 20 working days after its balance date, to ensure that copies of its 2014 Financial Statements were delivered to the Registrar for registration. The penalty for failure to deliver financial statements within the time prescribed is described under Section 20 of the FRA 2013 as amounts payable to the Registrar. The email we received from the Companies Office on 27 July 2016 also stated that ‘in respect of the 2014 financial year, the financial statements and audit report were submitted late and the company was charged a late filing fee’ but that the Registrar was ‘unaware of the reasons for late submission.’ Upon seeking further clarification from the Companies Office around the penalty for late filing, we learned that NZKS was charged a late delivery fee of \$100 as prescribed by Schedule 2, Part 2 of the Companies Act 1993 Regulations 1994.

Had NZKS been fulfilling the financial reporting obligations set out in the 1 April 2014 amendments to the Companies Act 1993 (the new reporting framework), this fee would likely have been far greater. Specifically, under Section 207E of the Companies Act 1993, NZKS would have been required to ensure that its completed 2014 Financial Statements were delivered to the Registrar for registration before 30 November 2014.¹⁴ Given that NZKS 2014 Financial Statements were registered almost 14 months after they should have been, NZKS’s actions would have been treated as an offence under Section 207G(1)(e) of the Companies Act 1993 and they would have been liable on conviction to a fine not exceeding \$50,000.

The following is an extract from email correspondence with Rob Rendle of the Companies Office dated 14 September 2016. The email was in response to a request by the Institute to the Companies Office to confirm the accuracy of the two paragraphs above.

It is correct that the Financial Reporting Act 1993 (FRA 1993) set out the relevant requirements for New Zealand King Salmon Investment Limited’s (NZKSIL) 2013/14 financial statements. Prior to the 2013/14 financial year NZKSIL had fallen under section 19(1)(c) of the FRA 1993 on the basis that it was a subsidiary of a company incorporated outside New Zealand (Evergreen Holdings Limited (Company No LI05880) Incorporated in Labuan, Malaysia). On 3 June 2014 the Evergreen Holdings Limited shareholding was transferred to an overseas owned New Zealand company, Oregon Group Limited. This meant that the company was no longer required to file financial statements under section 19(1)(c), but it continued to have an obligation to file financial statements under section 19(1)(b)(i) on the grounds that it was “large” within the definition of that term under section 19A of the FRA 1993

It is also correct that the date by which the financial statements were due to be delivered to the Registrar of Companies for registration was five months plus 20 working days after NZKSIL’s balance date of 30 June 2014. NZKSIL’s financial statements appear to generally have been filed in early December each year. However, NZKSIL did not file its financial statements for the 2013/14 year until 17 February 2016. I understand you have suspicions as to why the financial statements were not filed until that date, but I note that the financial statements were filed 2 days after a letter was sent to NZKSIL by the Companies Office advising it that there was an outstanding registration obligation in relation to the 2013/14 financial year. It appears that the Companies Office had not sent reminder notices or overdue notices to the company prior to that date as it would usually have done if it was aware of a filing obligation. This is likely to have been because of the change in NZKSIL’s shareholding (as discussed above) and a mistaken assumption by the Companies Office that NZKSIL no longer had an obligation to register financial statements after its shareholding had changed.

I note that it is up to each company to ensure it complies with its financial reporting obligations, and companies cannot rely on the Companies Office identifying a filing obligation on their behalf. However, the lack of a reminder notice may explain the delay in filing in this case.

¹⁴ Under Section 207E of the Financial Reporting (Amendments to Other Enactments) Act 2013, financial statements must be filed ‘within 5 months after the balance date’. Financial Reporting (Amendments to Other Enactments) Act 2013, Section 207E. Retrieved June 27, 2016 from www.legislation.govt.nz/act/public/2013/0102/latest/DLM5739987.html.

You have noted in your draft text that “The penalty for failure to deliver financial statements within the time prescribed is described under section 20 of the FRA 1993 as amounts payable to the Registrar”. While section 20 relates to fees payable to the Registrar, it should also be noted that failure to file financial statements was an offence under section 39 of the FRA 1993. Under section 39 every director of a company that failed to comply with an obligation to register financial statements under section 19 was liable on conviction to a fine not exceeding \$100,000. A failure to file financial statements was also an infringement offence for which an infringement fee of \$7,000 could be issued to each director.

No infringement notice was issued to NZKSIL and the directors were not prosecuted. This is presumably because the Companies Office did not identify that the company continued to have a filing obligation until February 2016 and because the companies delivered the relevant financial statements for registration promptly after being advised that it had an outstanding obligation.

In the second paragraph of your draft text appear to suggest that the penalties would have been higher under the current financial reporting requirements under the Companies Act 1993 which applied to financial periods being after 1 April 2014. In fact the filing requirements and penalties that apply under the provisions of the Companies Act 1993 are very similar to those that applied under the FRA 1993. The main changes are that under the current provisions the large thresholds under section 45 of the Financial Reporting Act 2013 applies to determine whether NZ companies or overseas companies have an obligation to register financial statements. Under the FRA 1993 the large threshold was only relevant for NZ incorporated companies that were not subsidiaries of and overseas company, or overseas owned. The fees are unchanged from when the FRA 1993 was in force and there are equivalents of the offence provision and infringement notice provisions from the FRA 1993 – see sections 207G(2), 207X – 207ZB and 374 of the Companies Act 1993. You will note that the maximum penalty for an offence under s207G(2) of the Companies Act 1993 (\$50,000) is actually lower than the previous penalty under s39 of the FRA 1993 (\$100,000).

3.4 Comprehensive financial reporting

Not only is timely information critical, the nature of the information disclosed is also important. Further, for an entity that is using public assets for profit, a higher level of scrutiny is desirable. A number of issues are discussed below in terms of current reporting requirements: (i) information on government grants and assistance, (ii) information on directors, (iii) information on cash flows, (iv) information on the impacts of changes in accounting policies and (v) public accountability.

(i) Information on government grants and assistance

While preparing this paper, it became apparent that NZKS receives both monetary and non-monetary assistance from government. *New Zealand Equivalent to International Accounting Standard 20: Accounting for Government Grants and Disclosure of Government Assistance* (NZ IAS 20) is designed for the purpose of ensuring that government support is disclosed in the financial statements of entities. Grants provided to NZKS by New Zealand Trade and Enterprise (NZTE) and work undertaken to assist NZKS by MPI should be reported under NZ IAS 20.¹⁵ Four types of government assistance are discussed below:

- (a) NZKS receives a monetary grant from NZTE, which is reported in the Financial Statements. However, there is no information on the purpose of the grant or the conditions of the grant,

¹⁵ ‘Government refers to government, government agencies and similar bodies whether local, national or international.

Government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government assistance for the purpose of this Standard does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors.

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.’

New Zealand Equivalent to International Accounting Standard 20: Accounting for Government Grants and Disclosure of Government Assistance (NZ IAS 20), pp. 8–9. Retrieved 5 July 2016 from www.xrb.govt.nz/Site/Accounting_Standards/Archived_Standards/old_framework/Standards_For-Profit_Entities.aspx.

nor whether these conditions (if any) have been fulfilled. If conditions were stated but unfulfilled, this must be reported in the Financial Statements under NZ IAS 20.¹⁶

Grants co-funded by the International Growth Fund and the Aquaculture Market Contestable Fund are subject to general conditions (see www.nzte.govt.nz/en/funding-agreement-%E2%80%93-general-terms-october-2015) and the NZKS grant was also subject to specific conditions, which have been withheld by NZTE under Section 9(2)(b)(ii) of the Official Information Act 1982. These specific, undisclosed conditions were subject to ongoing monitoring by NZTE.¹⁷ We believe that it would be beneficial in terms of transparency and ethics for NZTE and/or NZKS to voluntarily disclose the specific conditions and the status of their fulfilment.

- (b) NZKS receives non-monetary grants in the form of coastal permits (see Appendix 9 for a list).¹⁸ The obligation to monitor the conditions of these permits is perhaps best understood in terms of the BOI's Conditions of Consent and the pre-agreed environmental standards (which have recently been discussed in the press). From our perspective, NZKS reporting should disclose the conditions of these permits, or at least a summary of these permits followed by where readers can go for more detail.
- (c) Disclosure of government assistance is also covered under NZIAS 20. This would include assistance from MPI in terms of the Marlborough Salmon Working Group, which has been created especially for NZKS.¹⁹

(ii) Information on directors

NZKS, like a number of other entities, can elect not to disclose certain information under the Companies Act 1993, Section 211 (3) if shareholders who together hold at least 95% of the voting shares (within the meaning of Section 198) agree that the entity need not disclose this information.²⁰ Entities that use publicly

16 Para 39 'The following matters shall be disclosed:

- (a) the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements;
(b) the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and
(c) unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.'

New Zealand Equivalent to International Accounting Standard 20: Accounting for Government Grants and Disclosure of Government Assistance (NZ IAS 20), p. 14. Retrieved 5 July 2016 from www.xrb.govt.nz/Site/Accounting_Standards/Archived_Standards/old_framework/Standards_For-Profit_Entities.aspx.

17 Please note this paragraph was added March 2017 to reflect the outcome of an OIA request answered 7 November 2016 by NZTE.

18 Para 23: 'A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances it is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value. An alternative course that is sometimes followed is to record both asset and grant at a nominal amount.'

New Zealand Equivalent to International Accounting Standard 20: Accounting for Government Grants and Disclosure of Government Assistance (NZ IAS 20), p. 12. Retrieved 5 July 2016 from www.xrb.govt.nz/Site/Accounting_Standards/Archived_Standards/old_framework/Standards_For-Profit_Entities.aspx.

19 To our knowledge, no other entity is currently farming salmon in the Marlborough Sounds (see map in Appendix 9).

20 'Section 211: Contents of annual report

- (1) Every annual report for a company must be in writing and be dated and, subject to subsection (3), must— [...]
(e) state particulars of entries in the interests register made during the accounting period; and
(f) state, in respect of each director or former director of the company, the total of the remuneration and the value of other benefits received by that director or former director from the company during the accounting period; and
(g) state the number of employees or former employees of the company, not being directors of the company, who, during the accounting period, received remuneration and any other benefits in their capacity as employees, the value of which was or exceeded \$100,000 per annum, and must state the number of such employees or former employees in brackets of \$10,000; and
(h) state the total amount of donations made by the company during the accounting period; and
(i) state the names of the persons holding office as directors of the company as at the end of the accounting period and the names of any persons who ceased to hold office as directors of the company during the accounting period; and
(j) state the amounts payable by the company to the person or firm holding office as auditor of the company as audit fees and, as a separate item, fees payable by the company for other services provided by that person or firm; and
(2) A company that is required to include group financial statements in its annual report must include, in relation to its subsidiaries, the information specified in paragraphs (e) to (j) of subsection (1).
(3) The annual report of a company need not comply with any of paragraphs (a), and (e) to (j) of subsection (1), and subsection (2) if shareholders who together hold at least 95% of the voting shares (within the meaning of section 198) agree that the report need not do so.'

Companies Act 1993, Section 211, p. 98. Retrieved 27 June 2016 from www.legislation.govt.nz/act/public/1993/0105/latest/whole.html#DLM321118.

owned resources should not have these kinds of disclosure loopholes available to them. They should be held to a greater standard of transparency and should be required to disclose information on directors.

(iii) Information on cash flows

Owing to the Financial Reporting Act 2013 and the Financial Reporting (Amendments to Other Enactments) Act 2013, which amended the Financial Reporting Act 1993,²¹ the reporting framework has undergone a significant amount of change and this has in turn impacted the reporting requirements of a range of entities.²²

During the transition entities could elect to report under the new legislation or under the old legislation. Under the new reporting framework, 'Tier 2 for-profit' entities are required to produce financial statements using New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR), which includes publishing a statement of cash flows. Importantly, Tier 2 for-profit entities have no exemption for non-disclosure of a statement of cash flows.²³ The publication of a cash flow statement provides a range of benefits to stakeholders.²⁴

Alternatively, entities could report under the old reporting framework if they met certain criteria (which meant entities did not need to provide cash flow statements). This option expired for any entity reporting after 1 April 2015. Under NZ IFRS differential reporting framework, an exemption from preparing a statement of cash flows is allowed as long as an entity meets the criteria for differential reporting.

The *Framework for Differential Reporting*, paragraph 4.25 states:

An entity qualifies for differential reporting exemptions (is a qualifying entity) when the entity does not have public accountability (paragraphs 4.16 to 4.18), and:

(i) at balance date, all of its owners are members of the entity's governing body; Or

21 NZICA. (n.d.). *Financial Reporting Act 2013*. Retrieved 27 June 2016 from www.nzica.com/Technical/Financial-reporting/Financial-Reporting-Act.aspx.

22 External Reporting Board (XRB). (n.d.). *Accounting standards for SMEs are changing*. Retrieved 27 June 2016 from www.xrb.govt.nz/Site/Accounting_Standards/Current_Standards/Know_your_standard.aspx.

23 Para 10: 'A complete set of financial statements comprises:
(a) a statement of financial position as at the end of the period;
(b) a statement of comprehensive income for the period;
(c) a statement of changes in equity for the period;
(d) a statement of cash flows for the period;
(e) notes, comprising a summary of significant accounting policies and other explanatory information; and
(f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.'
[* refers to a concession created for entities known as qualifying entities. See Para 8.4: 'Qualifying entities are entities which meet the requirements of XRB A1 Accounting Standards Framework to qualify for differential reporting concessions in standards.']

See an archived version of the *NZ International Accounting Standard 1 (Diff Rep): Presentation of Financial Statements (NZ IAS 1 [Diff Rep])* (Issued November 2012). pp. 17–18. Retrieved 5 July 2016 from www.xrb.govt.nz/Site/Accounting_Standards/Current_Standards/Standards_for_For-Profit_Entities/Standards_for_FP_Tier_3_Entities_OLD.aspx.

24 Para 4: 'A statement of cash flows, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different entities. It also enhances the comparability of the reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and events.'

Para 5: 'Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.'

Retrieved 3 August 2016 from www.nzica.com/Technical/Financial-reporting/Standards-and-guidance/New-Zealand-IFRSs/~ /media/NZICA/Docs/Tech%20and%20Bus/Financial%20reporting/IFRS%202010/NZ%20IAS%207%20-%20Statement%20of%20cash%20flows.ashx. This link was checked 24 March 2017 and found to be broken. The document is now retrieved 24 March 2017 from www.uwcentre.ac.cn/haut/wp-content/uploads/2013/03/NZ-IAS-7-Statement-of-cash-flows.pdf.

[NZ Equivalent to International Accounting Standard 7: Statement of Cash Flows (NZ IAS 7), p.11. [Benefits of Cash Flow Information:]

(ii) the entity is not large in terms of paragraph 4.23.²⁵

NZKS meets the differential reporting criteria as the company does not have ‘public accountability’ under the old reporting framework²⁶ and, at balance date, all of its owners are members of the entity’s governing body. This means that there is no separation between the owners and the governing board (i.e. all the owners are also directors of the company at balance date).²⁷

The 2015 Financial Statements contain two conflicting sentences in the ‘Notes to the Financial Statements’ that make it unclear which reporting framework NZKS is using (see Appendix 6).

First sentence:

The consolidated financial statements of New Zealand King Salmon Limited have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP).

This sentence implies that NZKS is reporting under the old reporting framework and therefore is not required to disclose a statement of cash flows.

Second sentence:

The Group is a Tier 2 for-profit entity and has elected to report in accordance with Tier 2 For-profit [sic] Accounting Standards.

This sentence implies that NZKS is reporting under the new reporting framework and is therefore legally required to disclose a statement of cash flows.

We conclude that NZKS has applied NZ IFRS differential reporting exemptions correctly (and is therefore justified in choosing not to disclose a statement of cash flows in its 2015 Financial Statements), but that the inclusion of these two conflicting sentences is confusing.²⁸ We note this exemption cannot be relied upon in the 2016 Financial Statements, as a statement of cash flows will be required under the new reporting framework.

25 Institute of Chartered Accountants of New Zealand. (January 2007). *Framework for Differential Reporting*, p. 26. Retrieved 31 July 2016 from www.nzica.com/Technical/Financial-reporting/Standards-and-guidance/~ /media/NZICA/Docs/Tech%20and%20Bus/Financial%20reporting/FRS/FRSs%20%20SSAPS/Framework%20for%20differential%20reporting.ashx. This link was checked 24 March 2017 and found to be broken. The hard copy was printed by the McGuinness Institute 31 July 2016 has been scanned and uploaded and is now retrieved 27 March 2017 from www.mcguinnessinstitute.org/wp-content/uploads/2017/03/Institute-of-Chartered-Accountants-of-New-Zealand-2007-Framework-for-Differential-Reporting.pdf.

26 Para 4.16: ‘An entity has public accountability for the purposes of this Framework if:
(a) at any time during the current or the preceding reporting period, the entity (whether in the public or the private sector) was an issuer as defined in the Financial Reporting Act 1993; or
(b) the entity has the coercive power to tax, rate or levy to obtain public funds.’
Para 4.17: ‘Public accountability is particularly important for public sector entities because:
(a) office holders are accountable to the general public and to electors for the management of public sector entities;
(b) elected officers are like trustees in their stewardship on behalf of the public; and
(c) the statutory right to tax, to levy or otherwise to acquire funds compulsorily, creates an obligation to report to the public on the use of the funds acquired compulsorily’

Institute of Chartered Accountants of New Zealand. (2007). *Framework for Differential Reporting*, p. 24. Retrieved 31 July 2016 from www.nzica.com/Technical/Financial-reporting/Standards-and-guidance/~ /media/NZICA/Docs/Tech%20and%20Bus/Financial%20reporting/FRS/FRSs%20%20SSAPS/Framework%20for%20differential%20reporting.ashx. This link was checked 24 March 2017 and found to be broken. The hard copy was printed by the McGuinness Institute 31 July 2016 has been scanned and uploaded and is now retrieved 27 March 2017 from www.mcguinnessinstitute.org/wp-content/uploads/2017/03/Institute-of-Chartered-Accountants-of-New-Zealand-2007-Framework-for-Differential-Reporting.pdf.

27 The Companies Office does not provide a detailed account of which directors are representing which shareholders but we expect the auditors would have required evidence to support this. In other words, it is likely that NZKS’s six directors (Mark Robert Hutton, Jack Lee Porus, John William Dudley Ryder, Thomas Chai Leng Song, Paul James Steere and Thomas Wilton Sturgess [Sturgess was replaced by Grantley Bruce Rosewarne on 15 July 2016]) represented NZKS’s eight shareholders at 30 June 2015: Oregon Group Limited, Direct Capital Partners Lambda Investments Limited, Pohutukawa Lambda Investments Limited, Direct Management Investments Limited, NZKS Custodian Limited, Biopacificventures Limited, Direct Capital Partners Limited and Hendry Nominees Limited.

Companies Office. (19 August 2016). *New Zealand King Salmon Investment Limited* (2161790) Registered. Retrieved 27 June 2016 from www.business.govt.nz/companies/app/ui/pages/companies/2161790.

28 We learnt in a 27 July 2016 email from the Companies Office (see Section 3.3) that for this set of financial statements the company ‘had taken advantage of the majority of differential reporting concessions available to it (including the available concession in respect of NZ IAS 7 – Statement of Cash Flows).’

(iv) Information on voluntary change in accounting policies

As mentioned on page 6 of this working paper, the 2012 figures in the 2013 Financial Statements are significantly different to those in the 2012 Financial Statements (the loss for the 2012 year increased from -\$5,961,000 to -\$9,431,000). The size and number of transactions that led to this material change were not disclosed as clearly as they could have been. Such a significant change should be highlighted early on in the *Notes to the Financial Statements*, including details of how and why the change came about. The transactions showing how the loss almost doubled were never mentioned in the 2013 Financial Statements. The only discussion can be found briefly on page 14, Note 2: Summary of Significant Accounting Policies (x) and page 18, Note 11: Biological Assets for the NZKS Financial Statements for the year ended 30 June 2013.²⁹

Given the material nature of the change, we consider this to be insufficient. See the definition of material in *New Zealand Equivalent to International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors* (NZ IAS 8)³⁰ and the disclosure requirements for a change in accounting policies in Paragraph 29.³¹

The retrospective changes were numerous and complex, and in our view could have been better reported, providing a more comprehensive explanation to readers. NZKS's statements were given a clear audit report, but we consider that they should have contained an alert noting that significant retrospective changes had been made that materially impacted the size of the loss in the previous year.

29 NZKS. (2015). *New Zealand King Salmon Investments Limited and Subsidiaries: Financial Statements for the year ended 30 June 2015*, pp. 14, 18, Notes 2(x) and 11. Retrieved 24 March 2017 from www.companiesoffice.govt.nz/companies/app/service/services/documents/F504C5FA27EFA5A7C7F0AD438FFAB5EB.

30 'Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.'

New Zealand Equivalent to International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors (NZ IAS 8), p.10. Retrieved 5 July 2016 from www.xrb.govt.nz/Site/Accounting_Standards/Archived_Standards/old_framework/Standards_For-Profit_Entities.aspx.

31 Also see Footnote 16(f) of this working paper.

Para 29: 'When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

- (a) the nature of the change in accounting policy;
- (b) the reasons why applying the new accounting policy provides reliable and more relevant information;
- (c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment: (i) for each financial statement line item affected; and (ii) if NZ IAS 33 applies to the entity, for basic and diluted earnings per share;
- (d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- (e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.'

New Zealand Equivalent to International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors (NZ IAS 8), p.16. Retrieved 5 July 2016 from www.xrb.govt.nz/Site/Accounting_Standards/Archived_Standards/old_framework/Standards_For-Profit_Entities.aspx.

(vi) Public accountability

The definition of ‘public accountability’ has been slightly expanded under the new *External Reporting Board Standard A1, Accounting Standards Framework (XRB A1)*³² but the application of this definition might not be broad enough to capture entities that, through their business activities, use publicly owned resources. It may be appropriate for the XRB to undertake further work to guide how entities using publicly owned resources could be required under law to improve their reporting requirements. To this end, integrated reporting may be a useful mechanism for improving public accountability.³³

Alternatively, a range of other organisations could actively work towards improving public reporting, such as (i) district and regional councils or a BOI (e.g. as a condition of consent or permit); (ii) the judiciary (e.g. judges could require entities to report on breaches of conditions in their annual reports); and/or (iii) a grant provider (e.g. making it a condition of a grant that an entity reports on other conditions of the grant in their annual financial statements and reports on any breaches to those conditions [in this case to NZ Trade and Enterprise]).

3.5 Other relevant data

This section briefly discusses a number of areas of interest that require more research in order for relevant data to be timely and comprehensive. This is not intended to be a complete list, but is intended to illustrate the type of information that is likely to be in the public interest.

(i) Transparency over feed content

Another concern for the Institute came out of the feed analysis at the BOI hearing. NZKS (and other salmon farmers in New Zealand) are not required to label their fish fillets as being raised on animal products. A lot of information that came out of the 2012 BOI process raises questions about the salmon farming industry and may, over time, have an impact on environmental risk, demand, and in due course profitability. We learnt the following from feed supplier Skretting Australia, in a statement at the 2012 BOI hearing by Ben Armor Wybourne:

The choice of protein source varies with cost and availability, and within Skretting this varies around the world according to local conditions. Protein in New Zealand diets supplied from Skretting Australia typically derives from:

32 Para 12: ‘Subject to paragraph 15, an entity has public accountability if:
(a) it meets the IASB definition of public accountability as specified in paragraphs 13 and 14 below; or
(b) it is deemed to be publicly accountable in New Zealand in accordance with paragraph 15 below.’

Para 13: ‘In accordance with the IASB definition, an entity has public accountability if:
(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
(b) it holds assets in a fiduciary capacity for a broad group or outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks.’

Para 14: ‘Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.’

Para 15: ‘An entity is deemed to be publicly accountable in the New Zealand context if it is:
(a) an issuer, as defined by the Securities Act 1978 or any other Act, irrespective of the size of the entity;
(b) a registered bank, as defined by the Reserve Bank Act 1989;
(c) a deposit taker, as defined by the Reserve Bank Act 1989; or
(d) a registered superannuation scheme, as defined by the Superannuation Schemes Act 1989 unless exempted by statute or regulation from the requirement to prepare general purpose financial reports in accordance with GAAP.’

Para 16: ‘Where the entity is a group in New Zealand, and the parent of the group has public accountability, the group is deemed to have public accountability. A group shall not be considered to have public accountability solely by reason of a subsidiary having public accountability.’

External Reporting Board Standard A1, Accounting Standards Framework (XRB A1), pp. 8–9. Issued November 2012. Retrieved 31 July 2016 from www.xrb.govt.nz/Site/Accounting_Standards/Guidance.aspx.

33 ‘The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The coalition is promoting communication about value creation as the next step in the evolution of corporate reporting.’ New Zealand Post Group publishes an *Integrated Annual Report*, see www.nzpost.co.nz/sites/default/files/uploads/shared/annual%20reports/nzpost-annual-review-2014-volume-1.pdf. Learn more about the International Integrated Reporting Council at www.integratedreporting.org.

- a. Fishmeal; primarily Peruvian anchovy.
- b. Poultry meals (bloodmeal, meatmeal, feathermeal); these rendered products are a by-product of poultry slaughtered for human consumption in Australia. These products are excellent nutritional materials for carnivorous fish.
- c. Mammalian meals; these rendered products are a by-product of cattle, sheep and pigs slaughtered for human consumption in Australia. Currently only mammalian bloodmeal (and not mammalian meatmeal) is included in New Zealand diets due to New Zealand import restrictions.
- d. Plant protein meals; Faba bean meal, lupin meal, corn gluten, wheat gluten and soya protein concentrate.³⁴

Consumers are eating fish bred on animal products. The use of animal products as fish feed in NZKS's farms raises questions about whether pescatarians are aware that when they eat salmon they are eating fish bred on animal products (excluding mammalian meatmeal). We consider that raising fish on animal protein is a significant change both to the fish from the natural fish diet, and to the Sounds water environment.

(ii) Impact on Hector's dolphins

A pod of Hector's dolphins are known to swim around Arapawa Island.³⁵ We have specific concerns about the damage to the ecosystem in the Tory Channel and consequently in Queen Charlotte Sound if further salmon farms are added to this narrow waterway. There has been anecdotal evidence of a reduction in numbers of the endangered Hector's dolphin and other dolphins that inhabit the Sounds, and Hector's dolphins tend to use the Tory Channel to enter and exit Queen Charlotte Sound. The loss of dolphins from the Marlborough Sounds would significantly undermine the tourism industry and would also be a 'canary in the coal mine' event, indicating that the ecosystem is failing. The late 2015 addition of a new farm operating in the Tory Channel may be having an impact on Hector's dolphin numbers, as they are particularly vulnerable to injuries from boats.³⁶ The Institute would like to see immediate work undertaken to study the dolphins' habits, including setting up a public record to report sightings.³⁷

(iii) Rising water temperatures

The Institute also has concerns about the rising water temperatures noted by NZKS.³⁸ If temperatures are rising, this information is relevant not just to NZKS but to the whole of New Zealand. Further research and study of water temperatures will be vital for ensuring good stewardship of this unique ecosystem. If salmon are vulnerable to rising temperatures, climate change will add a further economic dimension to NZKS's business model.

34 Wybourne, B. A. (2012). *Statement of evidence of Ben Armor Wybourne in relation to feed discharge for the New Zealand King Salmon Co. Limited*, p. 12. Retrieved 27 June 2016 from www.epa.govt.nz/Publications/15%20Ben%20Wybourne%20-%20Salmon%20Feed%20-%20v1.pdf.

35 This can no doubt be better evidenced elsewhere, but the Ministry of Fisheries and the Department of Conservation (DoC) prepared (but appear not to have finalised) a draft *Hector's and Maui's Dolphin Threat Management Plan* (2007) that infers this. Page 101 of the 2007 draft states: 'Areas where Hector's dolphins are not regularly found have been excluded from the area to which proposed measures apply. These excluded areas include Tasman Bay, Golden Bay, Marlborough Sounds (except Queen Charlotte and Port Underwood) and river mouths, estuaries, lagoons, inlets and harbours.' Retrieved 27 June 2016 from www.fish.govt.nz/en-nz/Consultations/Archive/2008/Hectors+dolphins/Threat+Management+Plan.htm#wbc_purpose=Basic&WBCMODE=PresentationU.

36 The Hector's Dolphin page on the DoC website states 'Because these dolphins occur close inshore, often in bays and harbours, they are at risk of being injured by boats. Newborn dolphins are particularly vulnerable as they swim relatively slowly, close to the surface. Some have been killed by boat propellers when unwary boats have run them over.' Retrieved 27 June 2016 from www.doc.govt.nz/nature/native-animals/marine-mammals/dolphins/hectors-dolphin.

37 The Hector's Dolphin page on the DoC website implies that only North Island sightings are to be reported. Retrieved 27 June 2016 from www.doc.govt.nz/nature/native-animals/marine-mammals/dolphins/hectors-dolphin.

38 Stuff. (March 2015). *Millions lost after warm seas kill salmon*. Retrieved 27 June 2016 from www.stuff.co.nz/marlborough-express/news/67314620/millions-lost-after-warm-seas-kill-salmon.

4.0 Benefits claimed by NZKS

An August 2015 update to the *Marlborough Sounds Resource Management Plan* outlines some of the benefits of allowing for-profit companies to use publicly owned resources. The discussion illustrates the ongoing narrative around the benefits of marine farming (including oysters, mussels and salmon):

The marine farm industry that has developed in the Marlborough Sounds is of significant value to the nation in terms of **export earnings**, and also to the region in terms of the **employment and income flows** that are derived from the industry. A substantial infrastructure involving processing facilities, ports, harvesting vessels and a multitude of other services has developed based on the marine farm industry and Sounds communities have been revitalised as a result of the development of the industry. All of that infrastructure is reliant upon marine farming which utilises the coastal marine area. The provisions of the Plan recognise that to maintain the strength of the industry, generally it is essential for resource consents to be able to be renewed to continue those marine farming activities. In addition, expansion of the salmon farming industry has been enabled in three locations where the Plan provides for the establishment of new marine farms for salmon, where adverse environmental effects can be satisfactorily avoided, remedied or mitigated. [bold added]³⁹

Given the emphasis on these two benefits – export earnings and employment and income flows – one would expect rigorous verification, regular monitoring, timely and comprehensive reporting and independent analysis of all significant data. This would ensure that up-to-date and reliable information is available to inform decisions on resource consents and permits. Further, any subsequent applications by an entity to use additional resources should trigger a review of this data (as will be the case if NZKS wishes to place more farms in the Tory Channel). This way, decision makers and affected communities can determine whether benefits promised by that entity under previous applications have in fact been delivered.

To this end, this section reviews data available in the public domain regarding NZKS's export earnings and employment and income flows in the four years since the February 2013 BOI decision and two years since the April 2014 Supreme Court decision. We discuss (i) export earnings and (ii) employment and income flows below and, as both of these claimed benefits are reliant on the financial stability of the company over the long term, we also discuss (iii) financial profitability and sustainability.

4.1 Export earnings

Net export dollars earned by NZKS are much less substantial than gross export dollars earned. This observation is supported by the evidence below.

The financial data and articles in the press indicate that imported feed is a significant cost of goods sold. If all feed is imported, we estimate that for every \$100 of overseas funds generated by sales, approximately \$50 has been spent on imported feed from Australia and Chile. This estimated figure is based on the following information:

- (a) An article published in 2011 stated: 'Grant Rosewarne, chief executive of New Zealand King Salmon, New Zealand's largest fin fish farming company, said his company spent \$30m to \$35m a year on feed.'⁴⁰
- (b) Grant Rosewarne stated in a 2012 press release that NZKS generated some \$60,000,000 in overseas funds.⁴¹ [NB: The press release does not say whether this is a net figure, but we have assumed it is not as the sale of goods is approximately \$90,000,000 p.a., implying that about \$30,000,000 is New Zealand sales.]

39 Marlborough District Council. (August 2011). (updated August 2015). *Marlborough Sounds Resource Management Plan*, p. 9-3 – 9-4. Retrieved 12 August 2016 from www.marlborough.govt.nz/Your-Council/RMA/Marlborough-Sounds-Resource-Management-Plan/~/_media/Files/MDC/Home/Your%20Council/RMA/MSRMP/Volume%201/Ch%2009-Coastal%20Marine.ashx.

40 Stuff. (15 January 2011). *Fish feed leader might set up mill in NZ*. Retrieved 27 June 2016 from www.stuff.co.nz/business/industries/4543960/Fish-feed-leader-might-set-up-mill-in-NZ.

41 'Currently NZ King Salmon is the country's largest fin fish producer producing more King salmon than any other company in the world. It exports around 70 per cent of its production generating some \$60 million in overseas funds.' Scoop. (26 April 2012). *Salmon Company Expansion*. Retrieved 27 June 2016 from www.scoop.co.nz/stories/BU1204/S00800/salmon-company-expansion.htm.

- (c) The NZKS 2015 Financial Statements show that the cost of goods sold is almost 70% of sale of goods (\$68,986,000/\$98,288,000).⁴²
- (d) NZKS imports most of its feed from Australia and the rest from Chile (as indicated by the ‘forward currency contracts’).⁴³
- (e) We also learnt the following about NZKS fish feed from supplier Skretting Australia, in Ben Armor Wybourne’s statement at the 2012 BOI hearing:

Skretting Australia is the largest supplier of feed to NZ King Salmon. Skretting Australia stands to gain significant future orders if these farms are granted. [...] Skretting supplies over 85% of the diet used in the New Zealand industry.⁴⁴

This information leads us to consider that full disclosure of net export dollars earned should be required as a matter of good reporting practice.

4.2 Employment and income flows

The number of jobs at NZKS decreased by 46 between August 2012 and November 2015 (from 441 to 395). These figures are supported by the evidence below.

The number of projected additional jobs was discussed at the 2012 BOI hearing to help determine the economic benefits if nine new salmon farms were approved (see Appendix 3).⁴⁵

In August 2011 Andrew Clark had stated that if the nine farms were approved, an additional 112–152 new jobs would be created once full production was achieved⁴⁶ (also see Appendix 3, paragraph 6.1).

In August 2012 this forecast was then elevated to approximately 375 new jobs (see Appendix 3, paragraph 6.2) – more than double the original estimate.

We believe that NZKS’s second forecast was based on overly optimistic assumptions,⁴⁷ and that a more realistic figure was the CFO’s initial set of projections. We consider that the later projections (being 375 jobs) may have influenced decision makers – whether ministers, councillors, officials, BOI members or members of the community – to support the proposal.

In April 2014, on acknowledging that only three farms were to be approved, NZKS readjusted their forecast to 150 new jobs:

The expansion would provide about 150 new jobs in Nelson and Marlborough, chief executive Grant Rosewarne said, and allow the company to eventually boost its output by about 70 per cent.⁴⁸

42 NZKS. (2015). *New Zealand King Salmon Investments Limited and Subsidiaries: Financial Statements for the year ended 30 June 2015*, p. 4. Retrieved 27 June 2016 from www.business.govt.nz/companies/app/service/services/documents/CA4C13F3C56BAC09A942F0687B3B3ED0.

43 NZKS. (2015). *New Zealand King Salmon Investments Limited and Subsidiaries: Financial Statements for the year ended 30 June 2015*, p. 25, Note 23(a). Retrieved 27 June 2016 from www.business.govt.nz/companies/app/service/services/documents/CA4C13F3C56BAC09A942F0687B3B3ED0.

44 Wybourne, B. A. (2012). *Statement of evidence of Ben Armor Wybourne in relation to feed discharge for the New Zealand King Salmon Co. Limited*, pp. 5, 9. Retrieved 27 June 2016 from www.epa.govt.nz/Publications/15%20Ben%20Wybourne%20-%20Salmon%20Feed%20-%20v1.pdf.

45 At this time (August 2012) NZKS Chief Financial Officer (CFO) Andrew Clark said that the current number of employees was 441 (see Appendix 3, paragraph 6.2).

46 Environmental Protection Authority (EPA). (13 August 2011). *NZ King Salmon Report*, p. 38. Retrieved 27 June 2016 from www.epa.govt.nz/Publications/Appendix%20%20NZ%20King%20Salmon%20Report.pdf.

47 The executive share plan may incentivise staff to be optimistic. The executive share plan is \$2,290,000. The Notes to the 2015 Financial Statements indicate ‘Current employee borrowings included in the executive share plan are not subject to interest.’

Financial Statements of New Zealand King Salmon Investments Limited and Subsidiaries: Financial Statements for the year ended 30 June 2015, p. 24, Note 22(e). Retrieved 27 June 2016 from www.business.govt.nz/companies/app/service/services/documents/CA4C13F3C56BAC09A942F0687B3B3ED0.

48 Stuff, April 19, 2014, *Three salmon farms ‘disappointing’: Rosewarne*. Retrieved 27 June 2016 from www.stuff.co.nz/marlborough-express/news/9959614/Three-salmon-farms-disappointing-Rosewarne.

However, by November 2015, the number of jobs had decreased rather than increased. NZKS, in a 2015 press release, refers to a total of 395 employees:

New Zealand King Salmon's 395 employees graded their workplace and employers across 12 key categories including leadership, culture, recognition and engagement.⁴⁹

Although NZKS is only two years into the process of making three new farms operational, the decrease in jobs (rather than a slow but measured increase in jobs as farms come on stream) is unexpected.⁵⁰

It is also significant to note that, according to data presented in the 2015 NZIER report *The economic contribution of marine farming in the Marlborough region*, salmon farm workers receive a significantly lower average wage than both mussel and oyster farm workers. In 2014, Marlborough salmon farm employees earned, on average, \$53,521 for a year's wages, compared to \$69,230 for oyster farm employees and \$71,176 for mussel farm employees.⁵¹

No doubt MPI has more detailed information about the type of jobs (expert/manual) and the extent to which they reflect permanent/casual or full-time/part-time employment. It would also be useful to know how salmon mortality events, the changes in water temperature and new production technologies might negatively impact future employment projections. If NZKS wishes to place additional farms in the Tory Channel, the Institute believes this information should be in the public domain and should be independently assessed, as it will contribute to the economic analysis of net benefits provided to New Zealand by NZKS and therefore shape the public narrative.

4.3 Financial profitability and sustainability

For NZKS to generate the claimed benefits of jobs and export dollars, it must be a profitable and financially sustainable business over the long term.

Based on information in the NZKS Financial Statements (see Appendix 2), the Institute queries whether NZKS will be able to deliver sustainable outcomes over the long term. In our view, the financial statements indicate that NZKS is vulnerable to financial and environmental shocks and the government should re-evaluate the level of support it contributes to NZKS as a result. These shocks may come in many forms: further salmon mortalities, a drop in salmon prices, a banking crisis, exchange rate risk, rising interest costs, loan repayments and/or shareholders requiring dividend payments.

The NZKS Financial Statements should indicate to MPI and other interested parties that NZKS's current business model may not be sustainable and therefore may not be capable of delivering claimed jobs and export earnings over the long term (see Appendix 8).

49 NZKS. (November 2015). *New Zealand King Salmon most improved workplace*. Retrieved 27 June 2016 from www.kingsalmon.co.nz/news/new-zealand-king-salmon-most-improved-workplace.

50 The BOI decision came out in February 2013 and the Supreme Court decision came out in April 2014 (see Appendix 1). As we understand it, one of the three new farms, Ngamahau (located in the Tory Channel), was installed in October 2015 (with a first harvest of approximately 750 metric tonnes due in January 2017). The farm is said to be capable of producing approximately 1500 tonnes in future years. As at 9 July 2016, the other two new farms are on track to be opened within the month. NZKS. (2015). *The first new farm is installed*. Retrieved 27 June 2016 from www.kingsalmon.co.nz/news/the-first-new-farm-is-installed; NZKS. (2016). *New farms, new names*. Retrieved 27 June 2016 from www.kingsalmon.co.nz/news/new-farms-new-name.

51 The estimated wages cost of mussel farms is \$12,100,000 with an estimated 170 employees, resulting in \$71,176.47 for an average year's wages. The estimated wages cost of oyster farms is \$900,000 with an estimated 13 employees, resulting in \$69,230.00 for an average year's wages. The estimated wages cost of salmon farms is \$3,800,000 with an estimated 71 employees, resulting in \$53,521.13 for an average year's wages.

NZIER. (2015). *The economic contribution of marine farming in the Marlborough region: A Computable General Equilibrium (CGE) analysis*, p. 5. Retrieved August 2016 from www.assets.marinefarming.co.nz/NZIER%20Economic%20Contribution%20of%20Marine%20Farming%20in%20Marlborough.pdf.

(i) Observations on profitability

Key observations:

- Sale of goods is down: \$98,288,000 (2015) compared with \$107,976,000 (2010). See Appendix 2, Figure 1.
- NZKS's Gross Profit as a percentage of Sale of Goods is 30%. NZKS's Gross Profit as a percentage of Sale of Goods was 37% in 2010. This figure implies the business is increasingly operating in a low-margin industry that competes on price. See Appendix 2, Figure 2.
- The annual harvest is also down: 5794 metric tonnes (mt) (2015) compared with 7539 mt (2010). See Appendix 2, Figure 3.
- The ratio of biological assets to annual harvest is up: 5.22 (2015) compared with 3.51 (2010). See Appendix 2, Figure 4.
- The net profit/(loss) for the period attributable to equity holders of the company, as per the Financial Statements registered at the Companies Office, is illustrated in Appendix 2, Figure 5 and actual amounts are listed below:

2015	+\$5,169,000 Profit
2014	-\$1,530,000 Loss
2013	+\$5,284,000 Profit
2012	-\$9,431,000 Loss
2011	+\$5,668,000 Profit
2010	+\$3,797,583 Profit

Although NZKS made a net profit of \$5,169,000 in 2015, this was due to a number of one-off items of 'other operating income' (\$3,792,000 [2015]) and 'other operating expenditure' (-\$4,161,000 [2015]).⁵² There is uncertainty as to whether some transactions are linked – for example, a fish health event (-\$2,917,000) listed as an 'other operating expense' may relate to an insurance claim (\$2,400,000) listed as an 'other operating income'. Operating expenses also reflect a decision from shareholders to suspend interest on shareholder loans, leading to an overall decrease in financing costs of \$1,322,000.⁵³ Given these types of transactions, NZKS's 2015 profit could have moved closer to a reported loss in 2015 (NZKS showed a loss of -\$1,530,000 in its 2014 Financial Statements).

- Notably, seawater salmon mortalities in NZKS farms⁵⁴ have had a significant impact on the company's profitability. Both 2014 and 2015 mortalities resulted in just over \$6,000,000 being expensed each year.⁵⁵

52 NZKS. (2015). *New Zealand King Salmon Investments Limited and Subsidiaries: Financial Statements for the year ended 30 June 2015*, p. 14, Note 4(a). Retrieved 27 June 2016 from www.business.govt.nz/companies/app/service/services/documents/CA4C13F3C56BAC09A942F0687B3B3ED0.

53 NZKS. (2015). *New Zealand King Salmon Investments Limited and Subsidiaries: Financial Statements for the year ended 30 June 2015*, p. 15, Note 6. Retrieved 27 June 2016 from www.business.govt.nz/companies/app/service/services/documents/CA4C13F3C56BAC09A942F0687B3B3ED0.

54 According to a recent article in the press, 'A number of causes for the deaths had been investigated including two forms of bacteria, high water temperature, water flow and fish feed without reaching a definitive answer.' The Ministry of Primary Industries 'recently placed further management and quality control procedures under the Biosecurity Act on salmon farms in the outer Pelorus Sound, and the entire Queen Charlotte Sound, to limit the spread of the rickettsia bacteria to other areas, and minimise the damage of the bacteria to salmon farms in the Marlborough Sounds.'

Stuff. (20 April 2016). *Multiple factors responsible for Marlborough salmon farm deaths*. Retrieved 28 July 2016 from www.stuff.co.nz/business/farming/aquaculture/79129283/Multiple-factors-responsible-for-Marlborough-salmon-farm-deaths.

This has led to NZKS initiating research into fish feed. New Zealand government, research and commercial groups are working with international salmon experts to fully understand the specific dietary requirements of King Salmon. See Cawthron Institute. (23 February 2015). *Salmon diet research project launched*. Retrieved 28 July 2016 from www.cawthron.org.nz/aquaculture/news/2015/salmon-diet-research-project-launched/.

55 NZKS. (2015). *New Zealand King Salmon Investments Limited and Subsidiaries: Financial Statements for the year ended 30 June 2015*, p. 17, Note 11. Retrieved 27 June 2016 from www.business.govt.nz/companies/app/service/services/documents/CA4C13F3C56BAC09A942F0687B3B3ED0.

- Lastly, it is concerning that the retained earnings – the indicator of whether the company has made profits since it was established – show an overall loss of -\$1,069,000.⁵⁶ Negative retained earnings show the company has more retained losses than accumulated net income over time. It has paid out dividends of \$9,329,000 to owners: \$1,257,000 (2010), \$2,430,000 (2011), \$3,052,000 (2012), \$2,590,000 (2014), rather than retaining earnings in the entity. See Appendix 2, Figure 6.

These observations conflict with inferences made by Mr Nyostoyl, NZKS's expert in the international seafood industry at the 2012 BOI hearing, that salmon farming may be a 'sustainable and profitable industry' (see Appendix 4, paragraph 244). These observations align more with an earlier 2012 report sought by government indicating that salmon farming has 'strong hypothetical potential; unlikely in practice'.⁵⁷

(ii) Observations on financial sustainability

As noted earlier, NZKS has not published a statement of cash flows in any of their financial statements. Without such a statement, it is only possible to make tentative observations. Appendix 2 contains the information from NZKS Financial Statements that we have used to develop the following observations.

Assessing a business for sustainability requires an understanding of what would happen if the company or the bank had to sell the assets the company holds on its books. In the case of NZKS, there is \$115,875,000 in assets: inventories (\$10,868,000), biological assets (\$30,272,000), property, plant and equipment (\$30,708,000), intangible assets (\$4,772,000) and goodwill (\$39,255,000).⁵⁸ These may not reach their full value if they need to be cashed up.

The 2015 Financial Statements show goodwill of \$39,255,000 (this cannot be amortised).⁵⁹ The intangible assets and goodwill make up 32% of total assets, which seems relatively high.⁶⁰ It would be interesting to compare this figure with other salmon farming entities in Australia, Chile, Norway and Scotland.

56 NZKS. (2015). *New Zealand King Salmon Investments Limited and Subsidiaries: Financial Statements for the year ended 30 June 2015*, p. 5. Retrieved 27 June 2016 from www.business.govt.nz/companies/app/service/services/documents/CA4C13F3C56BAC09A942F0687B3B3ED0.

57 A 2012 report also notes weaknesses such as 'large amount of best coast for salmon farming inside parks (areas highly valued by other users of environment)' and 'industry not to scale relative to competitors (~ 40,000t)', and threats/risks such as 'potential arrival of salmon diseases' and 'imports from Tasmania'.

Coriolis. (May 2012). *Investment opportunities in the New Zealand Salmon industry*, pp. 4, 39. Retrieved 27 June 2016 from www.mbie.govt.nz/info-services/sectors-industries/food-beverage/documents-image-library/Investment%20opportunities%20in%20the%20salmon%20industry%20-PDF%201.2%20MB.pdf.

58 NZKS. (2015). *New Zealand King Salmon Investments Limited and Subsidiaries: Financial Statements for the year ended 30 June 2015*, p. 6. Retrieved 27 June 2016 from www.business.govt.nz/companies/app/service/services/documents/CA4C13F3C56BAC09A942F0687B3B3ED0.

59 NZKS. (2015). *New Zealand King Salmon Investments Limited and Subsidiaries: Financial Statements for the year ended 30 June 2015*, p. 6. Retrieved 27 June 2016 from www.business.govt.nz/companies/app/service/services/documents/CA4C13F3C56BAC09A942F0687B3B3ED0.

60 NZKS. (2015). *New Zealand King Salmon Investments Limited and Subsidiaries: Financial Statements for the year ended 30 June 2015*, p. 6. Retrieved 27 June 2016 from www.business.govt.nz/companies/app/service/services/documents/CA4C13F3C56BAC09A942F0687B3B3ED0.

A further area to assess is the level of debt and how vulnerable the company is to changes in interest rates (see Appendix 2, Figure 7). There are three areas of debt that seem relevant:

- \$20,382,000 of interest-bearing loans and borrowings (current liabilities);⁶¹
- \$18,465,000 of current shareholder loans (current liabilities);⁶² and
- \$50,126,000 of shareholder loans, expiring in September 2018 (non-current liabilities).⁶³

Looking at the ratios:

- The debt to equity ratio is high and increasing: from 0.78 (2009) to 0.83 (2015). See Appendix 2, Figure 8.
- The current ratio (being current assets divided by current liabilities) is decreasing: from 2.64 (2009) to 1.04 (2015). See Appendix 2, Figure 9.

This is best illustrated by the last graph in Appendix 2, which shows that the owners, rather than investing in the business, issued dividends (\$9,329,000 since 2010) and increased shareholder loans (\$18,466,000 since 2010) – in effect swapping equity for interest-free debt.

61 NZKS. (2015). *New Zealand King Salmon Investments Limited and Subsidiaries: Financial Statements for the year ended 30 June 2015*, p. 6. Retrieved 27 June 2016 from www.business.govt.nz/companies/app/service/services/documents/CA4C13F3C56BAC09A942F0687B3B3ED0.

62 NZKS. (2015). *New Zealand King Salmon Investments Limited and Subsidiaries: Financial Statements for the year ended 30 June 2015*, p. 6. Retrieved 27 June 2016 from www.business.govt.nz/companies/app/service/services/documents/CA4C13F3C56BAC09A942F0687B3B3ED0.

63 NZKS. (2015). *New Zealand King Salmon Investments Limited and Subsidiaries: Financial Statements for the year ended 30 June 2015*, pp. 6, 24. Retrieved 27 June 2016 from www.business.govt.nz/companies/app/service/services/documents/CA4C13F3C56BAC09A942F0687B3B3ED0.

5.0 Conclusions

This case study reinforces the argument for all companies to produce an integrated annual report. Such a report would not only provide historical financial data to the reader, but would also enable the company to provide non-financial and future-orientated information – telling the whole story in one place.

As a result of our work in preparing this paper, the Institute has made a number of recommendations, some relating directly to NZKS and others relating to any for-profit company using public resources, some that are strategic and others that are simply a matter of process. Due to the number of institutions involved we have listed the recommendations by organisation.

Central government

The Institute suggests that central government consider the following:

- (vi) That, if the New Zealand government continues to invest public funds and resources in the salmon farming industry in general, they develop a deep understanding of the risks, costs and benefits of the industry and report regularly and comprehensively on those risks, costs and benefits in the public domain.
- (vii) That they re-evaluate the level of support they contribute to NZKS based on our view that this business might be unable to deliver sustainable outcomes over the long term. This support includes the cost of decision making, the ongoing governance costs of salmon farming and labour, research into feed, research into mortalities, grants from NZ Trade and Enterprise and the opportunity costs of MPI officials.
- (viii) That they put in place regular reviews to monitor what has been delivered by an entity against what it promised to deliver as part of the arrangement for that entity to use public assets under the Resource Management Act (RMA) 1991. Regular reviews will allow lessons to be learnt about the reliability of forecasting the benefits of such activities, and about how decisions that involve trading off benefits and risks ought to take into account any uncertainty in such forecasts. These initiatives should be used by central government to inform refinements to the RMA's framework for assessing consents that involve significant allocation of public resources. In addition, this practice will enable the community, policy analysts and decision makers to be better informed when new applications are received.
- (ix) That they undertake a comprehensive economic assessment of NZKS's activities along the lines of this paper, in particular focusing on the benefits of export earnings, employment and income flows, and the financial profitability and sustainability of the company. No comprehensive assessment has been undertaken since the 2012 BOI assessment (which relied on the 2011 Financial Statements).
- (x) That they undertake a wider assessment of economic impacts on the Marlborough Sounds region. Such an exercise should review alternative uses of the Sounds environment and in particular explore the extent to which salmon farming may have a negative impact on tourism. This was discussed in Section 2.4.
- (xi) That they undertake a review of the causes and impacts of salmon mortalities in Marlborough. As indicated in the 2015 Financial Statements, mortalities are significantly affecting the profitability of salmon farming. There is little information on the extent to which mortalities are likely to increase and how they could be managed or reduced. It has been suggested that recent salmon mortalities are due to an increase in water temperatures. For this reason, it would also be useful to understand the extent of mortalities for others in the industry.

Local government

The Institute is concerned that the current processes – improving farming practices on existing sites and placing new sites in the Tory Channel – are becoming increasingly muddled, and that this might lead to poor decisions. The Institute also believes that there needs to be a more considered, timely and transparent approach to assessing and reporting (in the public domain) the financial information of companies that use, and have an impact on publicly owned resources (in this case the coastal water space).

Councils and other decision makers on RMA approvals could adopt the following initiatives to achieve this:

- (i) Ensure that the latest financial information is available to all stakeholders when new proposals are being assessed for RMA approval.
- (ii) Include review provisions in their decisions, specifically in relation to estimated net economic benefits.
- (iii) Include provisions in their decisions requiring reporting of non-financial information (e.g. jobs, export earnings).
- (iv) Include provisions in their decisions requiring environmental monitoring and reporting to be contained in the approval-holder's annual report.

Grant providers (e.g. New Zealand Trade and Enterprise)

The Institute suggests that government organisations (including central and local government and other Crown entities) consider the following:

- (i) Require potential grant recipients, as a condition of the grant, to report on the existence and conditions of the grant and any breaches of those conditions in an entity's annual financial statements. This should include grants for research and marketing.

The judiciary

As the upholder of the law and the judge in disputes, we suggest that when a judgment is made where an entity has significantly breached the terms of its approvals or the requirements of the RMA (and the breach has had an impact on public assets), that the judiciary considers requiring the entity to report such breaches and their consequences in the entity's annual report as good practice. (Please note we are unaware of any transgressions of this kind by NZKS).

Marlborough District Council (MDC)

The Institute suggests that the Council consider the following:

- (i) Imposing a coastal occupancy charge based on the impacts for the area being occupied (not just the physical boundaries of the farm but the wider impact of their operations in the Marlborough Sounds, e.g. seafloor and water column pollution).
- (ii) Imposing a tax on fish feed (to complement the coastal occupancy charge).
- (iii) Including in the Council's annual report the cost of staff and consultant time to manage processes including compliance and monitoring of NZKS in the previous year. This is important information as NZKS is claiming benefits of their operations but the Council's costs are direct costs, are quantifiable and are often overlooked.

Environmental Protection Authority (EPA)

As the entity responsible for (a) advising the Minister for the Environment, who in turn instructs the decision maker (a BOI or the Environment Court) on projects of national significance; and (b) administering the process of hearing and determining proposals of national significance, including keeping stakeholders informed, and facilitating advice to stakeholders through the 'friend of submitter' functions, we suggest that the EPA could take a more proactive role to ensure the Minister, the decision maker and the other stakeholders are appropriately informed on what financial information is available, on any gaps in that information due to timing or other issues, and on what processes are available to ensure gaps in financial information do not compromise the quality of the Minister's, the decision maker's, or the other stakeholders' roles in the process.

Ministry for the Environment (MfE)

As the department responsible for shaping environmental law and policy, including reviewing the operation of such law and policy, we suggest that MfE consider developing guidelines on the best methods to assess direct and indirect impacts of proposals of national significance under the Resource Management Act 1991.

External Reporting Board (XRB)

As an independent Crown Entity responsible for the development and issue of accounting standards and auditing and assurance standards in New Zealand, we suggest that the XRB consider the following:

- (i) Exploring the possibility of providing guidance over the extent to which non-financial information on breaches should be included in the financial statement. For example, it is not clear whether the current reporting framework would require NZKS to report breaches of resource consent conditions and breaches of the *Best Management Practice Guidelines for salmon farms in the Marlborough Sounds* in their Financial Statements as part of their license to operate.⁶⁴
- (ii) Encouraging entities whose operations have significant impacts on the public domain to provide non-financial information in the form of an annual integrated report. Annual Integrated Reporting is an emerging best practice and explains to stakeholders the strategy, governance, performance and prospects in the context of that entity's external environment, and how it will create value over the short, medium and long term. It would include timely and comprehensive reports on environmental impacts. As set out in the *International Integrated Reporting Framework*, the guiding principles underpinning the preparation and presentation of an integrated report are (a) strategic focus and orientation, (b) connectivity of information, (c) stakeholder relationships, (d) materiality, (e) conciseness, (f) reliability and completeness and (g) consistency and comparability. Our view is that NZKS has an obligation to meet pre-agreed environmental standards as part of its licence to operate.

The Department of Conservation (DoC)

As the department charged with conserving the natural and historic heritage of New Zealand, we suggest that DoC consider the following:

- (i) That they undertake a comprehensive review of water temperatures. We suggest that DoC, funded by MPI, employ an independent expert (e.g. NIWA) to guide how such research might best be undertaken and communicated to the public. If water temperatures are rising, this information is highly relevant to the Marlborough Sounds community and to the wider public of New Zealand.
- (ii) That they undertake a comprehensive review of dolphin sightings in the Sounds and monitor the possible impacts of NZKS operations on marine mammals. We suggest that DoC, as the organisation responsible for the welfare of marine mammals, employ an independent marine mammal expert to guide how such research might best be undertaken and communicated to the public. We are aware NIWA has been undertaking some work in this area.

Ministry for Primary Industries (MPI)

As the department responsible for helping maximise export opportunities for our primary industries, improving sector productivity, ensuring the food we produce is safe, increasing sustainable resource use, and protecting New Zealand from biological risk, we suggest that MPI consider the following:

- (i) Ensuring that consumers are fully aware of the extent to which land-based animal protein is a key component of salmon feed (and therefore salmon). This might require changes to packaging.
- (ii) Separating the processes of implementing *Best Management Practice Guidelines for salmon farms in the Marlborough Sounds* and of potentially moving NZKS farms from low to high flow sites. NZKS's desire to use additional water space in the Tory Channel, where aquaculture is currently

⁶⁴ Please note we have referred to the guidelines using the original 2015 title: *Best Management Practice Guidelines for salmon farms in the Marlborough Sounds*. We note the Marlborough Salmon Working Group terms of reference uses the title *Best Management Practice Guidelines for salmon farming in the Marlborough Sounds*.

banned, must be treated as a new proposal under the Resource Management Act 1991. NZKS has not officially made a request to place or move farms into the Tory Channel. The process for placing new farms should be the same as it was in the past, with each site being assessed on its own merits. In particular, MPI should not be seen to manage these processes for NZKS. We suggest this would best be done by MPI clearly stating they are not running either process; the first is being managed by the Marlborough District Council while the second is being initiated by NZKS under the Resource Management Act 1991.

- (iii) Disclosing the direct costs spent on actively supporting NZKS in the MPI annual report. This is important information as NZKS claims that its operations have benefits but MPI's costs are direct costs, are quantifiable and are often overlooked.
- (iv) Establishing animal welfare requirements for salmon farming and reporting nationally on these (e.g. which farms and farming companies are more humane than others?). We understand MPI is responsible for the welfare of farmed animals and fish.

Ministry of Business, Innovation and Employment (the Companies Office)

As the official government register for companies in New Zealand, the Institute suggests that the Companies Office consider the following:

- (i) Significantly increase the penalty for 'large companies' (as defined under section 45 of the Financial Reporting Act 2013) that are required to file financial statements that fail to deliver documents within the prescribed time. The Institute considers that \$50,000 (as specified in section 207G of the Companies Act 1993) does not constitute an appropriate disincentive for large companies. This was discussed in Section 3.3 of this working paper.
- (ii) Significantly increase the penalty for foreign-owned companies that fail to deliver documents within the prescribed time. The Institute considers that \$50,000 does not constitute an appropriate disincentive for foreign-owned companies.
- (iii) Adding the year of the financial statements to allow for easier navigation of the web page for a company's 'Documents' (see Appendix 7). NZKS 2014 Financial Statements were registered after the 2015 Financial Statements, which has caused unnecessary confusion for us and others.
- (iv) Clarifying that the 'Date' referred to on the web page for a company's 'Documents' means the 'Date Registered' rather than the date they are received by the Companies Office (see Appendix 7). It would also be useful to make it clear on the website what happens between receiving and registering a company's financial statements.
- (v) Requiring a contact phone number, email address and website to be included on the company's listing for enquiries relating to that company (in addition to the existing requirement for a physical address).
- (vi) Adding a place for information delay penalties to be recorded on a company's web page on the Companies Office website. This could take the form of a document such as a Penalty Statement that the Companies Office uploads to the company's page, including an explanation of the reason for the delay. The actions of the entity have meant that the public has had a right of access removed and therefore in addition to a penalty, we consider that the entity should explain to the Companies Office (who should then advise the public), the reason for the delay. Note: NZKS was charged a \$100 penalty for filing its 2014 Financial Statements almost 20 months after balance date and no reason was given for the delay. This was discussed in Section 3.3.
- (vii) Consider creating a new category that penalises for-profit companies that use publicly owned resources that fail to deliver documents within the prescribed time. Alternatively expand the definition of 'large companies' to include companies that are licensed to use public resources for profit.
- (viii) Requiring companies to provide text-searchable PDFs of documents filed.
- (ix) Implementing a process by which entities actively pursuing wider corporate reporting can submit their integrated reports (as described in recommendation (ii) for XRB) and have them accessible on the Companies Office website.

- (ix) Requiring better policing of financial reporting, in particular NZ IAS 8. We noticed that the 2012 figures in the 2013 Financial Statements are significantly different to those in the 2012 Financial Statements (i.e. resulting in the loss for the 2012 year increasing from -\$5,961,000 to -\$9,431,000). The size and number of transitions that led to this material change in loss was not disclosed as clearly as it could have been. This was discussed in Section 3.4 (iv).

New Zealand King Salmon Investments Limited and Subsidiaries (NZKS)

As a for-profit, foreign-owned company using publicly owned resources, the Institute suggests that NZKS consider the following:

- (i) Producing an integrated annual report (as described in recommendation (ii) for XRB), including a description of the impact its operations have on public resources and how it intends to manage that impact. Information that we believe is relevant for the Marlborough community and all New Zealanders would include the following:
- a. Inputs per salmon farm, including
 - i. mt of feed; and
 - ii. content of feed.
 - b. Processes, including
 - i. *Best Management Practice Guidelines for salmon farms in the Marlborough Sounds* and how these guidelines were developed, how they have changed, how breaches against them have been reported and what action is being undertaken going forward;
 - ii. grants and other funds provided by government organisations; and
 - iii. penalties charged by any government organisation (e.g. in the case of NZKS, we consider the late filing fee should be reported).
 - c. Outputs per salmon farm, including
 - i. gilled and gutted equivalent (mt);
 - ii. saltwater mortalities and fish health events;
 - iii. any relevant staff health and safety issues;
 - iv. any breaches of resource consent conditions or breaches of *Best Management Practice Guidelines for salmon farms in the Marlborough Sounds*;
 - v. number of staff and average wage per farm;
 - vi. details around mortalities (including the cause, where the fish were buried, the amount by mt, dates and details of insurance claims); and
 - vii. details of any sightings and any harm to Hector's dolphins, seals and other marine mammals.
 - d. Outcomes, including
 - i. net export earnings;
 - ii. details of donations given by NZKS to community groups, including the amount and who the funds were given to (so that these donations are transparent – only a total figure is provided in the 2015 Financial Statements); and
 - iii. impacts on the ecosystem and how those impacts are going to be managed going forward.
- (ii) Becoming a leader in the process of introducing coastal occupation charges and helping to develop fair and transparent public policy around this issue.

Postscript

Since writing this working paper in July 2016, the following events, publications and information have become relevant:

7 July 2016

Skretting Ltd (a Dutch-owned fish food company) was granted permission by Marlborough District Council (MDC) to establish a finfish research facility at Okiwi Bay in the Marlborough Sounds. This has caused community unrest, with 10 submissions received by MDC in support of the application (including submissions from NZKS and the New Zealand Salmon Farmers Association), while 209 submissions were in opposition.

12 July 2016

An article stated that the number of NZKS employees has now increased to approximately 440.⁶⁵ Thus, nearly four years into the project and two years since the April 2014 Supreme Court decision, there has been no increase in job numbers from the July 2012 figure of 441. The number of additional jobs is an important consideration, as it is often a key input into economic models used for assessing impacts.

13 July 2016

The possibility of NZKS going public on NZX is noted in the press.⁶⁶

14 July 2016

The Marlborough Salmon Working Group⁶⁷ met for the first time. The working group was set up after the Cawthron Institute found that three farms were not meeting the 2015 *Best Management Practice Guidelines for salmon farms in the Marlborough Sounds*. It includes MDC, Ministry for Primary Industries, iwi, NZKS and key community and interest groups. Their aim is to develop a series of recommendations to implement the *Best Management Practice Guidelines*.⁶⁸ The Institute requested and received a copy of the terms of reference, see Appendix 10 *Marlborough Salmon Working Group: Terms of Reference*. Each new farm site will require approval under the RMA.

1 August 2016

A report is published by the Financial Markets Authority, which reviews corporate governance disclosures by selected companies, not their actual behaviour. The report measures whether companies have disclosed information as recommended in their handbook *Corporate Governance in New Zealand, Principles and Guidelines*. 'Of the nine principles outlined in our handbook, stakeholder interests had the lowest reporting (19%), followed by reporting on remuneration (37%).'⁶⁹

8 August 2016

Marlborough Express ran an article on an early version of this working paper: 'McGuinness Institute report attacks King Salmon financial position'.⁷⁰ The Institute publishes drafts in order to invite feedback on complex issues before finalising working papers and reports. Of concern was that NZKS Chief Executive told the reporter 'he did not deny King Salmon had four "difficult" years but each year a profit had been made, and the company was coming out of that phase now.' However, Financial Statements submitted to the Companies Office indicate that losses occurred in two of the four previous years – see 2012 and 2014 Financial Statements in Appendix 8. The Chief Executive did not change his statement even after this variance was brought to his attention. *Marlborough Express* noted the losses once we advised them

65 Voxy. (12 July 2016). *New salmon farms opened*. Retrieved 29 July 2016 from www.voxy.co.nz/business/5/257246.

66 NBR. (7 July 2016). *New Zealand King Salmon planning a \$200m float*. Retrieved 13 July 2016 from www.nbr.co.nz/article/new-zealand-king-salmon-planning-200m-float-afr-jr-191280.

67 Previously referred to as the Marlborough Sounds Salmon Working Group. See Footnote 64.

68 Stuff. (13 July 2016). *Marlborough Sounds Salmon Working Group looks for sustainable salmon farming solutions*. Retrieved 28 July 2016 from www.stuff.co.nz/business/farming/aquaculture/82045883/Marlborough-Sounds-Salmon-Working-Group-looks-for-sustainable-salmon-farming-solutions.

69 Financial Markets Authority. (August 2016). *Review of corporate governance disclosure, p. 5*. Retrieved 13 September 2016 from www.fma.govt.nz/assets/Reports/160804-Review-of-corporate-governance-disclosure.pdf.

70 Stuff. (1 August 2016). *McGuinness Institute report attacks King Salmon financial position*. Retrieved 1 August 2016, www.stuff.co.nz/business/farming/aquaculture/82560364/mcguinness-institute-report-attacks-king-salmon-financial-position.

of the discrepancy. See Appendix 11, which includes two versions of the article: Version 1, published without acknowledging the losses, and Version 2, published with the amendments highlighted.

Financial Statements are a matter of public record. This raises questions about chief executives referring in public to profits when there were actually there were losses. NZKS has had these audited and gave them to the Companies Office, who have reviewed and then registered them – indicating that these documents are reliable. If the practice of redefining profit figures for the media were to become the norm, it would create a great deal of uncertainty and mistrust. In our view, it would be quite reasonable for a CEO to refer to a loss and then to explain how it could have become a profit, but a loss is a loss. We consider it to be critically important that information is accurately reported in the media as well as in annual reports.

29 August 2016

New Zealand King Salmon Investments Limited ‘has confirmed its intention to undertake an initial public offering and a listing on the NZX Main Board and a foreign exempt listing on ASX. New Zealand King Salmon seeks to raise capital to fund future investment and working capital, repay debt and to enable Direct Capital to realise some or all of its investment. A product disclosure statement is expected to be available in September and New Zealand King Salmon expects its shares to be quoted on the NZX Main Board and ASX in mid-October.’⁷¹

31 August 2016

NZX have released a consultation process to review the NZX corporate governance best practice code. The consultation paper outlines NZX’s proposed amendments and the reasons for these decisions. Their best practice code has not undergone this level of review since 2003.⁷²

Note: With NZKS confirming its intention to undertake an initial public offering and a listing on the NZX Main Board, the report by the FMA and the consultation by NZX becomes relevant.

71 First NZ Capital. (August 2016). *New Zealand King Salmon IPO*. Retrieved 13 September 2016 from www.firstnzcapital.co.nz/public/New-Zealand-King-Salmon-IPO.html. This link was checked 24 March 2017 and found to be broken. The hard copy printed by the McGuinness Institute 13 September 2016 has been scanned and uploaded and is now retrieved 27 March 2017 from www.mcguinnessinstitute.org/wp-content/uploads/2017/03/FirstNZCapital-2016-New-Zealand-King-Salmon-IPO.pdf.

72 NZX. (31 August 2016). *Consultation Paper Review of the NZX Corporate Governance Code*. Retrieved 12 September 2016 from www.nzx.com/regulation/consultation.

Appendix 1: Timeline of key events impacting salmon farming in the Marlborough Sounds

July 2006

The *New Zealand Aquaculture Strategy* was published. The goal of the strategy was that by 2025 the New Zealand aquaculture sector would have sales of \$1 billion per annum.⁷³

3 December 2010

The *New Zealand Coastal Policy Statement 2010* took effect.⁷⁴

3 October 2011

New Zealand King Salmon Investments Limited (NZKS) applied for plan changes and resource consents with the Environmental Protection Authority (EPA).⁷⁵

10 October 2011

The EPA recommended to the Minister of Conservation that the NZKS proposals should be seen as nationally significant.⁷⁶

3 November 2011

The Minister of Conservation agreed that NZKS's proposal was of national significance in referring the matter to the Board of Inquiry.⁷⁷ Nationally significant proposals are exceptionally large and complex proposals with regional or national impacts, and decisions are made by a Board of Inquiry (BOI) or the Environment Court.⁷⁸

May 2012

The EPA received 1294 submissions on the NZKS plan changes and consent applications by 28 June 2016 (1221 submissions were received before the submission period closed on 2 May 2012 and a further 73 late submissions were granted a waiver and accepted). According to the EPA, the majority of the submissions (approximately 725 of the 1294) were in opposition to the plan changes and the resource consent applications, while approximately 358 of the submissions were in support of both the plan changes and all of the resource consent applications. Approximately 118 submissions

73 Burrell, M., & Meehan, L. (July 2006). *The New Zealand Aquaculture Strategy*, p.7. Retrieved 26 July 2016 from www.aquaculture.org.nz/wp-content/uploads/2011/05/Strategy.pdf.

74 Department of Conservation. (2010). *New Zealand Coastal Policy Statement 2010*. Retrieved 28 July 2016 from www.doc.govt.nz/Documents/conservation/marine-and-coastal/coastal-management/nz-coastal-policy-statement-2010.pdf.

75 Environmental Defence Society Inc and Sustain Our Sounds v The New Zealand King Salmon Co Ltd [2013] NZHC 1992 (8 August 2013). Retrieved 25 July 2016 from www.myold.lawsociety.org.nz/in-practice/the-changing-law/case-commentary/environmental-defence-society-incorporated-v-the-new-zealand-king-salmon-company-limited/EDS-and-SOS-v-NZ-King-Salmon-Ld-2013-NZHC-1992.pdf.

76 Environmental Defence Society Inc and Sustain Our Sounds v The New Zealand King Salmon Co Ltd [2013] NZHC 1992. (8 August 2013). Retrieved 25 July 2016 from www.myold.lawsociety.org.nz/in-practice/the-changing-law/case-commentary/environmental-defence-society-incorporated-v-the-new-zealand-king-salmon-company-limited/EDS-and-SOS-v-NZ-King-Salmon-Ld-2013-NZHC-1992.pdf.

With regard to defining 'proposals of national significance' s 142 (3) of the Resource Management Act 1991 states that:

'(3) In deciding whether a matter is, or is part of, a proposal of national significance, the Minister may have regard to—

(a) any relevant factor, including whether the matter—

(i) has aroused widespread public concern or interest regarding its actual or likely effect on the environment (including the global environment); or

(ii) involves or is likely to involve significant use of natural and physical resources; or

(iii) affects or is likely to affect a structure, feature, place, or area of national significance; or

(iv) affects or is likely to affect or is relevant to New Zealand's international obligations to the global environment; or

(v) results or is likely to result in or contribute to significant or irreversible changes to the environment (including the global environment); or

(vi) involves or is likely to involve technology, processes, or methods that are new to New Zealand and that may affect its environment; or

(vii) is or is likely to be significant in terms of section 8; or

(viii) will assist the Crown in fulfilling its public health, welfare, security, or safety obligations or functions; or

(ix) affects or is likely to affect more than 1 region or district; or

(x) relates to a network utility operation that extends or is proposed to extend to more than 1 district or region; and

(b) any advice provided by the EPA.'

77 Environmental Defence Society Inc and Sustain Our Sounds v The New Zealand King Salmon Co Ltd [2013] NZHC 1992 (8 August 2013). Retrieved 25 July 2016 from www.myold.lawsociety.org.nz/in-practice/the-changing-law/case-commentary/environmental-defence-society-incorporated-v-the-new-zealand-king-salmon-company-limited/EDS-and-SOS-v-NZ-King-Salmon-Ld-2013-NZHC-1992.pdf.

See also McGuinness Institute, *Working Paper 2013/01 Notes on the New Zealand King Salmon Decision*, p. 10. Retrieved 25 July 2016 from www.mcguinnessinstitute.org/working-papers.

78 Ministry for the Environment (MfE). (n.d.). *About proposals of national significance*. Retrieved 25 July 2016 from www.mfe.govt.nz/rma/proposals-national-significance/about-proposals-national-significance.

indicated mixed positions, while the remaining submissions either supported in part, opposed in part, were neutral or did not state a position.⁷⁹

22 February 2013

The BOI delivered its decision, approving four of the nine farms that NZKS applied for.⁸⁰

8 August 2013

The Environmental Defence Society Incorporated appealed to the High Court, alleging that the BOI made errors in law. However, the decision to grant NZKS resource consents was not changed.⁸¹

November 2013

NZKS and the Marlborough District Council (MDC) made a commitment to work together to develop environmentally and economically sustainable salmon farming practices. The first meetings and workshops in this process identified the need for a set of *Best Management Practice Guidelines for salmon farms in the Marlborough Sounds*.⁸² One of the intentions in creating this document was to ‘align all standards and protocols’ for salmon farming ‘with the consent conditions resulting from the BOI process.’⁸³

17 April 2014

The Environmental Defence Society Incorporated took the BOI decision to the Supreme Court.⁸⁴ Papatua, one of the previously approved farms, was declined because it did not comply with Resource Management Act 1991 s 67(3)(b) as it did not give effect to policies 13(1)(a) and 15(a) of the *New Zealand Coastal Policy Statement*, leaving only three of the nine farms approved.

November 2014

Best Management Practice Guidelines for salmon farms in the Marlborough Sounds: Benthic environmental quality standards and monitoring protocol was published as a living guidance document to inform benthic monitoring programmes for salmon farms in the Marlborough Sounds. The document stated that ‘ideally all salmon farm consents should include a standard condition’ of being in compliance with the *Best Management Practice Guidelines* (BMP).⁸⁵

November 2015

An updated version of the *Best Management Practice Guidelines* – retitled as *Best Management Practice Guidelines for salmon farms in the Marlborough Sounds: Operations* – was published. This updated document specified that ‘in the future all salmon farm consents should be referenced to these guidelines with a standard condition that relates to compliance with the BMP.’⁸⁶

79 Environmental Protection Authority (EPA). (2013). *Board of Inquiry: New Zealand King Salmon requests for plan changes and applications for resource consents (final report and decision)*, p. 46. Retrieved 23 July 2016 from www.epa.govt.nz/Publications/BOI%20NZKS%20Final%20Decision%2022%20Feb.pdf.

80 Environmental Protection Authority (EPA). (n.d.). *NZKS: Final report and decision*. Retrieved 26 July 2016 from www.epa.govt.nz/Resource-management/previous/king-salmon/Pages/Final%20report%20and%20decision.aspx.

81 Environmental Defence Society Inc and Sustain Our Sounds v The New Zealand King Salmon Co Ltd [2013] NZHC 1992. (8 August 2013).

82 Farm Operations Working Group. (November 2015). *Best Management Practice guidelines for salmon farms in the Marlborough Sounds: Operations*, p. 5. Retrieved 28 July 2016 from www.kingsalmon.co.nz/kingsalmon/wp-content/uploads/2015/01/2015-11-25-BMP-Guidelines-Operational-Final.pdf.

83 Benthic Standards Working Group. (November 2014). *Best Management Practice guidelines for salmon farms in the Marlborough Sounds: Benthic environmental quality standards and monitoring protocol*, p. 6. Retrieved 28 July 2016 from www.kingsalmon.co.nz/kingsalmon/wp-content/uploads/2014/02/Best-practice-guidelines-for-salmon-farm-management-seabed-health-Nov-....pdf.

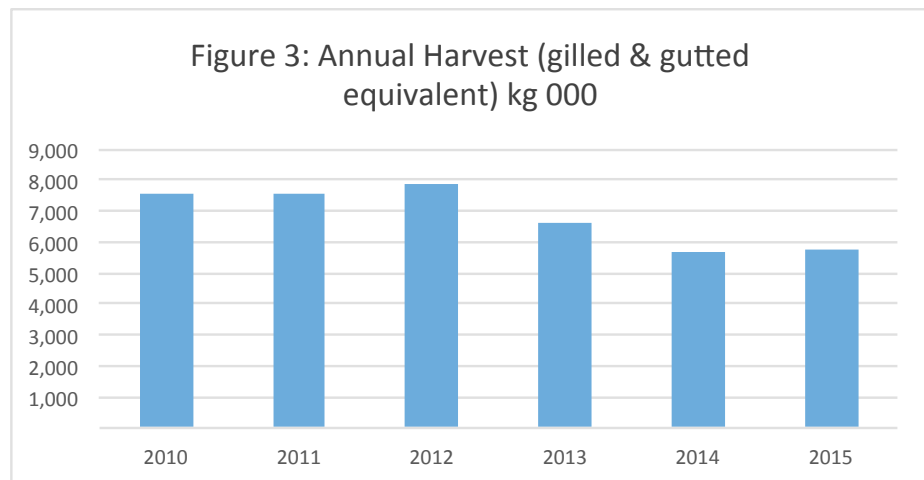
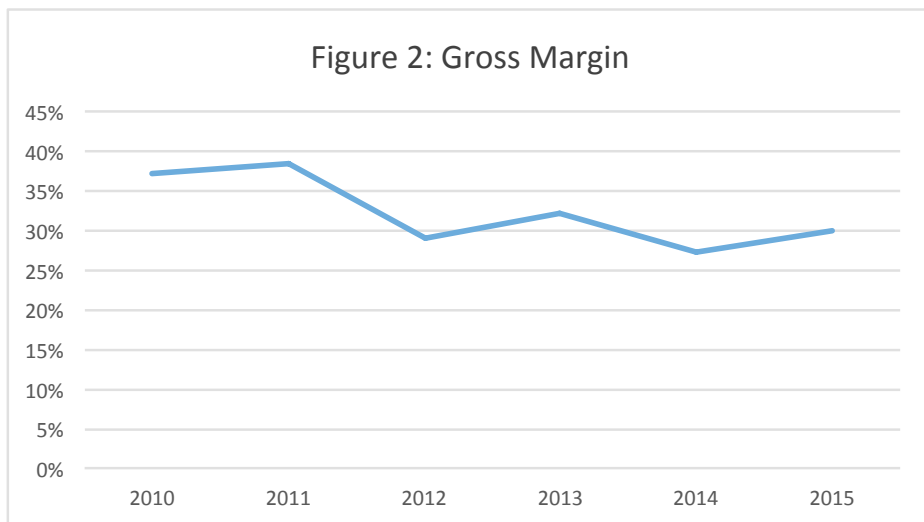
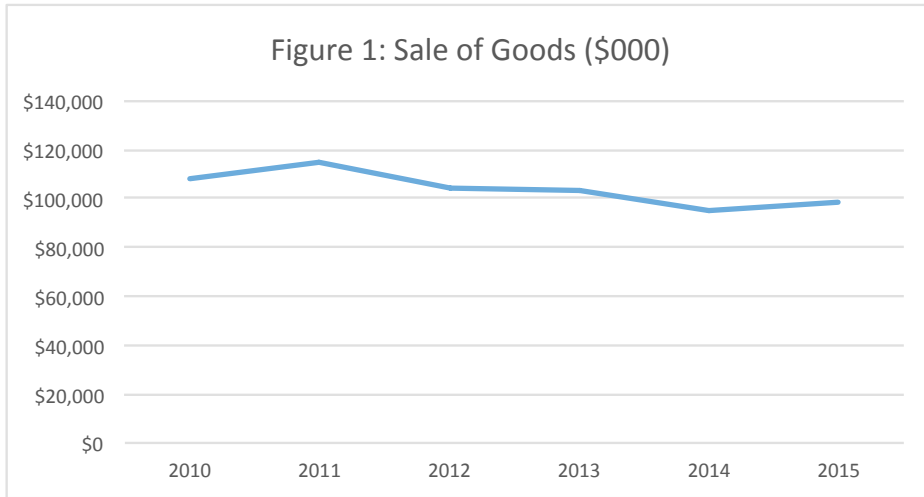
84 Environmental Defence Society Inc v The New Zealand King Salmon Co Ltd [2014] NZSC 38. (17 April 2014).

85 Benthic Standards Working Group. (2014). *Best Management Practice guidelines for salmon farms in the Marlborough Sounds: Benthic environmental quality standards and monitoring protocol*, p. 6. Retrieved 28 July 2016 from www.kingsalmon.co.nz/kingsalmon/wp-content/uploads/2014/02/Best-practice-guidelines-for-salmon-farm-management-seabed-health-Nov-....pdf.

86 Farm Operations Working Group. (2015). *Best Management Practice guidelines for salmon farms in the Marlborough Sounds: Operations*, p. 5. Retrieved 28 July 2016 from www.kingsalmon.co.nz/kingsalmon/wp-content/uploads/2015/01/2015-11-25-BMP-Guidelines-Operational-Final.pdf.

Appendix 2: NZKS's financial information (2009–2015)

These graphs were put together by the McGuinness Institute from information in NZKS Financial Statements covering the period 1 July 2009 to 30 June 2015.⁸⁷



87 Retrieved 27 June 2016 from www.business.govt.nz/companies/app/ui/pages/companies/2161790/documents?q=&limit=20&start=0&sf=dat&sd=desc&xst=x-security-token#. This link was checked 24 March 2017 and found to be broken. The document is now retrieved 24 March 2017 from www.companiesoffice.govt.nz/companies/app/ui/pages/companies/2161790/documents?backurl=%2Fcompanies%2Fapp%2Fui%2Fpages%2Fcompanies%2Fsearch%3Fmode%3Dstandard%26type%3Dentities%26q%3Dnew%2520zealand%2520king%2520salmon.

Figure 4: Biological Assets to Annual Harvest Ratio

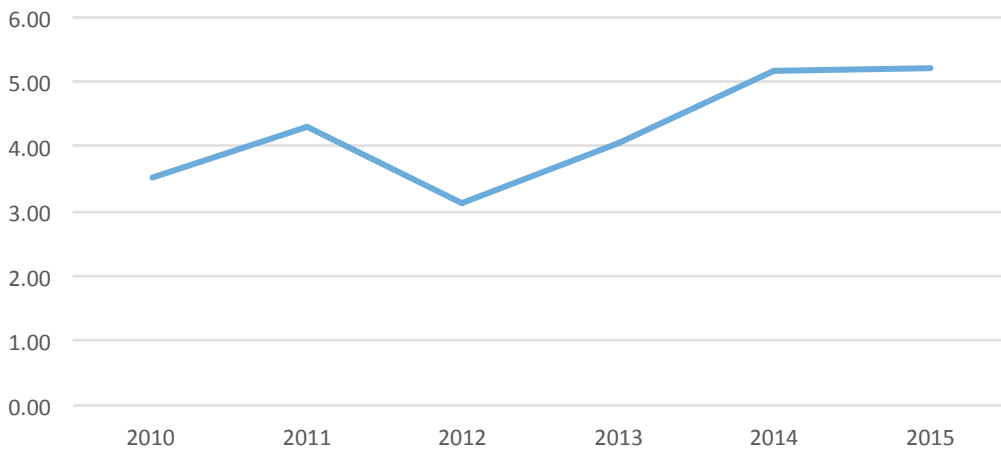


Figure 5: Net profit/loss for the period attributable to equity holders of the company (\$000)

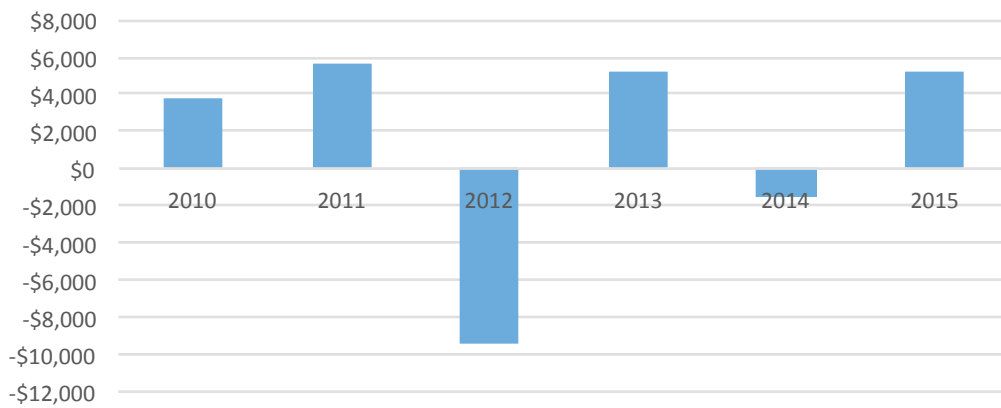


Figure 6: Dividends Paid and Accumulated Retained Earnings (\$000)



Figure 7: Amounts Owing to Related Parties (\$000)

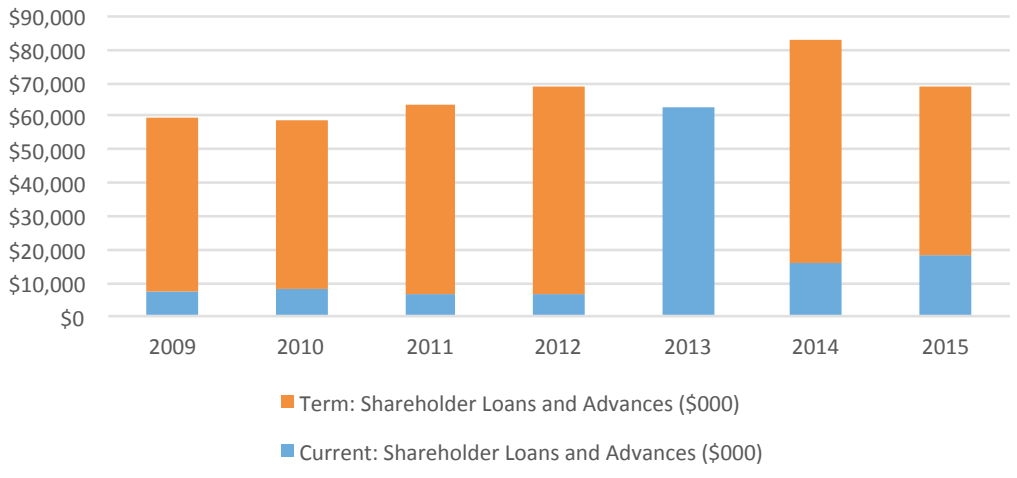


Figure 8: Debt to Assets Ratio

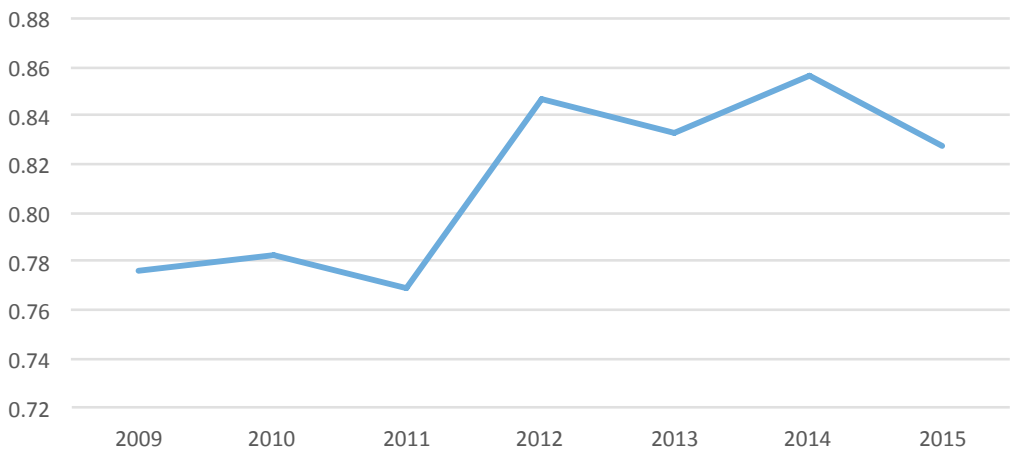
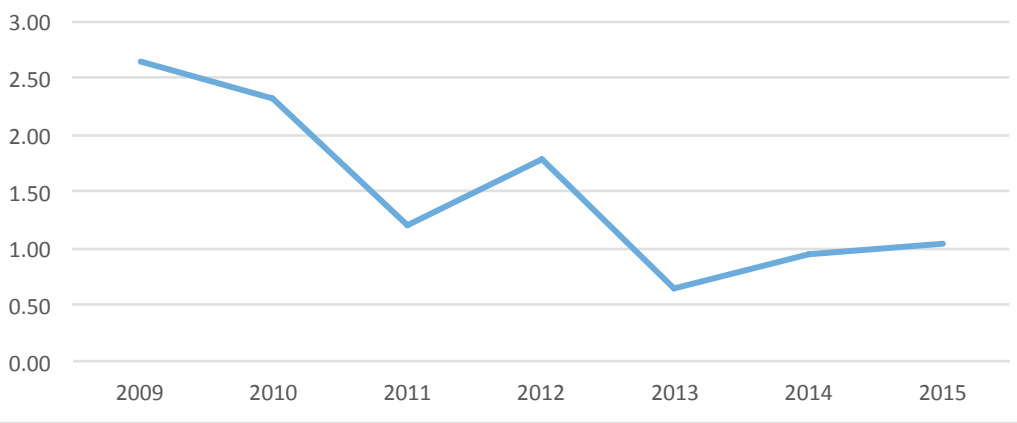


Figure 9: Current Ratio (Current Assets divided by Current Liabilities)



Appendix 3: Excerpt from Statement of rebuttal evidence of Andrew Clark in relation to demand, efficiency and ownership of The New Zealand King Salmon Co. Limited (August 2012)⁸⁸

6. EMPLOYMENT

6.1 In the original NZ King Salmon report a table of projected additional employment was included at page 38. The table indicated then-current employment of 466 people, with a further 112-152 roles expected to be created should all the sites applied for under this process be granted. Dr Fairgray used higher numbers in his economic analysis evidence, based on his assumptions.

6.2 Upon further review it has come to our attention that the NZ King Salmon report figures were materially conservative in quantum. We take this opportunity to include updated information. The table below outlines the expected employment should all sites be granted, once in full production.

Operation	Current Employees as of 29 Jul 2012	Additional Employees Required (approximately) once full production achieved
Hatchery	30 permanent (full time) 2 casuals	9 (3 per site when production > 15,000 tonne)
Farms	42 (30 shift workers, 9 day workers and 3 regional managers) 2 casuals	50-70 Marlborough
Processing	243 (incl management)	30-60 primary processing (depends on the level of automation – most likely towards upper end) – potentially Marlborough ~220 value-added processing and Processing supervisors / management
Head Office (Nelson)	56	12

⁸⁸ Clark, A. (2012). *Statement of Rebuttal Evidence of Andrew Clark in relation to Demand, Efficiency and Ownership of The New Zealand King Salmon Co. Limited*, pp. 13–14. Retrieved 27 June 2016 from www.epa.govt.nz/Publications/5%20Andrew%20Clark-%20Demand,%20Efficiency%20and%20Ownership%20-%20v1.pdf.

(Export Sales & Marketing, Finance, IT, HR & Support)		
Aquaculture Office (Picton) including net making & repairs	36 (Picton) 2 (Nelson)	8 Marlborough
National Sales & Marketing Office (Auckland)	19	3
Australia	3 (Sydney) 1 (Brisbane) 1 (Melbourne)	1
USA	2	5
Japan	2	4
Total	441	Approx 375

- 6.3 The above numbers are based on a mild level of automation. Recognising that full production on all sites applied for will take around 7-10 years to achieve due to site development, rampup of sales, and site monitoring requirements, the exact level of automation will depend on a number of key factors including technology available, funding available, and payback period for automation investments. The numbers are however in my opinion entirely reasonable.
- 6.4 Current employment levels as at end of July 2012 are 441 headcount. These figures are currently lower than the NZ King Salmon report indicated, due to NZ King Salmon having in place a temporary "sinking lid" on replacement of staff who leave, in order to manage costs better due to fish availability constraints and pending availability of further waterspace; seasonal lows; and mothballing of Crail Bay.

Appendix 4: Excerpts from Board of Inquiry: New Zealand King Salmon requests for plan changes and applications for resource consents (final report and decision) (February 2013)⁸⁹

(a) On Confidential Data

[237] Dr Fairgray used detailed data provided by King Salmon, on a confidential basis, for his economic assessment. A number of the submitters questioned the validity of the data.

[241] We acknowledge that the other parties did not have the advantage of the confidential information supplied to Dr Fairgray by King Salmon. We are surprised that an appropriate application was not made for the release of the information subject to constraining its publication. If such an application had been made, that could have been addressed under strict conditions as to use and publication. Notwithstanding the criticism, we have no reason to doubt the validity of the data used by Dr Fairgray.

(b) On Demand

[244] Mr Nyostoyl told us that he was not comfortable presenting evidence on demand going beyond 8 to 10 years. It would thus not be appropriate for him to forecast economic demand for 35 years away. He agreed with Ms McGuinness that the farmed salmon industry is volatile, but there is no contradiction between a volatile industry, and a sustainable and profitable industry.

(c) On Benefits

[249] Dr Fairgray told us the benefits of the proposed salmon farms would include:

[a] Substantial and ongoing positive economic impacts on the economies of the Marlborough and Nelson regions, in particular, and also on the national economy; and

[b] The additional activity would significantly expand the established salmon farming and processing sector and enable it to grow significantly faster than the wider regional economies.

[252] Dr Fairgray told us that the salmon farming industry already plays a significant role in the Marlborough and Nelson regional economies, and a lesser role within the Tasman District. He estimated that if the nine proposed farms were implemented, and assuming King Salmon's total production level reached approximately 22,500 tonnes (which is comparable with the maximum sustainable yield figures supplied by Cawthron), then the national level impacts would be:

[a] Capital expenditure to develop the farms, estimated at \$40m including some \$29m within the Marlborough and Nelson economies;

[b] Capital expenditure to develop a processing factory in Picton. If that were to proceed (potentially if output exceeds 15,000 tonnes) of at least \$6m; and

⁸⁹ Environmental Protection Authority (EPA). (2013). *Board of Inquiry New Zealand King Salmon requests for plan changes and applications for resource consents (final report and decision)*, pp. 98–105. Retrieved 27 June 2016 from www.epa.govt.nz/Publications/BOI%20NZKS%20Final%20Decision%2022%20Feb.pdf.

[c] A total construction effect (for new farms and factory), estimated at \$66m in total output (including \$29m direct), \$30m in value added (including \$13m direct), and 430 to 450 person years of employment (including 200 direct).

[253] The economic impacts projected by Dr Fairgray would largely occur in the northern South Island, and particularly the Nelson and Marlborough regions. Dr Fairgray estimated that the expansion of this sector would contribute a significant share of total growth in the northern South Island over the 2010/2026 period (4.9%) in net terms – especially in the Marlborough economy (10%). This, he told us, represents significant economic benefits to the regions and nationally which would be ongoing and cumulative over time. Overall, he estimated that the total cumulative impact from 2010/2036 would be \$1,106m.

(d) On Economic Analysis

[266] Dr Kaye-Blake provided to us, what we thought was a fair and balanced view. We accept his conclusion when he said:

From all the evidence I have reviewed, I consider it is safe for the Board to conclude that there will be significant economic or market benefits arising from the NZKS proposal. The benefits will extend over the life of the project, which is intended to be a continuing activity than a one-off event. The exact size of those effects can be debated. In my opinion they would not be as high as predicted using multipliers derived from an input/output analysis, as Dr Fairgray has done, nor would they be as low as the various benefits identified by Professor Hazledine (in particular) or Mr Offen. I believe that the Board could safely use the direct impacts from Dr Fairgray's analysis and double them to obtain a reasonable estimate of total economic impacts.

[267] We are conscious that the economic impact has been modelled on all nine farms being approved and thus, the likelihood of a processing plant being built at Picton to take the overload from the present Nelson processing plant. We are satisfied that the economic impact from all nine farms being approved, would be considerable, although it is not possible to put a figure on it. Dr Kaye-Blake's suggestion would, in our view, be somewhere close.

[268] Each of the farms individually would have economic benefit at a local, regional, and to a much lesser extent, a national level. We accordingly find that in exercising our judgment, each of the farms, both individually and collectively, would be of economic benefit.

Appendix 5: NZKS Shareholdings from the Companies Office website (as at June 2016)⁹⁰

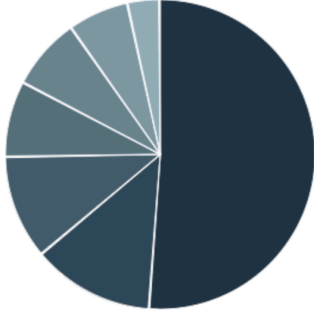
NEW ZEALAND KING SALMON INVESTMENTS LIMITED (2161790) Registered Last updated on 09 Jun 2016

To maintain this company [log on here](#)

[View as Single Page](#)
[Certificate of Incorporation](#)
[Company Extract](#)
[Print](#)

[Company Summary](#)
[Addresses](#)
[Directors \(6\)](#)
[Shareholdings \(8\)](#)
[Documents \(65\)](#)
[PPSR Search](#)

Total Number of Shares: 25267695 **Extensive Shareholding:** No
Shareholders in Allocation:

Allocation 1:	12856250 shares (50.88%)	 <p>Share allocations less than 1% are not displayed in the graph above.</p>
	OREGON GROUP LIMITED C/- Glaister Ennor, Level 4, Norfolk House, 18 High Street, Auckland, Null , New Zealand	
Allocation 2:	3192513 shares (12.63%)	
	DIRECT CAPITAL PARTNERS LAMBDA INVESTMENTS LIMITED Level 6, 2 Kitchener Street, Auckland ,	
Allocation 3:	2721682 shares (10.77%)	
	POHUTUKAWA LAMBDA INVESTMENTS LIMITED 158 Cameron Road, Tauranga ,	
Allocation 4:	1989613 shares (7.87%)	
	DIRECT MANAGEMENT INVESTMENTS LIMITED Level 6, 2 Kitchener Street, Auckland ,	
Allocation 5:	1892695 shares (7.49%)	
	NZKS CUSTODIAN LIMITED 93 Beatty Street, Annesbrook, Nelson, 7011 , New Zealand	
Allocation 6:	1590136 shares (6.29%)	
	BIOPACIFICVENTURES LIMITED Level 6, 2 Kitchener Street, Auckland ,	
Allocation 7:	841710 shares (3.33%)	
	DIRECT CAPITAL PARTNERS LIMITED Level 6, 2 Kitchener St, Auckland ,	
Allocation 8:	183096 shares (0.72%)	
	HENDRY NOMINEES LIMITED 158 Cameron Road, Tauranga ,	

[Historic data for shareholders](#)
[Show History](#)

90 Companies Office. (2016). *New Zealand King Salmon Investments Limited (2161790) Registered: Shareholdings*. Retrieved 27 June 2016 from www.business.govt.nz/companies/app/ui/pages/companies/2161790/shareholdings; Companies Office. (2016). *Oregon Group Limited (560422) Registered: Shareholdings*. Retrieved 27 June 2016 from www.business.govt.nz/companies/app/ui/pages/companies/560422/shareholdings.

OREGON GROUP LIMITED (560422) Registered

Last updated on 09 Jun 2016

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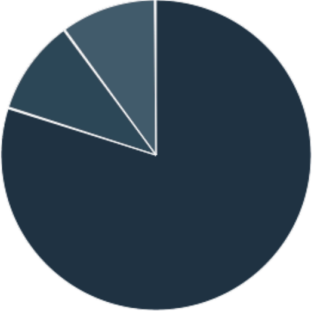
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Company Summary | Addresses | Directors (3) | **Shareholdings (3)** | Documents (76) | PPSR Search

Total Number of Shares: 1000175 Extensive Shareholding: No

Shareholders in Allocation:

Allocation 1:	800175 shares (80.00%)	
	CALLANDER LIMITED The Office Of The Liscr Trust Company, 80 Broad Street, Monrovia , Liberia	
Allocation 2:	100000 shares (10.00%)	
	GOLD PALACE PROFITS LIMITED C/-11 Collyer Quay, #15-01 The Arcade, Singapore 049317 ,	
Allocation 3:	100000 shares (10.00%)	
	SHIANG YANG INTERNATIONAL LIMITED Rm 2005 Wayson Commercial Bldg, 28 Connaught Road West, Hong Kong ,	

Historic data for shareholders [▶ Show History](#)

Appendix 6: Excerpt from New Zealand King Salmon Investments Limited and Subsidiaries:
Financial Statements for the year ended 30 June 2015⁹¹

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements of New Zealand King Salmon Limited have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and the requirements of the Companies Act 1993 and the Financial Reporting Act 2013. For the purposes of complying with NZ GAAP the entity is a for-profit entity. The financial statements have also been prepared on a historical cost basis, except for certain property, plant and equipment, financial instruments, and other investments which have been measured at fair value.

The Group is a Tier 2 for-profit entity and has elected to report in accordance with Tier 2 For-profit [sic] Accounting Standards. The Group is eligible to report in accordance with Tier 2 For-profit Accounting [sic] Standards on the basis that it does not have public accountability and there is no separation between the owners and the governing body. The Group has taken advantage of all differential reporting exemptions, except for:

- the exemption available in NZ IAS 12 Income Taxes re measurement and disclosure in financial statements; and
- the exemption available in NZ IAS 21 The Effects of Changes in Foreign Exchange Rates that permits qualifying entities to translate foreign currency transactions at the settlement rate.

91 NZKS. (2015). *New Zealand King Salmon Investments Limited and Subsidiaries: Financial Statements for the year ended 30 June 2015*, p. 7, Note 2(a). Retrieved 27 June 2016 from www.business.govt.nz/companies/app/service/services/documents/CA4C13F3C56BAC09A942F0687B3B3ED0.

Appendix 7: NZKS Documents from the Companies Office website (as at June 2016)⁹²

NEW ZEALAND KING SALMON INVESTMENTS LIMITED (2161790) Registered Last updated on 25 Jul 2016
 To maintain this company [log on here](#)

View as Single Page | Certificate of Incorporation | Company Extract | Print

Company Summary | Addresses | Directors (6) | Shareholdings (8) | Documents (67) | PPSR Search

Date	Document Type	Size
19 Jul 2016 14:22	Director Consent	
	Director Consent	72kb
15 Jul 2016 14:59	Particulars of Director	
09 Jun 2016 11:19	Particulars of ultimate holding company	
17 Feb 2016 11:59	Financial Statements	
	Financial Statements	
03 Dec 2015 09:25	Financial Statements	
	Financial Statements	1006kb
03 Nov 2015 11:03	Annual Return Filed	
03 Nov 2015 11:01	Particulars of Director	
03 Nov 2015 11:01	Particulars of ultimate holding company	
13 Nov 2014 11:27	File Annual Return	
03 Jun 2014 10:49	Particulars of Shareholding	
05 Dec 2013 10:58	Financial Statements	
	Financial Statements	7.4mb
14 Nov 2013 15:34	File Annual Return	
14 Nov 2013 15:32	Particulars of Director	
14 Nov 2013 15:31	Particulars of Director	
21 Mar 2013 16:31	Particulars of Company Address	
22 Nov 2012 15:02	Financial Statements	
	Financial Statements	
30 Oct 2012 11:56	File Annual Return	
30 Nov 2011 15:37	Financial Statements	
	Financial Statements	
31 Oct 2011 16:32	File Annual Return	
31 Oct 2011 16:30	Particulars of Company Address	
08 Aug 2011 16:41	Particulars of Shareholding	
08 Aug 2011 16:41	Update Shares	
	Director Certificate	
31 Mar 2011 16:17	Particulars of Shareholding	

30 June 2014 Financial Statements

30 June 2015 Financial Statements

30 June 2013 Financial Statements

Recommendations to the Companies Office:
 to add the year end to financial statements e.g. Financial Statements for the year ended 30 June 2015
 to change 'date' to 'date registered'

92 Companies Office. (2016). *New Zealand King Salmon Investments Limited (2161790) Registered: Documents*. Retrieved 27 June 2016 from www.business.govt.nz/companies/app/ui/pages/companies/2161790/documents?q=&limit=20&start=0&sf=date&sd=desc&xst=x-security-token#.

Appendix 8: Excerpts from New Zealand King Salmon Investments Limited and Subsidiaries:
 Financial Statements for the year ended 30 June 2012, for the year ended 30
 June 2013, for the year ended 30 June 2014 and for the year ended 30 June 2015

NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated		Parent	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
Revenue	3	104,004	114,513	-	-
Cost of goods sold		(70,577)	(70,444)	-	-
Gross Profit		33,427	44,069	-	-
Other operating income	3	221	467	-	-
Expenses					
Distribution expenses		(12,164)	(13,220)	-	-
Administrative expenses		(15,581)	(14,408)	-	-
Other operating expenses	4	(1,777)	(143)	-	-
Operating Profit before Financing Costs		4,126	16,765	-	-
Financial income	3	163	296	96	59
Financing costs	5	(10,112)	(9,273)	(10,006)	(9,191)
Net Financing Cost		(9,949)	(8,977)	(9,910)	(9,132)
Operating Profit/(loss) before Subvention Payment		(5,823)	7,788	(9,910)	(9,132)
Subvention receipt	4	-	-	3,675	9,132
Profit/(loss) before Tax		(5,823)	7,788	(6,235)	-
Dividend received	3	-	-	3,042	2,422
Income tax expense	6	(138)	(2,120)	-	-
Net Profit/(loss) for the period attributable to equity holders of the Company		(5,961)	5,668	(3,193)	2,422
Other Comprehensive Income					
Foreign currency gain/(loss)		(42)	98	-	-
Gain/(loss) from cashflow hedges		(170)	894	(1,285)	-
Income tax on other comprehensive income		48	(202)	360	-
Net Other Comprehensive Income		(164)	790	(925)	-
Total Comprehensive Income/(loss) for the period attributed to equity holders of the Company		(6,125)	6,458	(4,118)	2,422

These financial statements should be read in conjunction with the accompanying notes



NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2013

	Note	Consolidated		Parent	
		2013 \$000	2012 \$000	2013 \$000	2012 \$000
Sale of goods	3	103,302	104,004	-	-
Cost of goods sold		(70,130)	(73,979)	-	-
Gross Profit		33,172	30,025	-	-
Other operating income	3	740	221	-	-
Expenses					
Distribution expenses		(10,509)	(9,963)	-	-
Administrative expenses		(16,824)	(17,613)	-	-
Other expenses	4	(7,299)	(2,015)	-	-
Operating Profit before Financing Costs		(720)	655	-	-
Financial income	3	202	163	147	96
Realised gain on cashflow hedges closed out	3	9,989	-	-	-
Financing costs	6	(3,874)	(10,111)	(3,756)	(10,006)
Net Financing Income (Cost)		6,317	(9,948)	(3,609)	(9,910)
Operating Profit/(loss) before Subvention Payment		5,597	(9,293)	(3,609)	(9,910)
Subvention receipt	5	-	-	5,103	3,675
Profit/(loss) before Tax		5,597	(9,293)	1,494	(6,235)
Dividend received	3	-	-	-	3,042
Income tax expense	7	(313)	(138)	-	-
Net Profit/(loss) for the period attributable to equity holders of the Company		5,284	(9,431)	1,494	(3,193)
Other Comprehensive Income					
Foreign currency gain/(loss)		(187)	(42)	-	-
Gain/(loss) from cashflow hedges		(3,356)	(171)	776	(1,285)
Income tax on other comprehensive income		940	48	(217)	360
Net Other Comprehensive Income		(2,603)	(165)	559	(925)
Total Comprehensive Income/(loss) for the period attributable to equity holders of the Company		2,681	(9,596)	2,053	(4,118)

These financial statements should be read in conjunction with the accompanying notes

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NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES
Statement of Comprehensive Income
 FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated		Parent	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
Sale of goods	3	95,064	103,302	-	-
Cost of goods sold		(69,197)	(70,130)	-	-
Gross Profit		<u>25,867</u>	<u>33,172</u>	-	-
Other operating income	3	427	740	-	-
Expenses					
Distribution expenses		(8,129)	(10,509)	-	-
Administrative expenses		(14,750)	(16,824)	-	-
Other expenses	4	(1,795)	(7,299)	-	-
Operating Profit before Financing Costs		<u>1,620</u>	<u>(720)</u>	-	-
Financial income	3	211	202	167	147
Realised gain on cashflow hedges closed out	3	-	9,989	-	-
Financing costs	6	(3,009)	(3,874)	(2,911)	(3,756)
Net Financing Income (Cost)		<u>(2,798)</u>	<u>6,317</u>	<u>(2,744)</u>	<u>(3,609)</u>
Operating Profit/(loss) before Subvention Payment		<u>(1,178)</u>	<u>5,597</u>	<u>(2,744)</u>	<u>(3,609)</u>
Dividend received	3	-	-	7,371	-
Subvention receipt	5	-	-	339	5,103
Profit/(loss) before Tax		<u>(1,178)</u>	<u>5,597</u>	<u>4,966</u>	<u>1,494</u>
Income tax expense	7	(352)	(313)	-	-
Net Profit/(loss) for the period attributable to equity holders of the Company		<u>(1,530)</u>	<u>5,284</u>	<u>4,966</u>	<u>1,494</u>
Other Comprehensive Income					
Foreign currency loss		(278)	(187)	-	-
Gain/(loss) from cashflow hedges		354	(3,356)	548	776
Income tax on other comprehensive income/(loss)		(94)	940	(153)	(217)
Net Other Comprehensive Income/(loss)		<u>(38)</u>	<u>(2,603)</u>	<u>395</u>	<u>559</u>
Total Comprehensive Income/(loss) for the period attributable to equity holders of the Company		<u>(1,568)</u>	<u>2,681</u>	<u>5,361</u>	<u>2,053</u>

These financial statements should be read in conjunction with the accompanying notes

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EY

NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2015

	Note	Consolidated	
		2015 \$000	2014 \$000
Sale of goods	3	98,288	95,064
Cost of goods sold		<u>(68,986)</u>	<u>(69,197)</u>
Gross Profit		<u>29,302</u>	<u>25,867</u>
Other operating income	4	3,792	945
Distribution expenses		(8,814)	(8,129)
Administrative expenses		(13,465)	(14,750)
Other expenses	5	(4,161)	(2,313)
Operating Profit before Financing Costs		<u>6,654</u>	<u>1,620</u>
Financial income	3	132	211
Financing costs	6	<u>(1,687)</u>	<u>(3,009)</u>
Net Financing Cost		<u>(1,555)</u>	<u>(2,798)</u>
Profit/(loss) before Tax		<u>5,099</u>	<u>(1,178)</u>
Income tax (expense)/income	7	70	(352)
Net Profit/(loss) for the period attributable to equity holders of the Company		<u>5,169</u>	<u>(1,530)</u>
Other Comprehensive Income			
Foreign currency gain/(loss)		128	(278)
Gain/(loss) from cash flow hedges		(134)	334
Income tax on other comprehensive income/(loss)		38	(94)
Net Other Comprehensive Income/(loss)		<u>32</u>	<u>(38)</u>
Total Comprehensive Income/(loss) for the period attributable to equity holders of the Company		<u>5,201</u>	<u>(1,568)</u>

These financial statements should be read in conjunction with the accompanying notes

4

EY

NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2012

	Share Capital \$000	Foreign Currency Translation Reserve \$000	Hedge Reserve \$000	Retained Earnings \$000	Total Equity \$000
Consolidated					
As at 1 July 2011	24,334	46	2,367	5,081	31,828
Profit/(loss) for the period	-	-	-	(5,961)	(5,961)
Other comprehensive loss	-	(42)	(122)	-	(164)
Total comprehensive income/(loss) for the period	-	(42)	(122)	(5,961)	(6,125)
Transactions with owners in their capacity as owners:					
Shares issued	962	-	-	-	962
Dividends paid	-	-	-	(3,052)	(3,052)
As at 30 June 2012	25,296	4	2,245	(3,932)	23,613

	Share Capital \$000	Foreign Currency Translation Reserve \$000	Hedge Reserve \$000	Retained Earnings \$000	Total Equity \$000
Consolidated					
As at 1 July 2010	24,223	(52)	1,675	1,843	27,689
Profit/(loss) for the period	-	-	-	5,668	5,668
Other comprehensive income	-	98	692	-	790
Total comprehensive income/(loss) for the period	-	98	692	5,668	6,458
Transactions with owners in their capacity as owners:					
Shares issued	111	-	-	-	111
Dividends paid	-	-	-	(2,430)	(2,430)
As at 30 June 2011	24,334	46	2,367	5,081	31,828

	Share Capital \$000	Foreign Currency Translation Reserve \$000	Hedge Reserve \$000	Retained Earnings \$000	Total Equity \$000
Parent					
As at 1 July 2011	24,334	-	-	(38)	24,296
Profit/(loss) for the period	-	-	-	(3,193)	(3,193)
Other comprehensive income	-	-	(925)	-	(925)
Total comprehensive income/(loss) for the period	-	-	(925)	(3,193)	(4,118)
Transactions with owners in their capacity as owners:					
Shares issued	962	-	-	-	962
Dividends paid	-	-	-	(3,052)	(3,052)
As at 30 June 2012	25,296	-	(925)	(6,283)	18,088

	Share Capital \$000	Foreign Currency Translation Reserve \$000	Hedge Reserve \$000	Retained Earnings \$000	Total Equity \$000
Parent					
As at 1 July 2010	24,223	-	-	(30)	24,193
Profit/(loss) for the period	-	-	-	2,422	2,422
Other comprehensive income	-	-	-	-	-
Total comprehensive income/(loss) for the period	-	-	-	2,422	2,422
Transactions with owners in their capacity as owners:					
Shares issued	111	-	-	-	111
Dividends paid	-	-	-	(2,430)	(2,430)
As at 30 June 2011	24,334	-	-	(38)	24,296

These financial statements should be read in conjunction with the accompanying notes

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NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2013

	Share Capital \$000	Foreign Currency Translation Reserve \$000	Hedge Reserve \$000	Retained Earnings \$000	Total Equity \$000
Consolidated					
As at 1 July 2012	25,296	4	2,245	(7,402)	20,143
Profit/(loss) for the period	-	-	-	5,284	5,284
Other comprehensive loss	-	(187)	(2,416)	-	(2,603)
Total comprehensive income/(loss) for the period	-	(187)	(2,416)	5,284	2,681
Transactions with owners in their capacity as owners:					
Shares issued	-	-	-	-	-
Dividends paid	-	-	-	-	-
As at 30 June 2013	25,296	(183)	(171)	(2,118)	22,824
Consolidated					
As at 1 July 2011	24,334	46	2,367	5,081	31,828
Profit/(loss) for the period	-	-	-	(9,431)	(9,431)
Other comprehensive income	-	(42)	(122)	-	(164)
Total comprehensive income/(loss) for the period	-	(42)	(122)	(9,431)	(9,595)
Transactions with owners in their capacity as owners:					
Shares issued	962	-	-	-	962
Dividends paid	-	-	-	(3,052)	(3,052)
As at 30 June 2012	25,296	4	2,245	(7,402)	20,143
Parent					
As at 1 July 2012	25,296	-	(925)	(6,283)	18,088
Profit/(loss) for the period	-	-	-	1,494	1,494
Other comprehensive income	-	-	559	-	559
Total comprehensive income/(loss) for the period	-	-	559	1,494	2,053
Transactions with owners in their capacity as owners:					
Shares issued	-	-	-	-	-
Dividends paid	-	-	-	-	-
As at 30 June 2013	25,296	-	(366)	(4,789)	20,141
Parent					
As at 1 July 2011	24,334	-	-	(38)	24,296
Profit/(loss) for the period	-	-	-	(3,193)	(3,193)
Other comprehensive income	-	-	(925)	-	(925)
Total comprehensive income/(loss) for the period	-	-	(925)	(3,193)	(4,118)
Transactions with owners in their capacity as owners:					
Shares issued	962	-	-	-	962
Dividends paid	-	-	-	(3,052)	(3,052)
As at 30 June 2012	25,296	-	(925)	(6,283)	18,088

These financial statements should be read in conjunction with the accompanying notes

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NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES
Statement of Changes in Equity
 FOR THE YEAR ENDED 30 JUNE 2014

	Share Capital \$000	Foreign Currency Translation Reserve \$000	Hedge Reserve \$000	Retained Earnings \$000	Total Equity \$000
Consolidated As at 1 July 2013	25,296	(183)	(171)	(2,118)	22,824
Profit/(loss) for the period	-	-	-	(1,530)	(1,530)
Other comprehensive loss	-	(278)	240	-	(38)
Total comprehensive income/(loss) for the period	-	(278)	240	(1,530)	(1,568)
Transactions with owners in their capacity as owners:					
Shares issued	-	-	-	-	-
Dividends paid	-	-	-	(2,590)	(2,590)
As at 30 June 2014	25,296	(461)	69	(6,238)	18,666

	Share Capital \$000	Foreign Currency Translation Reserve \$000	Hedge Reserve \$000	Retained Earnings \$000	Total Equity \$000
Consolidated As at 1 July 2012	25,296	4	2,245	(7,402)	20,143
Profit/(loss) for the period	-	-	-	5,284	5,284
Other comprehensive loss	-	(187)	(2,416)	-	(2,603)
Total comprehensive income/(loss) for the period	-	(187)	(2,416)	5,284	2,681
Transactions with owners in their capacity as owners:					
Shares issued	-	-	-	-	-
Dividends paid	-	-	-	-	-
As at 30 June 2013	25,296	(183)	(171)	(2,118)	22,824

	Share Capital \$000	Foreign Currency Translation Reserve \$000	Hedge Reserve \$000	Retained Earnings \$000	Total Equity \$000
Parent As at 1 July 2013	25,296	-	(366)	(4,789)	20,141
Profit/(loss) for the period	-	-	-	4,966	4,966
Other comprehensive income	-	-	395	-	395
Total comprehensive income/(loss) for the period	-	-	395	4,966	5,361
Transactions with owners in their capacity as owners:					
Shares issued	-	-	-	-	-
Dividends paid	-	-	-	(2,590)	(2,590)
As at 30 June 2014	25,296	-	29	(2,413)	22,912

	Share Capital \$000	Foreign Currency Translation Reserve \$000	Hedge Reserve \$000	Retained Earnings \$000	Total Equity \$000
Parent As at 1 July 2012	25,296	-	(925)	(6,283)	18,088
Profit for the period	-	-	-	1,494	1,494
Other comprehensive income	-	-	559	-	559
Total comprehensive income for the period	-	-	559	1,494	2,053
Transactions with owners in their capacity as owners:					
Shares issued	-	-	-	-	-
Dividends paid	-	-	-	-	-
As at 30 June 2013	25,296	-	(366)	(4,789)	20,141

These financial statements should be read in conjunction with the accompanying notes

NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2015

	Share Capital \$000	Foreign Currency Translation Reserve \$000	Hedge Reserve \$000	Retained Earnings \$000	Total Equity \$000
Consolidated					
As at 1 July 2014	25,296	(461)	69	(6,238)	18,666
Profit/(loss) for the period	-	-	-	5,169	5,169
Other comprehensive loss	-	128	(96)	-	32
Total comprehensive income/(loss) for the period	-	128	(96)	5,169	5,201
Transactions with owners in their capacity as owners:					
Shares issued	-	-	-	-	-
Dividends paid	-	-	-	-	-
As at 30 June 2015	25,296	(333)	(27)	(1,069)	23,867

	Share Capital \$000	Foreign Currency Translation Reserve \$000	Hedge Reserve \$000	Retained Earnings \$000	Total Equity \$000
Consolidated					
As at 1 July 2013	25,296	(183)	(171)	(2,118)	22,824
Profit/(loss) for the period	-	-	-	(1,530)	(1,530)
Other comprehensive loss	-	(278)	240	-	(38)
Total comprehensive income/(loss) for the period	-	(278)	240	(1,530)	(1,568)
Transactions with owners in their capacity as owners:					
Shares issued	-	-	-	-	-
Dividends paid	-	-	-	(2,590)	(2,590)
As at 30 June 2014	25,296	(461)	69	(6,238)	18,666

These financial statements should be read in conjunction with the accompanying notes

5

EY

NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES
Statement of Financial Position
AS AT 30 JUNE 2012

	Note	Consolidated		Parent	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
ASSETS					
Current Assets					
Cash and cash equivalents	7	1,108	5,046	10	9
Trade and other receivables	8	8,374	9,422	159	84
Inventories	9	13,174	9,276	-	-
Biological assets	10	27,979	32,495	-	-
Amount owing by related companies	8	2,520	1,715	17,456	15,622
Derivative financial assets	23	2,268	2,511	-	-
Total Current Assets		55,423	60,465	17,625	15,715
Non-current Assets					
Property, plant and equipment	11	28,806	33,007	-	-
Intangible assets	12	7,193	1,657	-	-
Investments in subsidiaries	13	-	-	93,500	93,500
Goodwill	12	39,255	39,255	-	-
Other investments	14	1	1	-	-
Deferred tax asset	6	-	-	360	-
Derivative financial assets	23	2,868	3,376	8	-
Total Non-current Assets		78,123	77,296	93,868	93,500
TOTAL ASSETS		133,546	137,761	111,493	109,215
LIABILITIES					
Current Liabilities					
Interest-bearing loans and borrowings	15	5,006	26,009	5,000	26,000
Trade and other payables	16	15,068	14,850	20	27
Income tax payable		1	425	-	-
Employee benefits	17	2,288	2,552	-	-
Amount owing to related companies	16	6,264	6,707	6,264	6,707
Derivative financial liabilities	23	669	154	-	-
Total Current Liabilities		29,296	50,697	11,284	32,734
Non-current Liabilities					
Interest-bearing loans and borrowings	15	20,000	6	20,000	-
Employee benefits	17	85	92	-	-
Shareholder loans	22	56,505	50,125	60,828	52,185
Deferred tax liabilities	6	2,695	2,566	-	-
Derivative financial liabilities	23	1,352	2,447	1,293	-
Total Non-current Liabilities		80,637	55,236	82,121	52,185
TOTAL LIABILITIES		109,933	105,933	93,405	84,919
NET ASSETS		23,613	31,828	18,088	24,296
EQUITY					
Equity attributed to equity holders of the company					
Share capital		25,296	24,334	25,296	24,334
Reserves	24	2,249	2,413	(925)	-
Retained earnings/(loss)		(3,932)	5,081	(6,283)	(38)
TOTAL EQUITY		23,613	31,828	18,088	24,296

For and on behalf of the Board, who authorised the issue of these financial statements on 29 October 2012.


Director
29 October 2012


Director
29 October 2012

These financial statements should be read in conjunction with the accompanying notes



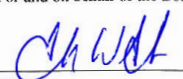
NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES

Statement of Financial Position

AS AT 30 JUNE 2013

	Note	Consolidated		Parent	
		2013 \$000	2012 \$000	2013 \$000	2012 \$000
ASSETS					
Current Assets					
Cash and cash equivalents	8	1,962	1,108	5	10
Trade and other receivables	9	9,151	8,374	134	160
Inventories	10	9,572	13,174	-	-
Biological assets	11	26,749	24,508	-	-
Amount owing by related companies	9	2,445	2,520	14,450	17,455
Derivative financial assets	24	3,824	2,268	5	-
Total Current Assets		53,703	51,952	14,594	17,625
Non-current Assets					
Property, plant and equipment	12	30,011	28,807	-	-
Intangible assets	13	6,063	7,192	-	-
Investments in subsidiaries	14	-	-	93,500	93,500
Goodwill	13	39,255	39,255	-	-
Other investments	15	1	1	-	-
Deferred tax asset	7	848	855	142	360
Derivative financial assets	24	6,691	2,868	418	8
Total Non-current Assets		82,869	78,978	94,060	93,868
TOTAL ASSETS		136,572	130,930	108,654	111,493
LIABILITIES					
Current Liabilities					
Interest-bearing loans and borrowings	16	10	5,006	-	5,000
Trade and other payables	17	14,930	15,067	20	20
Income tax payable		(2)	1	-	-
Employee benefits	18	2,144	2,288	-	-
Amount owing to related companies	17	-	6,264	-	6,264
Shareholder loans	23	62,886	-	67,561	-
Derivative financial liabilities	24	3,781	669	144	-
Total Current Liabilities		83,749	29,295	67,725	11,284
Non-current Liabilities					
Interest-bearing loans and borrowings	16	20,000	20,000	20,000	20,000
Employee benefits	18	108	85	-	-
Shareholder loans	23	-	56,505	-	60,828
Deferred tax liabilities	7	2,916	3,550	-	-
Derivative financial liabilities	24	6,975	1,352	788	1,293
Total Non-current Liabilities		29,999	81,492	20,788	82,121
TOTAL LIABILITIES		113,748	110,787	88,513	93,405
NET ASSETS		22,824	20,143	20,141	18,088
EQUITY					
Equity attributed to equity holders of the company					
Share capital		25,296	25,296	25,296	25,296
Reserves	25	(354)	2,249	(366)	(925)
Retained earnings/(loss)		(2,118)	(7,402)	(4,789)	(6,283)
TOTAL EQUITY		22,824	20,143	20,141	18,088

For and on behalf of the Board, who authorised the issue of these financial statements on 13 November 2013


 Director
 13 November 2013


 Director
 13 November 2013

These financial statements should be read in conjunction with the accompanying notes

6

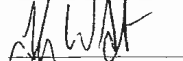
NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES

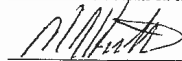
Statement of Financial Position

AS AT 30 JUNE 2014

	Note	Consolidated		Parent	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
ASSETS					
Current Assets					
Cash and cash equivalents	8	1,561	1,962	4	5
Trade and other receivables	9	8,514	9,151	95	134
Inventories	10	8,625	9,572	-	-
Biological assets	11	29,251	26,749	-	-
Amount owing by related companies	9	2,672	2,445	20,381	14,450
Derivative financial assets	24	2,688	3,824	5	5
Total Current Assets		53,311	53,703	20,485	14,594
Non-current Assets					
Property, plant and equipment	12	29,940	30,011	-	-
Intangible assets	13	5,208	6,063	-	-
Investments in subsidiaries	14	-	-	93,500	93,500
Goodwill	13	39,255	39,255	-	-
Other investments	15	1	1	-	-
Deferred tax asset	7	526	848	-	142
Derivative financial assets	24	1,440	6,691	521	418
Total Non-current Assets		76,370	82,869	94,021	94,060
TOTAL ASSETS		129,681	136,572	114,506	108,654
LIABILITIES					
Current Liabilities					
Interest-bearing loans and borrowings	16	20,044	10	20,000	-
Trade and other payables	17	15,437	14,930	26	20
Income tax payable		-	(2)	-	-
Employee benefits	18	2,024	2,144	-	-
Amount owing to related companies	17	1,263	-	1,263	-
Shareholder loans	23	14,982	62,886	15,560	67,561
Derivative financial liabilities	24	2,844	3,781	18	144
Total Current Liabilities		56,594	83,749	36,867	67,725
Non-current Liabilities					
Interest-bearing loans and borrowings	16	-	20,000	-	20,000
Employee benefits	18	86	108	-	-
Shareholder loans	23	50,126	-	54,247	-
Deferred tax liabilities	7	3,018	2,916	11	-
Derivative financial liabilities	24	1,191	6,975	469	788
Total Non-current Liabilities		54,421	29,999	54,727	20,788
TOTAL LIABILITIES		111,015	113,748	91,594	88,513
NET ASSETS		18,666	22,824	22,912	20,141
EQUITY					
Equity attributed to equity holders of the company					
Share capital		25,296	25,296	25,296	25,296
Reserves	25	(392)	(354)	29	(366)
Accumulated loss		(6,238)	(2,118)	(2,413)	(4,789)
TOTAL EQUITY		18,666	22,824	22,912	20,141

For and on behalf of the Board, who authorised the issue of these financial statements on 12 November 2014


Director
12 November 2014


Director
12 November 2014

These financial statements should be read in conjunction with the accompanying notes

NEW ZEALAND KING SALMON INVESTMENTS LIMITED AND SUBSIDIARIES

Statement of Financial Position

AS AT 30 JUNE 2015

	Note	Consolidated	
		2015 \$000	2014 \$000
ASSETS			
Current Assets			
Cash and cash equivalents	8	5,522	1,561
Trade and other receivables	9	8,667	8,514
Inventories	10	10,868	8,625
Biological assets	11	30,272	29,251
Amount owing by related companies	9	2,290	2,672
Derivative financial assets	23	2,105	2,688
Total Current Assets		59,724	53,311
Non-current Assets			
Property, plant and equipment	12	30,708	29,940
Intangible assets	13	4,772	5,208
Goodwill	13	39,255	39,255
Other investments	14	1	1
Deferred tax asset	7	573	526
Derivative financial assets	23	2,960	1,440
Total Non-current Assets		78,269	76,370
TOTAL ASSETS		137,993	129,681
LIABILITIES			
Current Liabilities			
Interest-bearing loans and borrowings	15	20,382	20,044
Trade and other payables	16	14,744	15,437
Income tax payable		7	-
Employee benefits	17	1,733	2,024
Amount owing to related companies	16	-	1,263
Shareholder loans	22	18,465	14,982
Derivative financial liabilities	23	2,169	2,844
Total Current Liabilities		57,500	56,594
Non-current Liabilities			
Interest-bearing loans and borrowings	15	218	-
Employee benefits	17	399	86
Shareholder loans	22	50,126	50,126
Deferred tax liabilities	7	2,946	3,018
Derivative financial liabilities	23	2,937	1,191
Total Non-current Liabilities		56,626	54,421
TOTAL LIABILITIES		114,126	111,015
NET ASSETS		23,867	18,666
EQUITY			
Equity attributed to equity holders of the company			
Share capital		25,296	25,296
Reserves	24	(360)	(392)
Accumulated loss		(1,069)	(6,238)
TOTAL EQUITY		23,867	18,666

For and on behalf of the Board, who authorised the issue of these financial statements on 6 October 2015

Director
6 October 2015

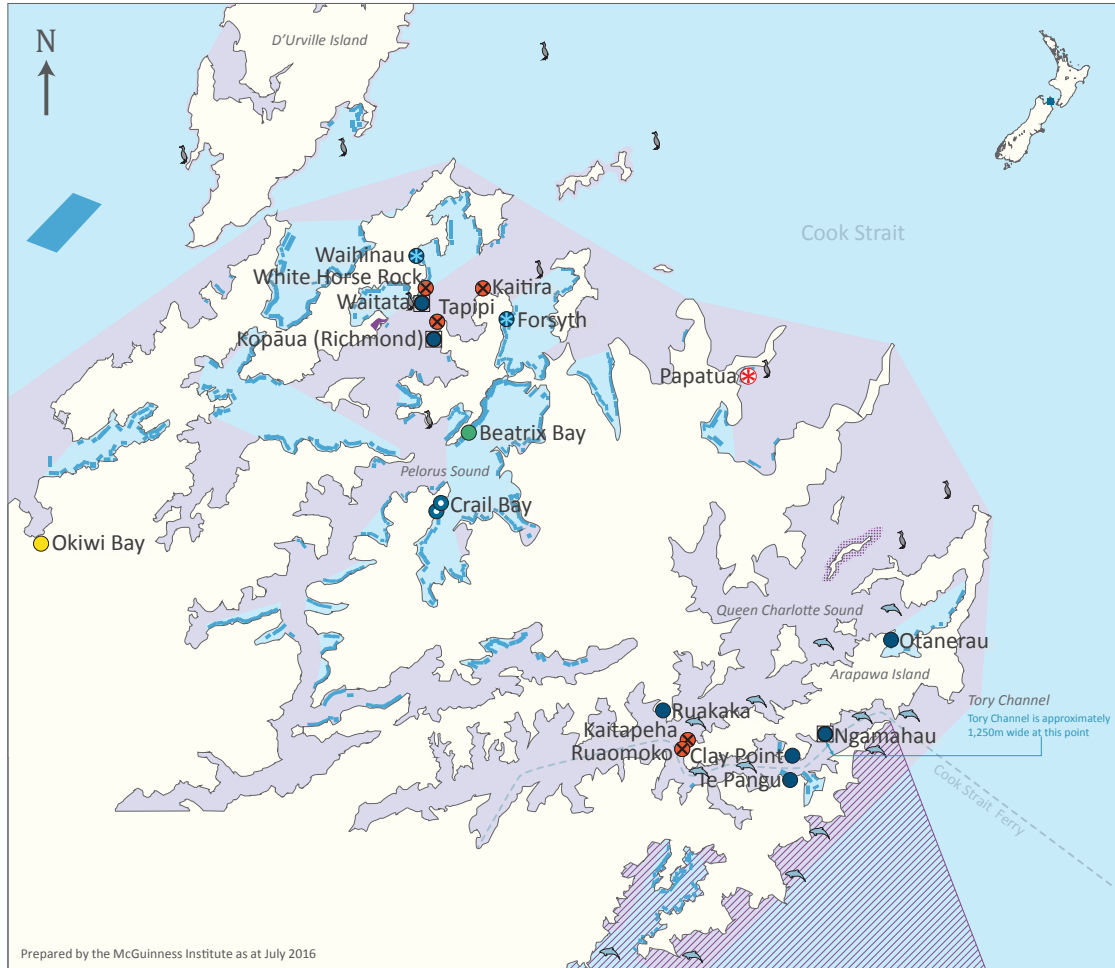
Director
6 October 2015

These financial statements should be read in conjunction with the accompanying notes

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Appendix 9: Map of Salmon Farms in Pelorus Sound, Queen Charlotte Sound and the Tory Channel



1. Salmon Farm Key

- An existing NZKS salmon farm in operation
- An existing NZKS salmon farm that is followed
- An existing NZKS salmon farm not in operation
- NZKS purchased the two Craill Bay farms from Pacifica in order to purchase their salmon. NZKS have told the Board of Inquiry in 2012 that both farms are uneconomic and will not be operated except for research in the future.
- A proposed NZKS salmon farm that was declined
- Declined as a result of the February 2013 Board of Inquiry.
- Declined as a result of the 17 April 2014 Supreme Court ruling.
- A consented finfish farm exists in Beatrix Bay. It is owned by Ngāi Tahu Seafoods Ltd, but is not in operation.
- Skretting Limited Finfish Research Facility (Permit U160029) This consent expires 26 January 2034.

2. Marine Zones, Reserves and Sanctuaries Key

- Coastal Marine Zone 1 (CMZ1)
New aquaculture activity is prohibited.
- Coastal Marine Zone 2 (CMZ2)
Aquaculture activity is permitted once consent is granted by the Marlborough District Council.
- Coastal Marine Zone 3 (CMZ3)
A special zone that is created to allow for a non-complying activity. The Marlborough District Council can grant a coastal permit if the non-complying activity meets specific requirements set by the Council. See the 2013 BOI decision.
- Kokomahua (Long Island) Marine Reserve
- Marine Mammal Sanctuary
- Tui Nature Reserve

3. Marine and Birdlife Key

- **Granted Marine Farms**
A *marine farm* includes resource consents approved and still current under (i) the Marine Farming Act 1971 and (ii) the Resource Management Act 1991 (RMA) [which replaced the Marine Farming Act 1971]. 'Marine farm' is defined by MDC as 'any form of aquaculture characterised by the use of surface and/or sub-surface structures located in the coastal marine area.' Consent applications for granted marine farms will outline the species able to be farmed at the site. Most marine farms have consent for more than one species. For example, it is relatively common for a marine farm to be granted consent to farm mussels, oysters and seaweed, enabling owners to change water use from one to another without a new consent process. Currently, no marine farms, other than those identified above, have consent to farm salmon. This means that if NZKS, or any other party, wishes to farm salmon in the Marlborough Sounds they must apply for a resource consent. If a consent holder wants to change to a new species and/or change the structure outside the previous consent, they must apply for a new consent. However, if a site is sold, the coastal permit can be transferred to the new owner without a new consent process.
- 3. **Marine and Birdlife Key**
There is no regionally based system to identify all threatened marine and birdlife in the Marlborough Sounds. There are in effect two systems, one reflecting the situation at the national level and the other at the global level. The Department of Conservation operates a 'New Zealand Threat Classification System', which classifies taxa into *extinct*, *threatened* (nationally critically, nationally endangered, and nationally vulnerable), *at risk* (declining, recovering, relict and naturally uncommon) and *non-threatened* native biota. In contrast, an 'IUCN Red List of Threatened Species' uses a continuum: *extinct*, *extinct in the wild*, *critically endangered*, *endangered*, *vulnerable*, *near threatened*, *least concern* and *data deficient*. The two systems have different numerical thresholds and criteria and may classify the same species

differently because of differences in scale; hence they should be seen as complementing each other rather than conflicting. For example, the king shag is reported as *nationally endangered* in New Zealand but *vulnerable* on the IUCN Red List. In contrast, the Hector's dolphin is considered *nationally endangered* in New Zealand and *endangered* on the IUCN Red List. Other species found in the Sounds that are known to be classified include the orca (NZ: *nationally critical*; IUCN: *data deficient*), southern right whale (NZ: *nationally endangered*; IUCN: *least concern*) and bottlenose dolphin (NZ: *nationally endangered*; IUCN: *least concern*). DOC notes that any human-induced mortality of *nationally critical* or *endangered* species must be considered with a high degree of concern.

Hector's Dolphin

Hector's dolphins are endemic to New Zealand; they are one of the smallest cetaceans, and New Zealand's only endemic cetacean. There is a pod of Hector's dolphins, about 20–30 in number, that reside in Cloudy Bay (off the coast near Blenheim). During the summer months this pod travels through the Tory Channel and is often sighted by staff at Dolphin Watch Ecotours in the bays around Arapawa Island. Their natural predators are sharks, but DOC notes on its website that other 'potential threats to their survival include trawling, marine pollution, disease and impacts of tourism and aquaculture'. All dolphins are protected under the Memorandum of Understanding for the Conservation of Cetaceans and Their Habitats in the Pacific Islands Region.

King Shag Roosting Site

The New Zealand king shag is endemic to the Marlborough Sounds. There is considerable uncertainty as to their actual ecology due to the remote nature of their breeding locations and the high sensitivity of birds to disturbance. The species is strictly marine, with all foraging occurring in the Sounds area. There is at least one known king shag roosting site north of this map, and therefore not shown.

Existing NZKS Coastal Permits							
Expiry Date ¹	Coastal Permit (CP#) ¹	Farm Site Name	General Location	Average water current speeds/ flows/ velocity (cm/s)(CI#) ¹	Consented Area (Occupancy) (ha) ¹	Maximum Feed Discharge Approved (mt pa) ¹	Status as at May 2017
7 May 2021	U021247	● Ruakaka	Inner Queen Charlotte	3.7 CI#2960	11.300	4000	In operation CI# p. 3 ¹
31 Dec 2024	U040412	✳ Forsyth	Outer Pelorus	3 CI#2958	6.000	4000	Failed in 2001* CP# p. 6 ¹
31 Dec 2024	U000956 (MFL456)	✳ Waihinau	Outer Pelorus	8.4 CI#2957	8.000	3000	Failed (approximately November 2015)* CI# p. 3 ¹
31 December 2024	U040217	● Otanerau	Outer Queen Charlotte	6 CI#2961	10.800	4000	In operation CI# p. 3 ¹
1 Dec 2036	U160675 (Replaced U060926 in Nov 2016)	● Clay Point	Tory Channel	19.6 CI#2784	19.644	4500	In operation CI# p. 3 ¹
31 Dec 2024	U090634 (MFL032)	● Crail Bay	Central Pelorus	2.5-3 CI#2470	7.790	1440	Not stocked since purchased by NZKS in 2011 ³ , non-operational, p. 5 ²
31 Dec 2024	U090660 (MFL048)	● Crail Bay	Central Pelorus	2.5-3 CI#2471	4.500	1770	Not stocked since purchased by NZKS in 2011 ³ , non-operational, p. 5 ²
1 Feb 2036	U150081	● Te Pangu	Tory Channel	15 CI#2809	21.092	6000	In operation CI# p. 3 ¹
11 Dec 2049	U140294 Application approved in 2013, p. 122	● Waitata	Outer Pelorus	not available	24.000	6000	Operational ⁵
11 Dec 2049	U140295 Application approved in 2013, p. 122	● Kopāua (Richmond)	Outer Pelorus	not available	10.000	4000	Operational ⁵
11 Dec 2049	U140296 Application approved in 2013, p. 122	● Ngamahau	Tory Channel	22 CI#2808	12.000	4000	Operational ⁵
Total					135.126	42710	

Note

*NZKS has indicated that they plan to use Waihinau and Forsyth as seasonal smolt sites from April 2017.⁴

Sources

- 1 Marlborough District Council, *Marlborough District Council Property Files* retrieved from www.marlborough.govt.nz/MDC/Home/Services/Property%20File%20Search.aspx. (Please note CP# refers to Coastal Permits and CI# refers to Cawthron Institute Reports.)
- 2 Ministry for Primary Industries, *Potential relocation of salmon farms in the Marlborough Sounds* retrieved from www.mpi.govt.nz/document-vault/16162.
- 3 Andrew Clark, *Personal communication*, 8 May 2017.
- 4 PricewaterhouseCooper, *Marlborough Salmon Relocation – Economic Impact Assessment* retrieved from www.mpi.govt.nz/document-vault/16051.
- 5 New Zealand King Salmon, *New Marlborough salmon farms come on stream* [media release] retrieved from www.kingsalmon.co.nz/news/new-marlborough-salmon-farms-come-on-stream/.

Overview

The Marlborough District Council and the Ministry for Primary Industries have established a Marlborough Salmon Working Group to consider options to implement the *Best Management Practice Guidelines for Salmon Farming in the Marlborough Sounds* (the guidelines).

These guidelines were developed by local and central government, industry and scientists in 2014 to set out recommendations for sustainable salmon farming in the Sounds. It is also important to acknowledge that while implementing the guidelines, wider issues need to be considered such as water column, landscape, navigation, amenity and cultural values, and the New Zealand Coastal Policy Statement.

The working group will be involved in the next step, which is to look at options to implement the guidelines so that the best environmental, social and economic outcomes are being realised.

The working group will begin meeting in July and provide recommendations to the Marlborough District Council and central government on implementing the guidelines.

Marlborough Salmon Working Group

Role

The role of the Marlborough Salmon Working Group (MSWG) is to provide recommendations to implement the guidelines.

The aims of the MSWG are:

- to consider options for existing salmon farms in Marlborough to adopt the guidelines; and
- to ensure the enduring sustainability of salmon farming in Marlborough, including environmental outcomes and landscape, amenity, social and cultural values.

While non-binding, the recommendations will inform the future planning work on salmon farming in Marlborough. The group will not replace statutory consultation processes required to establish any potential new salmon aquaculture space under the Resource Management Act 1991.

Meetings

The MSWG will meet in Blenheim on the following dates:

- 14 July
- 21 July
- 10 August
- 31 August

Additional subsequent meetings will be organised.

An agenda and meeting venue details will be sent to members before each meeting.

Membership

The MSWG group consists of individuals who bring a wide range of skills, knowledge and experience to the table on a number of different dimensions. These include knowledge of various iwi and stakeholders' perspectives with an interest in the marine environment of the Marlborough Sounds.

93 Marlborough Salmon Working Group. (2016). *Terms of Reference*. Retrieved from www.mpi.govt.nz/document-vault/16489.

The group will receive and provide information, discuss and debate issues to provide recommendations.

Members will work towards a shared understanding of the issues to implement the guidelines on salmon farming in Marlborough and identify solutions to these issues. This does not mean that members necessarily agree about the issues and solutions, but that they understand each other's positions well enough to have constructive discussions and exercise their collective thinking to identify unbiased, best practicable solutions.

The MSWG consists of the following members:

Ministry for Primary Industries	Ben Dalton (Convenor) & Luke Southorn
Marlborough District Council	Pere Hawes
Department of Conservation	Jeff Flavell
Te Tau Ihu iwi	Richard Bradley & Richard Paine
Aquaculture New Zealand	Gary Hooper
Marine Farming Association	Graeme Coates
New Zealand King Salmon	Mark Gillard
Guardians of the Sounds	Paul Keating
Sounds Advisory Group	Eric Jorgensen, Rob Schuckard & Judy Hellstrom
Kenepuru & Central Sounds Residents Association	Ross Withell & Hanneke Kroon
Environmental Defence Society	Raewyn Peart

The working group includes representation from local and central government, key community and interest groups, iwi, and the aquaculture industry.

No substitution of members is permitted for occasions when a member is unable to attend a meeting, unless under exceptional circumstances.

Agency representatives (including technical sub-group as needed) will attend meetings to provide secretariat, technical and expertise assistance and input.

Independent Facilitator

The MSWG will be assisted by the appointment of an Independent Facilitator.

The Independent Facilitator to the MSWG is Ron Crosby, Consultant. The role of the Independent Facilitator is to provide direction to the MSWG and encourage constructive and well informed discussion by all members.

The Independent Facilitator will be independent of the process and not take a particular position on the topic being discussed. Independent Facilitator will be independent from the funding agencies,

and from any interest, business, or other relationship that could interfere with independent judgement.

The Independent Facilitator acknowledges and ensures that all information used as part of the process is kept confidential and not to be shared with any other party.

Marlborough Salmon Working Group Members

Responsibilities

The MSWG will be committed to consider all options to implement the guidelines in a timely, open, and fair process. Members will be dedicated to an examination of available information thoughtful dialogue, and carefully crafted advice to provide the Marlborough District Council and central government with recommendations. In particular, members should:

- openly share relevant information, thoughts and ideas with other members
- work to identify appropriate options and openly discuss and evaluate those options
- acknowledge and accept that the process by necessity has budget, resourcing, and time constraints, and to work to the best of their ability within those constraints.

Confidentiality of information

Members acknowledge and ensure that all information used as part of the process is kept confidential and not to be shared with any other party.

The process for members who have obligations to report back to their constituent organisations will be discussed at the first meeting.

Media Contact

No MSWG member shall speak on behalf of the MSWG other than Ben Dalton, Convenor.

All media requests are to be directed to Ben Dalton.

Resourcing

Information, advice and support will be given to the MSWG to ensure it is well informed and supported in its role. Administrative support will be provided to book meeting rooms and take notes.

All reasonable travel costs and disbursements to members to attend meeting will be met by MPI and MDC.

Appendix 11: Marlborough Express articles on NZKS response to McGuinness Institute working paper – original (31 July 2016) and amended (8 August 2016)⁹⁴

8/1/2016 McGuinness Institute report attacks King Salmon financial position | Stuff.co.nz

stuff

McGuinness Institute report attacks King Salmon financial position

ELENA MCPHEE
Last updated 16:05, July 31 2016

DEREK FLYNN/FAIRFAX NZ

New Zealand King Salmon's Kopaua farm in the Marlborough Sounds.

A research institute has raised concerns about New Zealand King Salmon's economic benefits in a critical report.

The McGuinness Institute, described as an independent research institute, released a case study of King Salmon's financial position on Friday.

However, King Salmon described the report as premature and "pointless".

The report was written by institute founder and chief executive Wendy McGuinness, a chartered accountant who owns a bach in the Marlborough Sounds.

READ MORE:

- * [New Zealand King Salmon opens two new salmon farms in the Marlborough Sounds](#)
- * [New salmon farms in the Marlborough Sounds nearly ready](#)
- * [High quality Marlborough salmon sought after by Japanese consumers](#)

The report said the institute was using King Salmon as a case study for the public disclosure of information, to illustrate an information gap between what was provided to the public and what was required.

It included analysis of King Salmon's feed content, rising water temperatures, employment and financial information, concluding King Salmon was vulnerable to financial and environmental shocks.

"[The] government should re-evaluate the level of support it contributes to NZKS," the report said.

McGuinness said the report relied only on information available from the public domain.

The McGuinness Institute was funded by the McGuinness Foundation Trust, a trust set up by McGuinness and her husband, a Wellington property developer.

[Ad Feedback](#)

"The institute queries whether the New Zealand government should re-evaluate the level of support it contributes to NZKS based on our view that this business might be unable to deliver sustainable outcomes over the long term."

Although King Salmon reported a profit of more than \$5 million in 2015, this depended on one-off items and a decision to suspend interest on shareholder loans, the report said.

"NZKS's 2015 profit could have moved closer to a reported loss in 2015."

New Zealand King Salmon chief executive Grant Rosewarne said the McGuinness report was "pointless" and was trying to assess benefits far too early, since the salmon harvest was still taking place.

The company's 2016 financial report would confirm the strong profitability of the business, Rosewarne said.

"The McGuinness institute report appears to be an esoteric exercise trying to determine the economic benefits of new salmon farms before they [have] entered production."

Two salmon farms operated by King Salmon were opened in the Marlborough Sounds earlier this month.

"I don't think readers will understand the point of the report," Rosewarne said.

"What I do think they'll understand is that we recently opened a new farm called Waitata which, in full production, will only be one-and-a-half surface hectares but will generate \$60 million in annual revenue and employ 75 people."

The number of staff employed by King Salmon had dropped to 380 or 390 people, but this year that increased to 440, Rosewarne said.

He did not deny King Salmon had **four** "difficult" years but **each year a profit had been made**, and the company was coming out of that phase now.

The report made recommendations to central and local government as to how to handle Resource Management Act applications from King Salmon and other companies in the future.

Companies reporting information such as jobs and export earnings as a condition of resource consent were suggested.

The report recommended King Salmon produce an annual report including "non-financial information, such as how its operations impact the public estate".

McGuinness said the report was part of the institute's *Project 2058: One Ocean* which aimed to explore New Zealand's public policy landscape around ocean management, and to create transparency.

"We believe that an informed society is the best kind of society," she said.

McGuinness said she had always been open about her Marlborough Sounds property.

* [The full McGuinness report can be read here](#)

- [The Marlborough Express](#)

94 McPhee, E. (2016). McGuinness Institute report attacks King Salmon financial position. First retrieved 31 July 2016, then retrieved 8 August 2016 from www.stuff.co.nz/business/farming/aquaculture/82560364/mcguinness-institute-report-attacks-king-salmon-financial-position.

McGuinness Institute report attacks King Salmon financial position

DEREK FLYNN/FAIRFAX NZ

New Zealand King Salmon's Kopaua farm in the Marlborough Sounds.

A research institute has raised concerns about New Zealand King Salmon's economic benefits in a critical report.

The McGuinness Institute, described as an independent research institute, released a case study of King Salmon's financial position on Friday.

However, King Salmon described the report as premature and "pointless".

The report was written by institute founder and chief executive Wendy McGuinness, a chartered accountant who owns a bach in the Marlborough Sounds.

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[* New Zealand King Salmon opens two new salmon farms in the Marlborough Sounds](#)

[* New salmon farms in the Marlborough Sounds nearly ready](#)

[* High quality Marlborough salmon sought after by Japanese consumers](#)

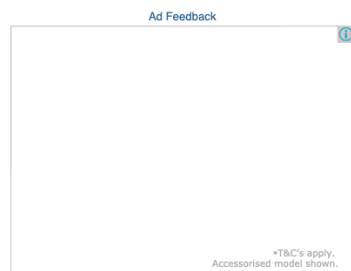
The report said the institute was using King Salmon as a case study for the public disclosure of information, to illustrate an information gap between what was provided to the public and what was required.

It included analysis of King Salmon's feed content, rising water temperatures, employment and financial information, concluding King Salmon was vulnerable to financial and environmental shocks.

"[The] government should re-evaluate the level of support it contributes to NZKS," the report said.

McGuinness said the report relied only on information available from the public domain.

The McGuinness Institute was funded by the McGuinness Foundation Trust, a trust set up by McGuinness and her husband, a Wellington property developer.



"The institute queries whether the New Zealand government should re-evaluate the level of support it contributes to NZKS based on our view that this business might be unable to deliver sustainable outcomes over the long term."

Although King Salmon reported a profit of more than \$5 million in 2015, this depended on one-off items and a decision to suspend interest on shareholder loans, the report said.

"NZKS's 2015 profit could have moved closer to a reported loss in 2015."

New Zealand King Salmon chief executive Grant Rosewarne said the McGuinness report was "pointless" and was trying to assess benefits far too early, since the salmon harvest was still taking place.

The company's 2016 financial report would confirm the strong profitability of the business,

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economic benefits of new salmon farms before they [have] entered production."

Two salmon farms operated by King Salmon were opened in the Marlborough Sounds earlier this month.

"I don't think readers will understand the point of the report," Rosewarne said.

"What I do think they'll understand is that we recently opened a new farm called Waitata which, in full production, will only be one-and-a-half surface hectares but will generate \$60 million in annual revenue and employ 75 people."

The number of staff employed by King Salmon had dropped to 380 or 390 people, but this year that increased to 440, Rosewarne said.

He did not deny King Salmon had four "difficult" years but each year a profit had been made, and the company was coming out of that phase now.

Information from the Companies Office showed a loss for King Salmon in 2012 and 2014 of more than \$9m and \$1.5m respectively.

however, the operating loss was due to abnormal events and King Salmon still had an underlying profitability, Rosewarne said.

The report made recommendations to central and local government as to how to handle Resource Management Act applications from King Salmon and other companies in the future.

Companies reporting information such as jobs and export earnings as a condition of resource consent were suggested.

The report recommended King Salmon produce an annual report including "non-financial information, such as how its operations impact the public estate".

McGuinness said the report was part of the institute's *Project 2058: One Ocean* which aimed to explore New Zealand's public policy landscape around ocean management, and to create transparency.

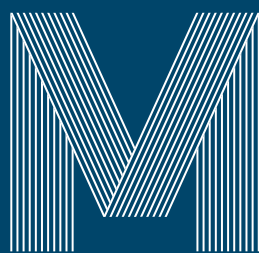
"We believe that an informed society is the best kind of society," she said.

McGuinness said she had always been open about her Marlborough Sounds property.

* The full McGuinness report can be read [here](#)

* An earlier version of the article had incorrect figures from the Companies Office for King Salmon's loss in 2012 and 2014. These figures have been amended.

- The Marlborough Express



MCGUINNESS INSTITUTE
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