



DUNEDIN CITY HOLDINGS LIMITED

Annual Report 2016



DUNEDIN CITY HOLDINGS LIMITED

What We Do

Dunedin City Holdings Limited is an investment company and its purpose is to provide a steady flow of payments to its shareholder, the Dunedin City Council. In recent years, this has meant cash payments to Dunedin Venues Limited in addition to direct payments to the Council.

Dunedin City Holdings Limited as the parent company of the Group has a primary role to provide leadership and oversight of its subsidiary and associated companies on behalf of the ultimate shareholder, the Dunedin City Council.

The subsidiaries and associate companies within the Group are as follows:

- Aurora Energy Limited
- City Forests Limited
- Dunedin City Treasury Limited
- Delta Utility Services Limited
- Taieri Gorge Railway Limited
- Dunedin Venues Management Limited
- Dunedin Venues Limited
- Dunedin International Airport Limited

The role of the company involves continual reviews of subsidiary companies' financial and non-financial performance against the performance measures as outlined in their respective Statements of Intent. Particular attention is given to cash generation performance. It also includes the assessment of any major business case brought forward by the subsidiaries. In carrying out these reviews, the board will assess the risks of the activities undertaken by its subsidiaries in the light of the financial sustainability needs of the Dunedin City Council.

Where there is a conflict between maximising the return on investment in each subsidiary and the level of free cash flow required to meet the shareholder's objectives, the latter will prevail while ensuring that the Company/Group remains operationally secure.

Our strategy, of adding value to our existing businesses and ensuring that the subsidiary companies receive the synergistic advantages available from being part of a Group of companies is unchanged. The strongest companies in our portfolio will receive support to develop in the areas where they have the greatest competitive advantage. The current focus on cash generation will continue.

As a holding company, Dunedin City Holdings Limited is the manager of a portfolio of corporate investments. If it is to maximise benefit to its shareholder, the Dunedin City Council, it may wish from time to time to rebalance the composition of its portfolio by purchases or sales in response to, or in anticipation of, ongoing changes in the marketplace.

In recent years, the high level of distributions to support the capital expenditure of the Dunedin City Council has meant that Shareholder's Funds could not grow. However with lower levels of distribution now agreed, the board will endeavour to ensure that dividend payments will no longer be funded through debt and Shareholder's Funds should increase once more.

Our Challenge

Our challenge is to maintain investment in our businesses without interrupting the longer-term strength in our cash flows.



DUNEDIN CITY HOLDINGS LIMITED

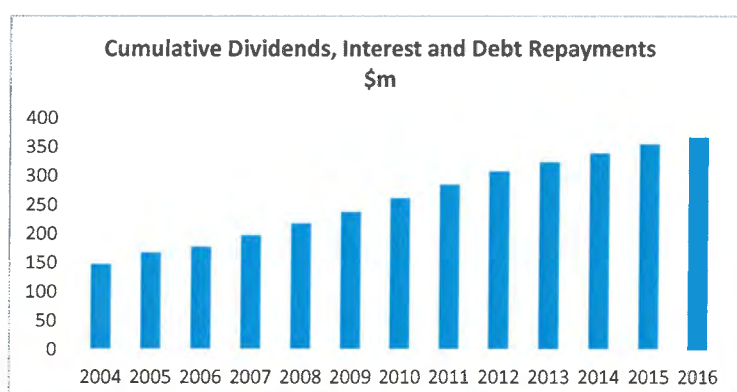
Our Performance

Our job is to oversee the commercial investments of the Dunedin City Council to maximise returns. To do this we must earn enough to:

- pay cash to the Council regularly in the form of dividends and interest;
- maintain an adequate level of shareholders funds; and
- generate cash for reinvestment

We have:

Paid cash to the council since the Company was formed in 1993

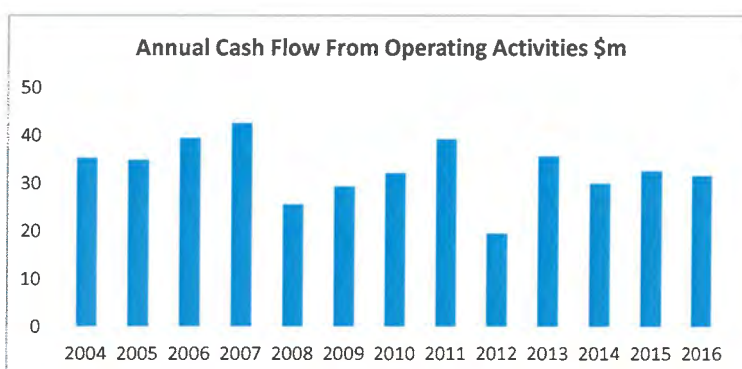


Maintained an adequate level of Shareholders Funds

The capital injection from the DCC at 30 June 2016 for the purchase of Dunedin Venues Limited and Dunedin Venues Management Limited has resulted in a significant increase in shareholders funds in 2015/16



Over the long-term, created cash for Dividend and Reinvestment





DUNEDIN CITY HOLDINGS LIMITED

Our Mission

Dunedin City Holdings Limited will create an environment and provide the leadership to optimise the performance of its Subsidiary and Associated Companies so as to ensure each Company provides the maximum advantages in all respects to the ultimate shareholder, the Dunedin City Council.

2016 Highlights

- | We have returned the Group a before tax profit of \$30.16 million
- | Overall cash flows have increased by \$1.46 million compared to the previous year
- | We have reduced debt by \$16.81 million during the year
- | We have made distributions to the Dunedin City Council and Dunedin Venues Limited of \$11.15 million
- | Dunedin Venues Management Limited and Dunedin Venues Limited were brought into the Group at the end of June 2016
- | Aurora Energy Limited continues to undertake significant capital work on its network
- | Delta Utility Services Limited continues to provide healthy surpluses to the Group
- | City Forests Limited surplus increased by \$9 million from the previous year
- | Taieri Gorge Limited continues to provide surpluses on the back of a tourism growth in the region
- | Dunedin International Airport was able to increase its dividend to Dunedin City Holdings Limited



DUNEDIN CITY HOLDINGS LIMITED

Chair's Review

I am pleased to report on another successful year for the Group ending 30 June 2016. The Group has returned a pleasing increase in net surplus for the year of \$20.3 million, an increase of 57% from a \$12.9 million surplus in 2014/15.

The overall borrowings of the Group continue to decline being \$581 million at the end of the 2016 financial year compared to \$598 million at the end of the previous financial year. What makes the decrease in debt levels more pleasing is that the drop in debt continues to occur in a period of capital reinvestment within the Group. Strong cash flow management within the Group and Council as a whole significantly assists in keeping our borrowing portfolio to a minimum.

As foreshadowed in our Statement of Intent, the level of distribution to Council reduced from \$15.7 million last year to \$11.2 million this financial year. With the subsidiaries, Aurora Energy Limited in particular, embarking on a substantial reinvestment program we have been working to balance funding for this between self-generated surplus and external debt. This focus led to the reduced dividend paid to Council.

The end of the 2015/16 year saw the introduction of Dunedin Venues Limited and Dunedin Venues Management Limited into the Group bringing together all Council owned subsidiaries under the Dunedin City Holdings umbrella.

We were very pleased with the performance of all the companies in the Group.

Aurora Energy Limited has met the growing demand for its services and continues in its undertaking of capital work by reinvesting in its infrastructure assets through replacement and improvements.

Delta Utility Services Limited continues to experience an increase in demand for its services through both a growth in its environmental business and services provided to Aurora Energy Limited.

City Forests Limited's surplus for the year increased substantially from that recorded in last year. A before tax net surplus of \$22.3 million was generated compared to \$9.7 million the year before. The increase in surplus is attributed to both favourable market conditions, most notably domestic demand, but also a substantial revaluation of forestry assets. This led to an increase in the dividend paid on that budgeted.

Dunedin City Treasury Limited has completed the implementation of the Group's new treasury policy and maintained its Standard and Poor's AA long term credit rating and its A1+ short term rating during the year.

Taieri Gorge Railway Limited continues to generate a small surplus reflecting the continuation of the positive change in the tourism market.

Dunedin International Airport Limited achieved a surplus of \$2.0 million in 2015/16 compared to a surplus of \$1.7 million in 2014/15. This allowed a dividend paid to Dunedin City Holdings Limited of \$704,000 compared to \$640,000 dividend the year before.

The outlook for the Group continues to be positive.

I would like to thank the management, staff and directors of all the companies in the Group for their invaluable contributions and energy shown in the 2016 financial year.

Graham W Crombie, Chair



DUNEDIN CITY HOLDINGS LIMITED

Directors' Report

Results for the Year Ended 30 June 2016

	Group \$'000
Revenue	270,625
Profit before tax	30,160
Income Tax	9,851
Net Profit for the year	20,309

State of Affairs

The after tax net surplus for the Group has increased from that reported in the previous financial year. Net surplus after tax for 2015/16 was \$20.3 million compared to \$12.9 million in the previous year.

Healthy increases in revenue for all companies within the Group along with an increase in the forestry valuation, have seen an increase in operating revenue from \$219 million to \$235 million.

The balance sheet of the Group remains strong.

At 30 June 2016 the Group acquired the ownership of Dunedin Venues Management Limited and Dunedin Venues Limited.

The Group continues to maintain healthy cash flows. Significant opening cash reserves along with an increase in operating cash flows were utilised to repay down debt and partly fund Aurora Energy Limited's capital programme.

Parent Company

Dunedin City Holdings Limited, as the parent company of the Group, made a net surplus of \$4.2 million, compared to \$4.5 million the previous year.

The Company received an overall stable level of dividends from the subsidiary companies which resulted in overall consistent revenue levels to the previous year.

Parent Company Payments to the Dunedin City Council

The Statement of Intent provided for a \$11.2 million distribution of funds to the Dunedin City Council, made up of interest payments on the shareholders' advance, subvention payments to Dunedin Venues Limited and dividends to the Dunedin City Council.

The final distribution was made up as follows:

	\$'000
Interest payments from Dunedin City Holdings Limited on shareholders' advance	5,902
Net tax subvention payment from Aurora Energy Limited to Dunedin Venues Limited	5,250

Total cash distribution to the Dunedin City Council and Dunedin City Council CCTOs outside the Dunedin City Holdings Limited Group from Dunedin City Holdings Limited and subsidiaries

11,152

Review of Operations

Parent Company

The parent company continues to work closely with all its subsidiary companies. It has assisted in undertaking operational reviews of certain activities within the Group, participated in the resolution of commercial issues, and provided strategic guidance, the benefits of which we are confident will be evident in ensuing years.

Subsidiary Companies

Detailed comments on the performance of all subsidiaries is contained later in this report.

Dunedin International Airport Limited (Associate)

Dunedin International Airport Limited achieved an operating surplus of \$2.0 million for the year, consistent with its result of \$1.7 million for the previous financial year. Both revenue and expenditure levels were consistent with the result achieved in the previous financial year resulting in the similar surplus level.

The Company was able to increase its dividend to Dunedin City Holdings Limited in the year from \$640,000 in the 2014/15 year to \$704,000 in the 2015/16 financial year.

Outlook

With the continuation of the capital development programme at Aurora Energy Limited and the consolidation of the strong revenue base at Delta Utility Services Limited the outlook for Dunedin City Holdings Limited is strong.

Forward planning by the Group has enabled early signals to be sent to Dunedin City Council about cash flow requirements to ensure that future dividends over the next three years are representative of the cash flow generating capability of the Group whilst Aurora Energy Limited undertakes its capital development programme.

The volatility of the forestry sector will always place uncertainty over the levels of profit for City Forests Limited, but the company continues to trade strong.

Taieri Gorge Railway Limited is operating well in a constrained tourism market, but indications are of an improvement in this sector.

Dunedin City Treasury Limited continues to provide benefit to the Group of companies and the Dunedin City Council Group as a whole through a soundly based and conservatively managed treasury function.

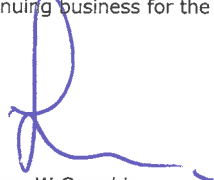
The introduction of Dunedin Venues Management Limited and Dunedin Venues Limited ensures that all Council owned companies are governed under the Dunedin City Holdings umbrella.

Financial Statements

The audited financial statements for the year ended 30 June 2016 are attached to this report.

Auditors

The principal auditor is Audit New Zealand, on behalf of the Controller and Auditor-General. The total audit fees for the Group's continuing business for the year was \$224,000.

A handwritten signature in blue ink, appearing to read 'Graham W Crombie', with a long horizontal flourish extending to the right.

Graham W Crombie
Chair

30 September 2016



DUNEDIN CITY HOLDINGS LIMITED

Statement of Responsibility

For the Year Ended 30 June 2016

The Board of Dunedin City Holdings Limited accept responsibility for the preparation of the annual financial statements and the judgements used in them;

The Board of Dunedin City Holdings Limited accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and

In the opinion of the Board of Dunedin City Holdings Limited, the annual financial statements for the financial year ended 30 June 2016 fairly reflect the financial position and operations of Dunedin City Holdings Limited.

Director
30 September 2016

Director
30 September 2016

Principal Activities of the Group

Dunedin City Holdings Limited, as the parent company of the Group, has the primary role of monitoring the operating performance of its subsidiary companies on behalf of the ultimate shareholder, the Dunedin City Council.

Dunedin City Holdings Limited is responsible for the overall strategic direction of the Group and provides guidance and support to its subsidiary companies.

Dunedin City Holdings Limited endeavours to ensure that each of its subsidiary companies has a sustainable competitive position, a basis for growth and that they each receive the advantages available from being part of a Group of companies.

The parent company also ensures that the Group's financial strength is maintained through innovative and sound financial management.

The principal activities of the subsidiary and associate companies are as follows.

- **Aurora Energy Limited** is New Zealand's sixth-largest electricity distributor, annually receiving 1,400GWh of electricity for distribution to more than 86,622 homes and businesses in Dunedin and Central Otago.
- **City Forests Limited** owns approximately 16,469 hectares of land from which forest products are grown, harvested and marketed.
- **Dunedin City Treasury Limited** provides the Group with funding and financial services and manages the financial risks of the Group.
- **Delta Utility Services Limited** is a multi-utility service provider specialising in delivering essential services to community, corporate and private customers. As asset manager to Aurora Energy Ltd it is responsible for the efficient distribution of electricity in Dunedin city and an increasingly large proportion of Central Otago.
- **Taieri Gorge Railway Limited** operates a tourist and community-orientated train on the Taieri Gorge railway line and provides other train services in the South Island, principally for charters and excursions.
- **Dunedin Venues Management Limited** is an event, turf and stadium and facilities management company which currently operates out of the Forsyth Barr Stadium and Dunedin Centre/Town Hall Complex.
- **Dunedin Venues Limited** owns Forsyth Barr Stadium and as such has responsibilities as both a landlord and owner and for ensuring the Stadium is appropriately maintained.
- **Dunedin International Airport Limited** (Associate) operates the Dunedin Airport. It also farms adjacent land in partnership with sharemilkers and owns a small residential housing estate on land adjoining the airfield to the north.

Aurora Energy Limited

What We Do

Aurora Energy Limited owns the electricity network assets of poles, lines, cables and substations in Dunedin and Central Otago. Its function is to transfer electricity from the national grid and local generation to the consumer. Its customers are the electricity retailers who sell electricity to commercial and household consumers.

What We Did This Year

Aurora Energy has made substantial progress during the year to meet growing demand, renew assets due for replacement and make improvements to the risk profile of its infrastructure assets.

Revenue increased to \$100.0 million, up on the \$99.5 million achieved last year. The surplus after tax, at \$6.5 million, was down on last year's \$8.2 million. The company paid a \$7.3 million cash subvention payment to Dunedin Venues Limited that effectively dropped the tax paid profit by \$5.3 million. The cash generation performance of the company continues to be very strong and provides a reliable source of dividend to the parent company.

Aurora Energy invested \$37.2 million in capital projects during the year including completion of new substations at Camp Hill, Central Otago and Lauder Flat Road, Omakau. Overhead line upgrades across the Manuhierikia River and from Queenstown to Glenorchy have increased supply capacity to Omakau and Glenorchy respectively. Two major milestones of the multi-year network system control and communication upgrade for Aurora Energy were achieved; firstly, the commencement of 24 hours a day, seven days per week operation of the Dunedin network control centre; and, secondly, the completion of the SCADA system upgrade to a modern advanced distribution management system.

770 power poles were replaced or newly installed on the Aurora Energy network during the year. A total of 30 kilometres of vegetation was cleared from near power lines, part of preventative work to improve the reliability of the network. In Central Otago, demand for irrigation-driven connections to the Aurora Energy network remained high during the first half of the year, after which enquiry levels reduced, reflecting the broader dairy economy.

Growth in consumer connections to the network softened from last year on the Dunedin network while connection activity in Central Otago remained broadly similar to last year. In Central Otago, there was 2.8% growth (last year 2.9%) and in Dunedin, 0.3% growth (last year 0.7%). At year end, the total number of connections in Dunedin was 54,649 and in Central Otago 31,973. In the short to medium term, overall energy demand is expected to remain stable.

As many of Aurora Energy's assets are in the latter stages of their designed lifespan, additional provision has been made for renewal expenditure in several asset categories, based on condition and asset health. Between 2016 and 2026, Aurora Energy plans to outlay total expenditures of \$417 million, increasing preventative maintenance and renewal investment on the Dunedin network, and catering for growing consumer demand on the Central Otago network.

The investment will help the network meet challenging reliability targets and reduce network-related risk. The Commerce Commission's decision to reduce Aurora Energy's allowable revenue by 4.3 per cent for the current regulatory period continues to be challenging for plans to make \$186 million in network improvements over the next five years.

For more information, visit www.auroraenergy.co.nz

The People

Directors

Dr I M Parton (Chair)
D J Frow
S J McLauchlan
T K Kempton
S R Thompson

Chief Executive

G W Cameron

At A Glance

	2016 \$'000	2015 \$'000
Revenue	100,032	99,462
Net Surplus After Tax for the Year	6,463	8,176
Shareholder's Funds	183,648	182,550
Total Assets	436,452	413,855

City Forests Limited

What We Do

City Forests Limited is a forest owner that harvests and markets the products from the 16,469 hectares of forests that it owns. Products are sold in both the export and domestic markets.

What We Did This Year

City Forests has had a successful year generating an excellent trading profit and strong cash flows that have enabled the payment of a \$6.5 million dividend to Dunedin City Holdings Limited. This is a record dividend payment and an increase of \$1.5m on the 2015 year dividend.

The primary driver of profit has been strong harvesting returns from both the domestic and export log markets.

Export log volumes delivered to the Company's principal South Korean and Chinese customers have been steady during the year. The key factors of market price, freight rates and exchange rates, when considered together, have been favourable delivering above average New Zealand Dollar returns from harvesting particularly in the latter half of the year. International freight rates have dropped to cyclical lows and combined with the reduction in the value of the New Zealand Dollar against the United States Dollar these factors have favourably impacted New Zealand Dollar returns.

The domestic log market represented 45% (36% previous year) of the company's log production. Domestic demand has been strong and domestic log prices have remained favourable as local mills benchmark against log export market pricing.

The Board and Management of the Company are committed to achieving best practice in Health and Safety performance. Company resources allocated to the governance and oversight of this key operational area is considerable. The Company has implemented a number of changes to comply with the Health and Safety at Work Act and is confident that its Safety systems for both staff and contractors represent industry best practice.

During the year the company purchased the Kaitangata Mines block through an open tender from Solid Energy (in receivership). The block has 160ha of productive forest situated close to our existing Tokoiti and Kaitangata forests. The block is established in healthy 3-6 year old Pinus radiata and will provide a positive addition to the Companies sustainable cut level as it matures. The Company continues with its strategy of modest estate expansion where quality forest or land can be acquired economically in proximity to existing forests.

Company Forests are valued annually on 30 June and have increased in value by \$9,524m from the previous year. The main driver in the valuation increase was a reduction in the applied discount rate to 6.5% (previously 7%). This added \$6.1m (\$2.5m previous year) to the forest value and the change primarily reflects a reduction in benchmarked discounts rates used by the forest industry.

The outlook for the 2017 financial year is to deliver a positive result. The underlying operational performance is predicted to be similar to 2016 and this will be dependent on how log prices and currency track throughout the year.

The Company's financial performance is driven by export and domestic log sales and strong customer relationships. A dividend of \$4.5 million is forecast for the 2017 year.

Looking to the medium term future we are optimistic that City Forests and the New Zealand Forest Industry will continue to generate favourable returns in international and domestic log markets. This is driven by strong demand for wood products and other commodities by China and other Asian economies experiencing economic growth. As experienced in the past it is expected that economic volatility will cause these returns to remain cyclic in nature throughout each financial year.

This Company's annual harvest is now at long term sustainable levels of approximately 275,000 m3 per annum. The Company is well placed with a mature, harvest ready forest and proven marketing capability to make the most of market opportunities.

Carbon revenues are expected to once again become a contributor to Company performance in the medium term and carbon prices have recovered from 2013 lows but still have some way to go to incentivise sales. Carbon revenues provide financial recognition of the Company's wider positive environmental impact.

For more information, visit www.cityforests.co.nz.

The People

Directors

J F Gallaher (Chair)
T D Allison
T M Mepharm
M C Horne

Chief Executive

G A A Dodson

At A Glance

	2016 \$'000	2015 \$'000
Revenue	48,304	36,902
Net Surplus After Tax for the Year	16,021	7,042
Shareholder's Funds	116,059	96,649
Total Assets	178,024	154,566

Delta Utility Services Limited

What We Do

Delta is an infrastructure specialist providing a range of electrical and environmental services to local authority and private sector customers. It is headquartered in Dunedin, with service depots throughout the South Island.

What We Did This Year

The year was marked by steady demand for Delta's core services in the energy and environmental sectors. The company achieved an improved surplus and a higher turnover, building on last year's solid performance. Significant long term contracts were won or renewed in both electricity network maintenance and greenspace services.

Total revenue was \$106.7 million up on last year's \$102.5 million, reflecting growth in energy and environmental services provided to existing and new customers. Profit after tax of \$4.7 million, was in line with last year's result. Total assets increased from \$59.8 million to \$61.2 million, partly due to the higher values of work in progress, materials and receivable balances at year-end. Term borrowings increased by \$2.7 million from \$26.5 million to \$29.2 million during the year.

Delta continued to deliver asset management and distribution services to its sister company Aurora Energy, New Zealand's sixth largest electricity network. There was a continued higher level of demand for capital and maintenance services, as the network continued its asset renewal and maintenance programme and carried out capacity and systems upgrades. Delta increased its resources and capabilities to deliver the expanded work programme, managing \$37.2 million of capital projects for Aurora Energy, versus last year's capital projects of \$35.4 million.

Delta remained in demand to provide specialist electricity services throughout the energy supply chain from generation to distribution to retailer services. The company entered year six of its electricity network maintenance contract with Network Tasman that runs to March 2021. Nationwide, electricity meter owners continued the conversion of their fleet to advanced digital meters. During the year, Delta installed 46,500 smart meters for its customers.

Delta's environmental business expanded again and began a nine-year parks services contract with Christchurch City Council in the south of the city, including Banks Peninsula. The company provided sports turf, horticulture and roadside vegetation control services throughout the South Island from Southland to Tasman. The solid waste business performed well, providing services to Clutha, Dunedin City and Waitaki local authorities including operating Dunedin City Council's Green Island landfill.

Delta's people operate in high hazard environments, making health and safety a critical priority for the organisation. The company made further significant improvements in its safety indicators, with a 25 percent reduction in recordable injury rates. Total recordable injuries per 200,000 hours worked improved from 4.16 last year to 3.11 this year. Delta continues to nurture a safety-critical culture with a clear focus on proactive risk management to reduce the rate of injury down further.

For more information, visit www.thinkdelta.co.nz

The People

Directors

Dr I M Parton (Chair)
D J Frow
S J McLauchlan
T K Kempton
S R Thompson

Chief Executive

G W Cameron

At A Glance

	2016 \$'000	2015 \$'000
Revenue	106,663	102,471
Net Surplus After Tax for the Year	4,673	4,657
Shareholder's Funds	17,618	15,469
Total Assets	61,163	59,835

Dunedin City Treasury Limited

What We Do

The role of Dunedin City Treasury Limited is to identify and manage the financial risks and the liquidity of the Dunedin City Council Group so as to ensure that adequate funds are always available to meet on-going obligations in such a way that financing costs are minimised and the return on surplus funds is maximised within acceptable levels of risk.

What We Did This Year

The past year covered by this report has been a period of falling interest rates.

Dunedin City Treasury Limited has achieved a significant reduction in the cost of funds borrowed over the period. The cost of funds has reduced to 5.79%, from 6.38% a year earlier. The reduction in the cost of funds borrowed was assisted by improved cash flow management and forecasting. In addition to this the refinance of tranches of debt at improved credit spreads, the maturity of a number of interest rate hedges and lower wholesale funding costs also assisted.

Dunedin City Treasury Limited has diminished the reliance on short term funding and has reduced the amount of promissory notes on issue from \$86.7 million to \$65 million as at 30 June 2016. The company continues to achieve good results with its promissory note programme. Over the year the average rate achieved was 3.4 basis points over the 90 day bank bill reference rate, which when compared to our peers in the market was an excellent result.

In October 2015, the \$50 million October 2015 floating rate note maturity was refinanced with a new floating rate note issue for \$50 million for a term of 7 years. The new issue was priced at an attractive margin of +0.56% compared to +0.90% for the maturing issue. This was a very good outcome as floating rate notes are not commonly issued in the New Zealand market for terms as long as 7 years.

In April 2016, the \$90 million April 2016 floating rate note maturity was refinanced with two new medium term notes of \$30 million and \$65 million issued for terms of 5 and 10 years. The issues attracted a significant number of different investors and the amount of bids was 1.6 times greater than the amount of notes being offered. The issues were priced at margins of +0.68% and +1.05% over the underlying benchmark swap yield.

The above issuance by Dunedin City Treasury Limited assisted in lengthening the maturity profile of funding significantly reducing refinancing risk and providing greater flexibility for future issuance. The company maintained at least 20% of funding for a period of 5 years or longer. In addition to this, there is less than \$200 million of funding maturing in any one year period from 30 June 2016 onwards.

The Company continues to provide management services to the Waipori Fund which is Dunedin City Council investment fund of \$82.3 million as at 30 June 2016. The result for the year was a \$3,971,980 surplus, before an inflation adjustment of \$336,113 which was a return of 4.8%. With an inflation factor of 0.4%, the return after inflation was 4.4%.

The Company's Standard and Poor's long term credit rating was reaffirmed at AA in December 2015. The A1+ short term rating remained the same as previously reported.

The People

Directors

G W Crombie (Chair)
K E Grant
L M Robertson
B J Wood
K T Cooper

Treasury Manager

R Davey

At A Glance

	2016 \$'000	2015 \$'000
Revenue	36,545	39,018
Net Surplus After Tax for the Year	39	(223)
Shareholder's Funds	(5,847)	569
Total Assets	608,145	620,092

Taieri Gorge Railway Limited

What We Do

Taieri Gorge Railway Limited operates a tourist train on the Taieri Gorge railway line and provides other train services, principally for charters and excursions. Year after year the train trip through the Taieri Gorge remains a key attraction for residents, visitors to the region and in particular visiting cruise ship passengers.

What We Did This Year

The company experienced a satisfactory trading year as a result of the general tourist market recovering a little resulting in good growth on the Taieri Gorge and Seaside train services. An after tax profit of \$137,000 has been achieved in spite of increased expenditure on track and carriage maintenance work. Track sleeper replacement has increased by around 700% as the company invests in an improved track structure in order to ensure safe operations into the future. The market continues to be influenced by the continuing negative effects of the 2011 Christchurch earthquakes. General market growth has been restrained in this region but will increase as more accommodation is restored in Christchurch.

As a result of the tourist market commencing growth in this region, and with a busier cruise market in the year ahead, the Board remains cautiously optimistic. The coming summer season is likely to show continued moderate recovery in tourist numbers. Business initiatives have been introduced to increase passenger numbers on the daily train and to maximise revenue on cruise ship days. The cruise market is not as strong in this region mainly as a result of the Christchurch earthquakes and resulting closure of port facilities at Lyttelton. The trend of cruise visitors to take independent attractions rather than shore excursions organised by the shipping lines has been the focus of company efforts to maximise passenger numbers on cruise days.

Safety management is an absolute priority of the company. A Board Health and Safety committee meets 3 monthly and a company Health and Safety committee meets monthly. There is an annual Safety Audit by NZTA and the company has been able to close off all conditions and recommendations from these safety audits.

The company has a strong trading base and is highly regarded in the market-place. The continuing strategy is to target growth opportunities while managing its maintenance work load in such a way to ensure that safety is not compromised. While the company is not likely to generate substantial profits in the medium term its true value is best measured by the contribution it makes to the wider Dunedin economy.

Otago Excursion Train Trust and its volunteers play an important role in the operation of the company. Passengers on excursion trains are hosted by a group of up to one hundred volunteers who provide a wonderful service free of charge and are ambassadors for the promotion of Dunedin. The company and the wider community owe these generous helpers a debt of gratitude.

The Company is served by a strong and loyal team of employees and volunteers. The staff structure is lean and continues to use multi-skilling in many divisions of the company.

For more information, visit www.taieri.co.nz.

The People

Directors

G R Thomas (Chair)
G M T Williams
F J McCall
Hon S Rodger
G M Smart
D W Wood

Chief Executive

M J Bond

At A Glance

	2016 \$'000	2015 \$'000
Revenue	6,578	6,086
Net Surplus After Tax for the Year	137	173
Shareholder's Funds	2,023	1,886
Total Assets	3,652	3,473

Dunedin Venues Limited

What We Do

Dunedin Venues Limited owns Forsyth Barr Stadium and as such has responsibilities as both a landlord and for ensuring the Stadium is appropriately maintained.

Acquisition

One of the proposals of the Stadium Review adopted by the Dunedin City Council included the ownership of both Dunedin Venues Limited and Dunedin Venues Management Limited transferring from the Dunedin City Council to Dunedin City Holdings Limited.

On 30 June 2016 the shareholding of Dunedin Venues Limited transferred from the Dunedin City Council to Dunedin City Holdings Limited.

As the transfer occurred on 30 June 2016, the consolidated result for the Group includes the balance sheet of Dunedin Venues Limited at 30 June 2016 but not the operational results of the entity for the year.

The People

Directors

W H Cockerill (Chair)
J M Conroy
G W Crombie

Dunedin Venues Management Limited

What We Do

Dunedin Venues Management Limited is an event, turf and stadium and facilities management company which currently operates out of the Forsyth Barr Stadium and Dunedin Centre/Town Hall Complex.

Acquisition

One of the proposals of the Stadium Review adopted by the Dunedin City Council included the ownership of both Dunedin Venues Limited and Dunedin Venues Management Limited transferring from the Dunedin City Council to Dunedin City Holdings Limited.

On 30 June 2016 the shareholding of Dunedin Venues Management Limited transferred from the Dunedin City Council to Dunedin City Holdings Limited.

As the transfer occurred on 30 June 2016, the consolidated result for the Group includes the balance sheet of Dunedin Venues Management Limited at 30 June 2016 but not the operational results of the entity for the year.

The People

Directors

R J Lovett (Chair)
P J Hutchison
G J Coughlan
K G Winders

Chief Executive

T Davies



DUNEDIN CITY HOLDINGS LIMITED

Corporate Governance

The Group defines corporate governance as the means by which it controls its activities in order to protect the shareholder's interests.

The Role of Dunedin City Holdings Limited

Dunedin City Holdings Limited is a Council Controlled Trading Organisation (CCTO), as are all the subsidiaries of Dunedin City Holdings Limited. Aurora Energy Ltd is also an electricity company as defined by the Electricity Reform Act 1998.

Dunedin City Holdings Limited is responsible for the preparation of its Statement of Intent which must be delivered to Dunedin City Council as its shareholder by 1 March each year for comment. Following receipt of Council's comments the company is required to deliver its completed Statement of Intent before 30 June, which outlines the company's activities and intentions for the following year. In addition to the obligations under the Local Government Act 2002, Dunedin City Holdings Limited must comply as required with the relevant provisions of the Companies Act 1993 and is governed by its directors who must act in accordance with the law and in the best interests of the company. They should also act in accordance with best governance practice.

Dunedin City Holdings Limited communicates the performance of the Group to the shareholder on a quarterly basis. Half-yearly and annual reports of financial and operational performance are also provided. Other reporting requirements are detailed in the Statement of Intent.

Subsidiary Companies

To enhance efficiency, Dunedin City Holdings Limited has the various Group businesses carried on by its subsidiary companies each of which is governed by its own board and senior management. Each of the subsidiaries is also a CCTO/CCO and is required to present a Statement of Intent to Dunedin City Holdings Limited as its shareholder. The delegated powers and capacity for the individual subsidiaries to acquire assets and/or shares in a third party company are contained within the Statement of Intent.

The Group treasury policy and a Deed of Understanding between the Group companies determine the overall policy applying to the conduct of all treasury activities. The Chief Executive Officers of some subsidiaries are able to formally delegate certain authorities to their managers and those reporting to those managers.

Board membership

Each company within the Group has its own board of directors which meets on a regular basis to direct and control the company's activities. The qualification for board membership includes a requirement that non-executive directors be free from any relationship with the executive management of the company that could materially interfere with the exercise of their independent judgement. The role of Chairman and Chief Executive Officer must be kept separate at all times.

The New Zealand Stock Exchange's Corporate Governance Best Practice Code recommends that the minimum number of independent directors must be two, or one third of the directors. The Dunedin City Holdings Limited Board currently comprises five directors, all of whom are non-executive.

A non-executive director must be considered independent when the board determines that the director is independent in character and judgement and there are no relationships or circumstances which could affect, or appear to affect, the director's judgement.

The Group supports the need for the highest standards of behaviour and accountability from directors and accordingly endorses the principles set out in the Code of Best Practice for Directors approved and adopted by the Institute of Directors in New Zealand (Incorporated). Where conflicts of interest do exist in law directors may excuse themselves from discussions.

Review of Board Membership

The procedures for the appointment and removal of directors are ultimately governed by a company's Constitution and the policy of the Council. From time to time, the company boards consider their composition and the range of skills represented. In terms of nominations, the boards have previously considered the suitability of possible new directors based on a range of factors, including the candidate's background, experience, professional skills, personal qualities and availability to commit themselves to the board's activities.

The Work of the Boards

The role of a director of a CCTO is defined in Section 58 of the Local Government Act 2002 as being to assist the organisation to meet its objectives and any other requirements set out in its Statement of Intent. Section 60 goes on to provide that all decisions relating to the operation of the CCTO must be made pursuant to the authority of its board and in accordance with its Statement of Intent and its Constitution.

Strategic issues and management's detailed budget and five year business plans are reviewed annually by the board and visits to key operational locations are encouraged. Audit and remuneration committees are created where appropriate and oversee these important functions.

Dunedin City Holdings Limited's Group boards are committed to sound, practical corporate governance and have put in place a corporate governance framework which includes suitably qualified and dedicated teams focused on managing:

- Group strategy, including vision and values;
- the achievement of financial objectives;
- the identification and control of areas of business risk;
- a quality system of internal control appropriately maintained;
- the employment of quality people;
- supervision and development of staff;
- health and safety; and
- regulatory compliance.



DUNEDIN CITY HOLDINGS LIMITED

Environmental, Social and Economic Performance

For the year ended 30 June 2016

Summary

All companies in the Group have policies that require them to act as socially responsible and environmentally aware citizens. However, environmental and social performance is about more than policies and we accept that the outcome of how we live up to our policies, the effect of our operations and products, and our overall contribution to society is important.

Underpinning everything that the companies do is profitability – the means to reward our shareholder, the Council. Our profits support the social programmes and environmental activities of our shareholder. Without superior competitive performance and strong companies, we cannot be sustainable over the long-term and provide the Council with the financial resources to deliver the higher standards of environmental performance.

	Environmental	Social	Economic
Commitment	We will act as an environmentally aware business.	We will consult with stakeholders through our six- monthly reports and through the website notice boards of the larger DCHL companies.	We will undertake continual performance monitoring of the operating activities of the Group.
Summary	The forestry business will be operated in a sustainable manner. We will include environmental considerations in our operational and planning decisions. We will assist third party projects promoting environmental protection.	We will operate personnel policies which promote a non-discriminatory, culturally sensitive, equal employment opportunity (EEO) workplace. We will maintain a safe workplace for our staff.	We will achieve financial projections. An international credit rating will be maintained at the highest level consistent with the strategic plans of the shareholder and company boards.

Group Highlights

Health and Safety

The health and safety of staff is a top priority for all the companies. Sound health and safety policies, subject to annual review, are in place. Our end goal is clear: no accidents and no harm to people.

During the year City Forests Limited continued to improve its health and safety systems in accordance with its annual plan. The areas of driver training, tree felling, breaking out, internal safety audit systems and drug and alcohol testing were specific focus areas for the year.

During the year, Delta Utility Services Limited maintained the visibility of safety leadership across the organisation. The Board of Directors' Health and Safety Committee met three times during the year. Managers made regular onsite safety observations. Workgroup safety days, plus a safety day for all operational leaders across the organisation, gave focused attention to process safety leadership. We continued to roll out customisable visual safety boards used in conjunction with daily and weekly team briefings.

During the year, Aurora Energy complied with its public safety obligations under the Electricity Act 1992, maintaining a public safety management system in accordance with the Electricity Safety Regulations (2010). The intent of the system is to prevent serious harm to any members of the public or significant damage to their property.

At Taieri Gorge Railway Limited, key safety policy documents have been formalised and developed in line with regulatory requirements and with best modern practice

Environmental

Electricity is at the heart of Delta Utility Service Limited's business, so it made sense to increase its use as a transport fuel. Delta installed the South Island's first electric vehicle fast charger in central Dunedin, opening to the public in late February. The purpose is to encourage the uptake of electric vehicles in Dunedin and Otago by removing range anxiety. In the first four months of operation, the unit delivered 280 rapid charges, equivalent to a distance of 12,800 kilometres travelled using electric power.

Delta is committed to continual improvement in environmental management. During the year, they expanded and strengthened the existing Enviro-Mark® accreditation. Delta now have Enviro-Mark® Gold accreditation for the Green Island landfill (reconfirmed), Rangiora depot (upgraded from Enviro-Mark® Bronze) and the Riccarton, Christchurch depot (newly added). The Dunedin head office retained Enviro-Mark® Bronze accreditation. Site audits as part of the accreditation process confirm ongoing compliance with environmental management standards and identify corrective actions to improve performance.

There are an ever-increasing number and range of new energy-related technologies and systems now being actively marketed in New Zealand. Emerging technologies range from distributed generation sources such as rooftop photovoltaic systems and wind generation to grid-connected battery storage and electric vehicles. The costs of battery storage and components continue to fall, making these and allied technologies more affordable and appealing to consumers. Aurora Energy Limited sees direct evidence of the developing trend, with the capacity of small solar systems connected to the Aurora Energy network, increasing by 0.5 megawatts in the year, very similar to the additions in the previous year.

City Forests Limited has continued its Forest Stewardship Council Certification during the year. City Forests Limited continues to be a participant in the emissions trading scheme and the Company's forests store a significant volume of carbon.

The community continues to benefit from the significant network of walking and cycle tracks, picnic areas and other public amenities maintained by City Forests Limited. The Company continues to encourage the public use of its forests in a controlled fashion with numerous recreational activities occurring during the year.

Community Involvement

Our community involvement continues to cover a wide range of civic, charitable, sporting and recreational activities. In 2016, this support comprised of a combination of financial sponsorship or assistance, the provision of staff resources and other forms of non-financial donation, such as loads of firewood, from within the Group's resources.

The promotion of education, culture and health receives assistance from all companies across the Group. The Child Cancer Foundation Otago/Southland, Otago Multiple Sclerosis Society, Koru Care Otago, Prostate Cancer Foundation of New Zealand, Alzheimers Otago and the Wakatipu Youth Trust, and the University of Otago South Island Robin Research all benefited from contributions during the year.

The total value of these contributions is difficult to calculate as many of the costs are not directly measured in cash but overall, across the Group.



DUNEDIN CITY HOLDINGS LIMITED

Financial Information

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- STATEMENT OF FINANCIAL PERFORMANCE
- STATEMENT OF OTHER COMPREHENSIVE INCOME
- STATEMENT OF MOVEMENTS IN EQUITY
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DUNEDIN CITY HOLDINGS LIMITED

Group Financial Statistics

	2016 \$'000	2015 \$'000	2014 \$'000	2013 \$'000	2012 \$'000
Revenue	270,625	251,067	233,978	231,234	254,922
Profit before tax, impairment and subvention payment from continuing activities	37,452	26,429	28,616	38,586	15,543
Profit/(loss) after tax from continuing operations	20,309	12,755	13,800	24,053	(2,249)
Tax	9,851	6,382	7,524	7,166	2,838
Surplus/(deficit) after tax	20,309	12,952	12,483	20,512	(5,087)
Net interest paid to the Council on advance	5,902	5,902	6,731	5,903	7,213
After tax cost of Dunedin Venues Limited subvention payment	5,250	5,250	5,250	5,250	5,250
Net surplus before shareholder interest and subvention	31,461	24,104	24,464	31,665	7,376
Cashflows from operating activities	31,634	32,565	30,084	35,745	19,549
Shareholder's funds	285,615	175,173	169,549	159,197	142,289
Shareholder's advance	112,000	112,000	112,000	112,000	112,000
Total shareholder's interest	397,615	287,173	281,549	271,197	254,289
Rate of return (on shareholder funds)	7.1%	7.4%	7.4%	12.9%	-3.6%
Dividend paid	-	4,548	3,719	4,547	10,737
Net interest paid to the Council on advance	5,902	5,902	6,731	5,903	7,213
After tax cost of Dunedin Venues Limited subvention payment	5,250	5,250	5,250	5,250	5,250
Total interest, subvention and dividends paid to the Council	11,152	15,700	15,700	15,700	23,200
Total assets	1,143,093	1,029,435	1,034,432	1,036,228	1,022,319
Shareholder's funds to total assets	25.0%	17.0%	16.4%	15.4%	13.9%



DUNEDIN CITY HOLDINGS LIMITED

Statement of Financial Performance For the Year Ended 30 June 2016

	<i>Note</i>	Group 2016 \$'000	Group 2015 \$'000
Revenue continuing operations			
Operating revenue	3	234,644	219,414
Financial income	4	26,457	29,138
Forest revaluation reserve	31	9,524	2,515
Total operating revenue		270,625	251,067
Expenditure continuing operations			
Other expenses	5	124,653	120,001
Employee expenses		48,538	43,272
Audit fees	5	260	219
Financial expenses	5	42,062	44,456
Depreciation and amortisation		18,639	17,543
Total operating expenditure		234,152	225,491
Operating surplus from continuing operations		36,473	25,576
Surplus/(Loss) for the year from discontinued operations	10	-	197
Share of associate surplus/(deficit)		979	853
Surplus before subvention and taxation		37,452	26,626
Less subvention payment		7,292	7,292
Surplus before taxation		30,160	19,334
Less taxation expense	8	9,851	6,382
Surplus after taxation		20,309	12,952
Attributable to:			
Equity holders of the parent		20,271	12,902
Minority Interest		38	50
		20,309	12,952



DUNEDIN CITY HOLDINGS LIMITED

Statement of Other Comprehensive Income For the Year Ended 30 June 2016

	Note	Group 2016 \$'000	Group 2015 \$'000
Other comprehensive income			
Gain (loss) on forestry land revaluations		-	(22)
Gain (loss) on interest rate swap hedges		(9,932)	(1,587)
Gain (loss) on foreign exchange hedges		1,971	(3,691)
Gain (loss) on carbon credit revaluation		10,832	1,917
Other comprehensive income associates		(7)	61
Income tax on other comprehensive income		(1,790)	542
Net income recognised directly as other comprehensive income		1,074	(2,780)
Surplus after taxation		20,309	12,952
Total comprehensive income for the year		21,383	10,172
Attributable to:			
Equity holders of the parent		21,345	10,122
Minority interest		38	50
		21,383	10,172

Statement of Changes in Equity For the Year Ended 30 June 2016

		Group 2016 \$'000	Group 2015 \$'000
Movements in equity			
Opening equity		174,838	169,214
Total comprehensive income for the year		21,383	10,172
Contributions of Equity		115,839	-
Retained earnings adjustment on acquisition of subsidiaries	12	(26,445)	-
Distributions to equity holders of the parent	7	-	(4,548)
Closing equity		285,615	174,838



DUNEDIN CITY HOLDINGS LIMITED

Statement of Financial Position As at 30 June 2016

	Note	Group 2016 \$'000	Group 2015 \$'000
Current assets			
Cash and cash equivalents	14	17,350	15,889
Other current financial assets		19,017	17,224
Derivative financial instruments	33	272	2,901
Trade and other receivables	16	42,388	41,004
Taxation refund receivable		880	716
Inventories	21	5,078	5,137
Other current assets	22	16	-
Prepayments		1,125	1,179
Total current assets		86,126	84,050
Non-current assets			
Other non-current financial assets	23	197,870	324,332
Derivative financial instruments	33	24,517	20,670
Investments in associate companies	25	23,203	22,935
Investments in subsidiary companies	24	-	-
Intangible assets - carbon credits	32	17,288	4,994
Intangible assets - other		1,531	1,558
Forestry assets	31	123,802	113,629
Property, plant and equipment	30	668,756	457,267
Total non current assets		1,056,967	945,385
Total assets		1,143,093	1,029,435
Current liabilities			
Short term borrowings	17	857	4,808
Trade and other payables	18	31,905	25,875
Employee entitlements	19	4,914	4,891
Accrued expenditure	20	139	335
Derivative financial instruments	33	203	2,095
Provision for tax		2,067	5,218
Current portion of terms loans	27	1,770	1,686
Total current liabilities		41,855	44,908
Non-current liabilities			
Term loans	27	578,273	591,219
Shareholder's advance - DCC	28	112,000	112,000
Provisions	19	867	773
Other non-current liabilities	26	682	320
Derivative financial instruments	33	32,058	23,017
Deferred taxation	9	91,743	82,360
Total non-current liabilities		815,623	809,689
Equity			
Share capital	11	115,939	100
Accumulated funds	12	119,476	132,506
Minority interest in subsidiaries		568	530
Revaluation reserves	13	10,555	10,562
Cash flow hedge reserves	13	(10,712)	(3,322)
Forest revaluation reserves	13	38,499	31,642
Carbon credit reserve	13	11,290	2,820
Total equity		285,615	174,838
Total liabilities and equity		1,143,093	1,029,435



DUNEDIN CITY HOLDINGS LIMITED

Statement of Cash Flows For the Year Ended 30 June 2016

	Note	Group 2016 \$'000	Group 2015 \$'000
Cash flow from operating activities			
<i>Cash was provided from:</i>			
Receipts from customers		206,298	196,406
Interest received		27,431	23,172
Income tax refund		157	723
Dividend received		704	641
		<u>234,590</u>	<u>220,942</u>
<i>Cash was applied to:</i>			
Suppliers and employees		143,925	131,839
Finance costs paid		46,940	43,914
Taxation paid		3,971	2,761
Subvention payment to DVL/DVML		8,259	9,046
Net GST paid/ (received)		(139)	1,074
		<u>202,956</u>	<u>188,634</u>
Net cash flow from operating activities from continuing activities	15	<u>31,634</u>	<u>32,308</u>
Net cash flow from operating activities from discontinued activities		-	257
Net cash flow from operating activities		<u>31,634</u>	<u>32,565</u>
Cash flow from investing activities			
<i>Cash was provided from:</i>			
Sale of property, plant and equipment		584	5,264
Decrease in investments		29,884	14,837
Net cash on acquisition of subsidiaries		1,983	-
		<u>32,451</u>	<u>20,101</u>
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment		41,626	39,808
Increase in investments		1,753	3,898
		<u>43,379</u>	<u>43,706</u>
Net cash flow from investing activities		<u>(10,928)</u>	<u>(23,605)</u>
Cash flow from financing activities			
<i>Cash was provided from:</i>			
Loans raised		-	-
		<u>-</u>	<u>-</u>
<i>Cash was applied to:</i>			
Loans repaid		19,245	25,516
Dividends		-	4,548
		<u>19,245</u>	<u>30,064</u>
Net cash flow from financing activities		<u>(19,245)</u>	<u>(30,064)</u>
Net increase/(decrease) in cash		1,461	(21,104)
Opening cash and cash equivalents		15,889	36,993
Closing cash and cash equivalents		<u>17,350</u>	<u>15,889</u>



DUNEDIN CITY HOLDINGS LIMITED

Notes to the Financial Statements For the Year Ended 30 June 2016

1 Reporting Entity

The financial statements presented here are the consolidated financial statements of the Group comprising Dunedin City Holdings Limited (the Company) and its subsidiary and associate companies.

Dunedin City Holdings Limited is a Council Controlled Trading Organisation as defined in the Local Government Act 2002. The company, incorporated in New Zealand under the Companies Act 1993, is wholly owned by the ultimate parent of the Group, the Dunedin City Council.

The financial statements of the Dunedin City Holdings Limited Group are for the year ended 30 June 2016.

The registered address of the company is 50 The Octagon, Dunedin 9016.

Dunedin City Holdings Limited is a profit orientated entity.

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

These financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the company and Group operate.

2 Significant Accounting Policies

Statement of Compliance

The Company is a Tier 1 for-profit entity as defined by the External Reporting Board (expenses over \$30 million) and has reported in accordance with Tier 1 For-profit Accounting Standards. These annual financial statements are general purpose financial reports which have been prepared in accordance with NZIAS1, additional information as requested by Directors, and in accordance with NZ GAAP. They comply with New Zealand Equivalents to IFRS, and other applicable Financial Reporting Standards, as appropriate for profit orientated entities.

The financial statements were authorised for issue by the directors on 30 September 2016.

Basis of Accounting

The financial statements have been prepared on the historic cost basis, except for the revaluation of certain property, plant and equipment, investment properties, biological assets, derivative financial instruments, financial instruments classified as available for sale and financial instruments held for trading.

The accounting policies have been applied consistently by Group entities.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest value are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealised profits arising within the consolidated entity, are eliminated in full.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Investments in subsidiaries in the Parent Company are valued at cost.

Associate Entities

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the consolidated balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

Investment in Associates

The financial statements include the investment in entities over which the company is in a position to exercise significant influence (associates) at the cost of the acquisition.

Joint Ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The Group recognises in its financial statements the assets it controls, the liabilities and expenses it incurs, and the share of income that it earns from the joint venture.

Non-current Assets held for Sale

Non-current assets (and disposal Groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Depreciation on such assets will cease once classified as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least at each reporting date. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Any negative goodwill arising on an acquisition is recognised directly in profit or loss.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and GST.

Revenue from services rendered is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity. The stage of completion at balance date is assessed based on the value of services performed to date as a percentage of the total services to be performed.

Sales of goods are recognised when significant risks and rewards of owning the goods are transferred to the buyer, when the revenue can be measured reliably and when management effectively ceases involvement or control.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

Construction Contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as Lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

The Group as Lessee

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also recognised on a straight-line basis over the lease term.

Foreign Currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements the results and financial position of each entity are expressed in New Zealand dollars, which is the functional currency of the Council and Group.

Transactions in currencies other than New Zealand dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. The Group does not hold non-monetary assets and liabilities denominated in foreign currencies.

In order to hedge its exposure to certain foreign exchange risks, the Group may enter into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Government Loans

Forestry term liabilities include Ministry of Agriculture and Forestry Suspensory Loans and Ministry of Agriculture and Forestry Repayable Loans. Interest is calculated annually on the suspensory loans. However, the interest and principal may be forgiven when the loan conditions are met. Interest is also calculated annually on the repayable loans.

Employee Entitlements

Entitlements to salary and wages and annual leave are recognised when they accrue to employees. This includes the estimated liability for salaries and wages and annual leave as a result of services rendered by employees up to balance date at current rates of pay.

Entitlements to long service leave and retirement gratuities are calculated on an actuarial basis and are based on the reasonable likelihood that they will be earned by employees and paid by the Group.

The Group recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The calculation is based on the value of excess sick leave taken within the previous twelve months.

Goods and Services Tax (GST)

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, Plant and Equipment

Property, plant and equipment are those assets held by the Group for the purpose of carrying on its business activities on an ongoing basis.

All property, plant and equipment, apart from forestry land, is stated at cost less any subsequent accumulated depreciation and any accumulated impairment losses.

Forestry land is stated at its revalued amount, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by Quotable Value NZ.

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase is credited to the appropriate revaluation reserve, except to the extent that it reverses a revaluation decrease previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Self-constructed assets include the direct cost of construction to the extent that they relate to bringing the fixed assets to the location and condition for their intended service.

Depreciation is charged so as to write off the cost or valuation of assets, other than land, forestry land, properties under construction and capital work in progress, on the straight-line basis. Rates used have been calculated to allocate the assets cost or valuation less estimated residual value over their estimated remaining useful lives.

Depreciation of these assets commences when the assets are ready for their intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation on revalued assets, excluding land, is charged to the profit and loss. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the appropriate property revaluation reserve is transferred directly to retained earnings.

Assets held under finance leases are depreciated.

Depreciation rates and methods used by all companies except for City Forests Limited are as follows:

	<i>Rate</i>	<i>Method</i>
Buildings	1% to 17%	Straight Line
Metering equipment	7% to 100%	Straight Line
Electricity network assets	1% to 20%	Straight Line
Plant and equipment	1% to 50%	Straight Line
Motor vehicles	5% to 33%	Straight Line
Railway assets	1% to 50%	Straight Line
Office equipment and fittings	5% to 48%	Straight Line
Construction in progress	no depreciation charged	
Software	20% to 100%	Straight Line

Depreciation rates and methods used by City Forests Limited are as follows:

	<i>Rate</i>	<i>Method</i>
Buildings	2% to 3%	Straight Line
Roads	5% to 24%	Diminishing Value
Bridges	2% to 2.4%	Diminishing Value
Plant and equipment	6% to 80.4%	Diminishing Value
Fences	10% to 13%	Diminishing Value
Motor vehicles	9.6% to 36%	Diminishing Value
Office equipment	10% to 60%	Diminishing Value

Forests

The fair value of the forest, exclusive of the forest land, is determined at each reporting date. Fair value is equivalent to the NZIF Forest Valuation Standards definition of market value. Fair value is determined using the discounted cash flow methodology and, in using this method, financing costs and replanting costs are excluded. The method first determines the current market value of the collective forest and land resource, with land then subtracted at its current market value to provide the value of the forest asset.

The valuation takes into account changes in price over the accounting period as well as the quantity of trees harvested and the growth that has occurred in the forest. Any change in forest valuation is recorded in the income statement.

Derecognition of Non-Financial Assets

Forestry assets and items of property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

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

Investment Property

Investment property is property held to earn rentals and/or for capital appreciation. All investment properties are stated at fair value, as determined annually by independent valuers at the balance sheet date.

Gains or losses arising from changes in the fair value of investment properties are recognised in the income statement for the period in which the gain or loss arises.

Intangible Assets

Goodwill represents the excess of the purchase consideration over the fair value of the net tangible and identifiable intangible assets, acquired at the time of acquisition of a business or an equity interest in a subsidiary or associate company. Goodwill is tested annually for impairment.

Software is recognised at cost and amortised to the Income Statement on a straight line basis over the estimated useful life, which is a maximum period of five years.

Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Patents and Trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight line basis over their estimated useful lives.

Impairment of Assets excluding Goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is immediately recognised as an expense, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent of any previous revaluation increase for that asset (or cash generating unit) that remains in the revaluation reserve. Any additional impairment is immediately transferred to the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is immediately recognised as income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Log inventories are initially valued at fair value less estimated point of sale costs. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Financial Instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and Other Receivables

Trade and other receivables are stated at cost less any allowances for estimated irrecoverable amounts.

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments in Debt and Equity Securities

Investments in debt and equity securities are financial instruments classified as held for trading and are measured at fair value through profit and loss at balance date. Any resultant gains or losses are recognised in the income statement for the period.

Trade and Other Payables

Trade and other payables are stated at cost.

Borrowings

Borrowings are initially recorded net of directly attributable transaction costs and are measured at subsequent reporting dates at amortised cost. Finance charges, premiums payable on settlement or redemption and direct costs are accounted for on an accrual basis to the Income Statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial Liability and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and commodity prices. The Group uses foreign exchange forward contracts, foreign exchange options and interest rate swap contracts to hedge these exposures.

The Group does not use derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting, under the specific NZ IFRS rules, are accounted for as trading instruments with fair value gains/losses being taken directly to the income statement.

The use of financial derivatives in each entity within the Group is governed by the Dunedin City Council's Treasury Risk Management Policy (approved December 2014). The policy provides written principles on the use of financial derivatives.

Derivative financial instruments are recognised at fair value on the date the derivative is entered into and are subsequently re-measured to their fair value. The fair value on initial recognition is the transaction price. Subsequently fair values are based on independent bid prices quoted in active markets as provided for us by our banking counterparties.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the Income Statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement. Gains or losses from re-measuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in the income statement.

The fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedge relationship is more than twelve months and as a current liability if the remaining maturity of the hedge relationship is less than twelve months.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise. Derivatives not designated into an effective hedge relationship are classified as current assets or liabilities.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement.

Carbon Credits

Emissions units held are treated as intangible assets, and initially recorded at:

Cost in the case of purchased units.

Government granted units are recognised at fair value (initial market value) when there is reasonable assurance that the company will comply with the attached conditions and the grant will be received.

Emissions unit fair value is marked to market (revalued) annually at 30 June subsequent to initial recognition and annually thereafter. The difference between initial fair value or previous annual revaluation and disposal or revaluation value of the units is treated as revenue if positive or expense if negative. Emissions obligations are recognised as a current or future liability depending on the legislated liability period. Emissions liability is recorded at the market value of emissions units at the end of the period. Increases in emissions liabilities at 30 June are treated as expenses and reductions are treated as revenue.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next financial year include:

- impairment of investments in subsidiaries, associate companies and jointly controlled operations (notes 23, 24, and 25);
- valuation of forestry assets (note 31);
- valuation of derivative financial instruments (note 33);
- carrying value of the deferred tax liability (note 9).

Discontinued Operations

Discontinued operations consist of business units and other non-core assets that have either been sold or discontinued during the year or are classified as held-for-sale at year end.

Changes in Accounting Policy

There has been no change in accounting policy. Policies for the current year and comparative year have been applied on a consistent basis, as the below standards introduced or amended did not materially impact the Group.

Standards amended or Issued during the year

During the year the following accounting standards became effective or were amended.

Standard	Brief Outline
Amendments to NZ IAS 27 <i>Equity method in separate financial statements</i>	Amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates.
Amendments to NZ IAS 1 <i>Disclosure Initiatives</i>	Changes were made in the following areas to provide clarity for preparers in exercising judgement when presenting their financial reports. Clarification around: - Materiality in the preparation of the financial statements and when it should be applied; - The aggregation of line items in the financial statements; - Note ordering.

Standards Issued but not yet Effective

The following accounting standards are relevant to the Group, but as they are not yet compulsory have not been adopted.

Standard	Brief Outline
<i>Amendments to NZ IAS 16 Leases</i> . Adoption date: periods beginning on or after 1 January 2019	NZ IFRS 16 removes the classification of leases as either operating or finance leases – for the lessee – effectively treating all leases as finance leases. This is likely to have a material impact on the Company's financial statements and leading up to implementation the Company will review the new standard to ensure appropriate disclosure. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.
NZ IFRS 15 <i>Revenue from contracts with customers</i> , Adoption date: year ended 30 June 2017	NZ IFRS 15 <i>Revenue from contracts with customers</i> addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.
NZ IFRS 9 <i>Financial Instruments</i> , Adoption date: year ended 30 June 2018	NZ IFRS 9 <i>Financial Instruments</i> will eventually replace NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i> . NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 and most of Phase 3 has been completed. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus or deficit.

3 OPERATING REVENUE

	Group 2016 \$'000	Group 2015 \$'000
Sale revenue	234,264	219,394
Gain on sale of assets	380	20
	<u>234,644</u>	<u>219,414</u>

4 FINANCIAL INCOME

	Group 2016 \$'000	Group 2015 \$'000
Subvention income	7	-
Interest on advances to related parties	21,977	23,596
Interest on other investments	4,473	4,066
Dividends	-	1
Net gain on foreign currency transactions	-	1,475
	<u>26,457</u>	<u>29,138</u>

5 SEPARATELY DISCLOSED EXPENDITURE

	Group 2016 \$'000	Group 2015 \$'000
Other expenses		
Bad debts written off	13,529	37
Impairment of intangible assets	-	-
Increase/(decrease) in impairment provision for receivables	(9,353)	4,934
Donations	46	58
Rental expense on operating leases	3,334	2,424
Research expenditure	192	134
Other expenditure	116,905	112,414
Expenditure of continuing activities	<u>124,653</u>	<u>120,001</u>
Audit fees		
Audit New Zealand:		
Financial statements	190	187
Regulatory (information disclosure) reporting	19	18
Price and quality thresholds and other regulatory reporting	15	14
Other Providers:		
Internal audit	36	-
Total audit fees	<u>260</u>	<u>219</u>
Financial Expenses		
Interest - related parties	5,928	6,062
Interest - term loans	35,784	38,394
Net loss on foreign currency transactions	350	-
Total financial expenses	<u>42,062</u>	<u>44,456</u>

6 Earnings per share

	Group 2016	Group 2015
Basic earnings per share is calculated by dividing the net surplus attributable to the shareholder of the Group by the weighted average number of ordinary shares on issue during the year.		
Number of shares		
Shares at year end	965,839,000	850,000,000
Weighted average number of ordinary shares	850,000,000	850,000,000
Basic earnings per share – Continuing and discontinued operations	\$ 0.0239	\$ 0.0152
Earnings per paid up share from continuing operations	\$0.18	\$127.55

Diluted earnings per share The Group had no dilutive potential ordinary shares during the current or previous period.

7 Dividends

	Group 2016 \$'000	Group 2015 \$'000
Interim dividend - December		
0.00 cents /share (2015: 0.18 /share)	-	1,500
Final Dividend - June		
0.00 cents /share (2015: 0.36 cents /share)	-	3,048
	<u>-</u>	<u>4,548</u>

8 INCOME TAX

	Group 2016 \$'000	Group 2015 \$'000
Operating surplus/(loss)		
- continuing operations	30,160	19,137
- discontinued operations	-	274
Income subject to taxation	30,160	19,411
Tax thereon at 28%	8,445	5,435
Plus/(Less) the tax effect of differences		
Revenue not liable for taxation	(266)	(191)
Expenditure not deductible for taxation	1,744	1,725
Imputation credits on taxable dividends	-	(179)
Under/(over) tax provision in prior years	(99)	(271)
Other	27	(60)
Taxation charge	9,851	6,459
Effective tax rate	32.7%	33.3%
The taxation charge is represented by:		
Current tax provision	2,107	5,748
Deferred tax provision	7,843	970
Under/(over) tax provision in prior years	(82)	(176)
Under/(over) deferred tax in prior years	(17)	(83)
	9,851	6,459
Tax expense continuing activity	9,851	6,382
Tax expense discontinued activity	-	77
	9,851	6,459

Income tax benefits arising from the ability of companies within the Group to offset against their taxable profit the income tax losses generated by Dunedin City Holdings Limited are recognised as an income tax benefit in Dunedin City Holdings Limited.

Dunedin City Holdings Limited, Aurora Energy Limited, Delta Utility Services Limited, the Dunedin City Council, City Forests Limited, Dunedin Venues Management Limited and Dunedin Venues Limited are members of an income tax consolidated Group. The income tax consolidated Group is taxed as a single entity and each member are jointly and severally liable for the Group's income tax liability.

Dunedin City Holdings Limited, as a member of the income tax consolidated Group, has access to the Group's imputation credit account. After taking into account imputation credits attached to accrued dividends and known income tax payments/refunds, Dunedin City Holdings Limited has direct access to consolidated Group imputation credits that relate to 30 June 2016 and earlier years which will be available for use in subsequent reporting periods totalling \$17,120,186 (2015: \$16,846,408).

9 DEFERRED TAX

	Group \$'000	Group \$'000	Group \$'000	Group \$'000	Group \$'000	Group \$'000
	Opening Balance Sheet	Charged to Equity	Charged to Income	Closing Balance Sheet Assets	Closing Balance Sheet Liabilities	Closing Balance Sheet Net
2016						
Property, plant and equipment	53,970	(162)	1,097	(208)	55,113	54,905
Employee benefits	(1,553)	(29)	(145)	(1,698)	(29)	(1,727)
Forest	19,033	-	2,667	-	21,700	21,700
Forest costs capitalised	9,730	-	131	-	9,861	9,861
Other Investments	2,575	2,311	3,981	90	8,777	8,867
Hedge reserve – foreign exchange contracts	(656)	552	-	(104)	-	(104)
Hedge reserve – interest rate swaps	(739)	(1,124)	104	(1,759)	-	(1,759)
Balance at the end of the year	82,360	1,548	7,835	(3,679)	95,422	91,743
2015						
Property, plant and equipment	53,485	-	485	(77)	54,047	53,970
Employee benefits	(1,395)	-	(158)	(1,553)	-	(1,553)
Forest	18,329	-	704	-	19,033	19,033
Forest costs capitalised	9,429	-	301	-	9,730	9,730
Other Investments	2,756	383	(564)	(1,641)	4,216	2,575
Hedge reserve – foreign exchange contracts	377	(1,033)	-	(656)	-	(656)
Hedge reserve – interest rate swaps	21	(656)	(104)	(845)	106	(739)
Balance at the end of the year	83,002	(1,306)	664	(4,772)	87,132	82,360

10 DISCONTINUED OPERATIONS

Discontinued operations represent components of the Group that have been disposed of or classified as held-for-sale during the period. In accordance with IFRS 5 'Non-Current Assets Held For Sale and Discontinued Operations', the results and cash flows of these "disposal business units" are reported separately from the performance of continuing operations at each reporting date.

On 12 July 2013 Delta Utilities Ltd announced plans to cease operations in the civil construction sector. All Civil construction business units completed their contracts before exiting the sector by the end of June 2014. The civil construction business units are reported as discontinued operations.

A special resolution was passed on the 1 May 2014 by Delta Utility Services Limited to have its subsidiary Delta Investments Limited removed from the Companies Register. The Company was removed from the register on 11 July 2014. Delta Investments Limited's operations are included as discontinued operations.

The results from discontinued operations which are included in the consolidated income statement have been disclosed below. All discontinued operations are within the Group only as they took place in the subsidiaries of Dunedin City Holdings Limited.

Net Profit from Discontinued Operations

	Group 2016 \$'000	Group 2015 \$'000
Revenue		
Revenue	-	382
Financial Income	-	-
Total revenue	-	382
Less expenses		
Financial Expenses	-	-
Impairment of wood processing assets	-	(80)
Other expenses	-	188
Total expenses	-	108
Net profit/(loss) before income tax	-	274
Income tax benefit	-	(77)
Net profit/(loss) from discontinued operations	-	197

11 EQUITY – Share Capital

	Group 2016 \$'000	Group 2015 \$'000
Issued capital		
965,839,000 ordinary shares	115,939	100

On incorporation, Dunedin City Holdings Limited issued 100,000,000 ordinary shares in favour of the Dunedin City Council. Only \$100,000 was called. On 30 June 2016 a further 115,839,000 ordinary shares were issued and called.

Since incorporation Dunedin City Holdings Ltd has issued additional shares of \$1 each in favour of the Dunedin City Council. The shares carry equal voting rights and 849,900,000 are uncalled. The amounts and dates of issue are:

• May 1996	75,000,000 ordinary shares
• March 1999	100,000,000 ordinary shares
• June 2002	75,000,000 ordinary shares
• September 2008	250,000,000 ordinary shares
• April 2011	250,000,000 ordinary shares
• June 2016	115,839,000 ordinary shares

12 ACCUMULATED FUNDS

	Group 2016 \$'000	Group 2015 \$'000
Balance at the beginning of the year		
Group companies	125,330	120,410
Associate companies	7,176	7,176
	132,506	127,586
Net profit for the year	20,309	12,952
Dividend distributions	-	(4,548)
Minority share of surplus	(38)	(50)
Adjustment on acquisition of subsidiaries	(26,445)	-
Transfer to reserves – forest (note 12)	(6,856)	(1,811)
Transfer to reserves – carbon credit (note 11)	-	(1,288)
Balance at the end of the year	119,476	132,841
Represented by		
Group companies	112,300	125,330
Associate companies	7,176	7,176
Balance at the end of the year	119,476	132,506

The adjustment on acquisition of subsidiaries relates to the difference in the acquisition price of the investment in Dunedin Venues Management Limited and Dunedin Venues Limited and the net equity of the entities on acquisition date.

13 RESERVES

Associate company asset revaluation reserve

Balance at beginning of the year	10,562	10,501
Gain/(loss) recognised on cash flow hedges/assets	(7)	61
Balance at end of year	10,555	10,562

The reserve relates to assets of Dunedin International Airport Limited.

Hedging reserve

Balance at beginning of the year	(3,322)	1,029
Gain/(loss) recognised on cash flow hedges:	(9,975)	(1,990)
Interest rate swaps/fx forwards	2,018	(4,055)
Deferred tax arising on hedges (note 20)	572	1,691
Gain on settlement of interest rate swaps to equity	(5)	3
Balance at the end of the year	(10,712)	(3,322)

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to interest payments and foreign exchange transactions that have not yet occurred.

Forest revaluation reserve

Balance at beginning of the year	31,642	29,853
Net revaluations of forest	6,857	1,811
Net revaluation of forest land	-	(22)
Balance at the end of the year	38,499	31,642

Carbon credit reserve

Balance at beginning of the year	2,820	-
Transfer from retained earning	-	1,288
Gain in carbon credits above initial recognition value	8,470	1,532
Balance at the end of the year	11,290	2,820

14 CASH AND CASH EQUIVALENTS

	Group 2016 \$'000	Group 2015 \$'000
Cash and bank	17,350	15,889

Cash and short-term deposits comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Short-term deposits are made at call deposit rates. The credit risk on liquid funds is limited as the banks used are banks with high credit ratings assigned by international credit rating agencies.

15 RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Group 2016 \$'000	Group 2015 \$'000
Operating surplus/(deficit)	20,309	12,952
Share of net surplus/(deficit) in associated companies	(979)	(853)
<i>Items Not Involving Cash Flows</i>		
Depreciation	18,639	17,543
Depletion of forest	1,535	2,197
Deferred tax	5,658	72
Asset impairment	-	4,844
Forest revaluation	(9,524)	(2,515)
(Increase)/Decrease in cash flow hedge valuation	3,369	-
Other non-cash items	(6,490)	(4,534)
<i>Impact of Changes in Working Capital Items</i>		
(Increase)/Decrease in trade and other receivables	(1,384)	(2,102)
(Increase)/Decrease in inventories	59	(558)
(Increase)/Decrease in prepayments	54	(94)
(Increase) /Decrease in tax refund due	(164)	23
Increase /(Decrease) in trade and other payables	6,030	6,079
Increase /(Decrease) in provision for tax	(3,151)	2,681
Increase /(Decrease) in other current liabilities	(173)	(3,003)
<i>Items Classified as Investing or Financing Activities</i>		
Gain on sale of property, plant and equipment	(380)	(340)
Loss on sale of property, plant and equipment	62	-
Items related to development property	-	173
Movement in capital creditors	(1,836)	-
Net cash inflows from operating activities	31,634	32,565

16 TRADE AND OTHER RECEIVABLES

	Group 2016 \$'000	Group 2015 \$'000
Trade receivables	37,778	44,670
Estimated impairment	(609)	(9,865)
	<u>37,169</u>	<u>34,805</u>
Due from related parties:		
Subsidiaries		
Other related parties	4,787	4,887
Other current receivables	432	1,312
	<u>42,388</u>	<u>41,004</u>

The directors consider that the carrying amount of the trade and other receivables approximates their fair value.
The estimated doubtful debts provision relates entirely to individually impaired Trade receivable balances.

	Group 2016 \$'000	Group 2015 \$'000
Opening doubtful debts provision	(9,865)	(4,931)
Additional provisions made during the year	(4,197)	(5,031)
Receivables written off during the year	13,529	37
Provisions reversed during the year	21	60
Doubtful debts on acquisition	(97)	-
Closing doubtful debts provision	<u>(609)</u>	<u>(9,865)</u>

17 SHORT TERM BORROWINGS

	Group 2016 \$'000	Group 2015 \$'000
Short term borrowing	857	1,314
Related party borrowings	-	3,494
	<u>857</u>	<u>4,808</u>

The Group's short term borrowings are unsecured and are arranged at floating interest rates thus exposing the Group to cash flow interest rate risk.

18 TRADE AND OTHER PAYABLES

	Group 2016 \$'000	Group 2015 \$'000
Trade payables	25,906	19,183
Due to related parties:		
Dunedin City Council and subsidiaries	19	736
	<u>19</u>	<u>736</u>
Other payables:		
GST payable	833	557
Other current liabilities	5,147	5,399
	<u>5,980</u>	<u>5,956</u>
	<u>31,905</u>	<u>25,875</u>

The directors consider that the carrying amount of trade payables approximates their fair value.

19 EMPLOYEE ENTITLEMENTS/PROVISIONS

	Group 2016 \$'000	Group 2015 \$'000
Current liabilities		
Long service leave	310	321
Annual leave	4,098	4,016
Gratuities	189	283
Sick leave	157	122
Other provisions	160	149
	<u>4,914</u>	<u>4,891</u>
Non-current liabilities		
Long service leave	492	429
Gratuities	375	344
	<u>867</u>	<u>773</u>

20 ACCRUED EXPENDITURE

	Group 2016 \$'000	Group 2015 \$'000
Accruals	139	335

21 INVENTORIES

	Group 2016 \$'000	Group 2015 \$'000
Raw materials and stores	3,282	3,211
Work in progress	1,774	1,867
Finished goods	22	59
	<u>5,078</u>	<u>5,137</u>

22 OTHER CURRENT ASSETS

	Group 2016 \$'000	Group 2015 \$'000
Land	15	-
Development in progress	1	-
	<u>16</u>	<u>-</u>

Development property intended for resale is stated at the current market value as determined by reference to unconditional sale and purchase agreements.

23 INVESTMENTS NON CURRENT

	Group 2016 \$'000	Group 2015 \$'000
Loan repayments due from Dunedin City Council:		
Maturity one to five years	72,228	83,152
Maturity over five years	<u>125,634</u>	<u>241,169</u>
	197,862	324,321
Shares and units in other companies and funds	8	11
Total other investments	<u>197,870</u>	<u>324,332</u>

Advances

The advances (above) due from the Dunedin City Council and its subsidiaries outside the Dunedin City Holdings Limited Group had a weighted average interest rate of 6.46% (2015: 6.46%).

Shares and units in other companies and funds

The investments included above represent investments in listed equity securities that offer the group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate.

24 INVESTMENTS IN SUBSIDIARY COMPANIES

Parent company	2016 Percentage Interest Held	2015
Name of entity (principal activities)		
City Forests Limited (Forestry)	100	100
Dunedin City Treasury Limited (Finance)	100	100
Aurora Energy Limited (Energy)	100	100
Taieri Gorge Railway Limited (Transport)	72	72
Delta Utility Services Limited (Contractor and Asset Manager)	100	100
Dunedin Venues Limited (Stadium ownership)	100	-
Dunedin Venues Management Limited (Events)	100	-

All subsidiary companies have balance dates of 30 June 2016.

Estimates of the recoverable amounts supporting the carrying amounts of the investments in these subsidiary companies have been based on their future estimates of revenue, expenditure and cash flows.

Acquisitions

The Dunedin City Council adopted the proposal of the Stadium Review to transfer ownership of Dunedin Venues Limited and Dunedin Venues Management Limited from the Dunedin City Council to Dunedin City Holdings Limited. The acquisition by Dunedin City Holdings Limited of both companies was completed on 30 June 2016.

Dunedin City Holdings Limited acquired 100% of the shares in Dunedin Venues Limited and Dunedin Venues Management Limited on 30 June 2016. The purchase price for the shares in the companies was \$111,688,911 and \$1,600,000 respectively. This was funded by Dunedin City Holdings Limited issuing 113,289,000 shares at \$1 par value and making a call on the uncalled and unpaid capital to the Dunedin City Council. Dunedin City Holdings issued and called a further 2,550,000 shares at 30 June 2016 following a call by Dunedin Venues Limited and Dunedin Venues Management Limited on uncalled and unpaid capital for the same amount.

A summary of the effects of incorporating the companies into the Group at 30 June 2016 is as follows:

	Group 2016 \$'000	Group 2015 \$'000
Cash and cash equivalents	3,983	-
Other current financial assets	175	-
Trade and other receivables	2,221	-
Deferred taxation	242	-
Property, plant and equipment	187,091	-
Trade and other payables	(5,913)	-
Employee entitlements	(104)	-
Provision for tax	(379)	-
Term loans	(94,112)	-
Other non-current liabilities	(362)	-
Derivative financial instruments	(3,447)	-
Total identifiable net assets	89,395	-

The property, plant and equipment of \$187.091 million included \$185.025 million related to Dunedin Venues Limited (Forsyth Barr Stadium) and \$2.066 million related to Dunedin Venues Management Limited.

The Group has recorded the stadium assets acquired using the carrying values in DVL's financial statements, on a public benefit entity basis. In consolidating DVL into the for-profit Group financial statements for the first time at 30 June 2016, the Group was required to initially record the stadium assets at carrying values that are supported by a valuation on a commercial basis.

It is possible a commercial based valuation of the stadium assets could be materially lower than the carrying value recorded in the Group's statement of financial position. The stadium is a unique asset with no active market to make a reasonable assessment of fair value between a willing buyer and seller. Whilst it is possible to identify certain cash flows with stadium assets, its primary purpose is to provide public benefit for which there are limited or no directly attributable cash flows within the Group. As such, the nature of existing cash flows within the Group do not necessarily represent commercial cash flows for the purposes of undertaking a discounted cash flow calculation to assess fair value. These factors mean that establishing a commercial value using a market value or discounted cash flow approach involves significant assumptions and estimates which would be highly uncertain. As a result, the Group is not able to reasonably assess the value of the acquired stadium assets on a commercial basis and consequently are also unable to determine the amount of the adjustment required. Any adjustment required to the stadium assets would be adjusted directly in equity.

25 INVESTMENTS IN ASSOCIATE COMPANIES

	Group 2016 Percentage Interest Held	Group 2015
Name of entity (principal activities, place of business)		
Dunedin International Airport Limited (Transport, Momona NZ)	50	50
Otago Chipmill Limited (Forestry, Milburn NZ)	49.9	49.9

For the purpose of applying the equity method of accounting, the financial statements of Dunedin International Airport Limited and the Intelogic Online Limited for the year ended 30 June have been used. The financial statements of Otago Chipmill Limited for the year ending 31 December 2015 were used as these were the financial statements closest to the year end of Dunedin City Holdings Limited. None of the associate companies are listed and therefore there are no published price quotations to establish the fair value of these investments.

The Directors of City Forests Ltd resolved to write down the value of the Otago Chipmill Limited investment to \$nil at 30 June 2015. There are no contingent liabilities arising from the group's involvement in the associate companies.

Set out below is the summarised financial information of associates which are accounted for using the equity method:

	Dunedin International Airport Limited As at 30 June		Other Associates As at 30 June	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Summarised Balance Sheet				
Current assets				
Cash and cash equivalents	132	198	97	54
Other current assets	493	621	-	-
Total current assets	625	819	97	54
Non-current assets	69,615	71,914	-	-
Total assets	70,240	72,733	97	54
Current liabilities	1,706	1,402	4	-
Non-current liabilities				
Financial Liabilities	9,100	12,001	-	-
Other financial liabilities	12,978	13,411	-	-
Total-non current liabilities	22,078	25,412	-	-
Total liabilities	23,784	26,814	4	-
Net assets	46,456	45,919	93	54
Less Impairment	-	-	(54)	(54)
Other adjustments	(50)	(50)	(93)	-
Net assets after impairment and other adjustments	46,406	45,869	(54)	-
Carrying value of associates 50%, 49.9%	23,203	22,935	(27)	-

Summarised Statement of Comprehensive Income

	Dunedin International Airport Limited		Other Associates	
	For the year ending 30 June		For the year ending 30 June	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Revenue (excl interest received)	13,140	12,675	-	-
Interest received	18	47	-	4
Total Revenue	13,158	12,722	-	4
Less expenses				
Depreciation and amortisation	2,851	2,966	-	-
Interest expense	624	952	-	-
Other expenses	7,002	6,327	-	15
Total expenses	10,477	10,245	-	15
Operating surplus/(deficit) before tax	2,681	2,477	-	(11)
Income tax	723	771	-	10
Operating surplus/(deficit) after tax	1,958	1,706	-	(21)
Other comprehensive income	(13)	121	-	-
Total comprehensive income/(deficit)	1,945	1,827	-	(21)
Dividends received from associate	704	640	-	-

26 OTHER NON-CURRENT LIABILITIES

	Group 2016 \$'000	Group 2015 \$'000
Other non-current liabilities	682	320

27 TERM BORROWINGS (secured)

	Group 2016 \$'000	Group 2015 \$'000
Current		
Forestry Loans	1,686	1,686
Other Loans	84	-
	1,770	1,686
Non-current		
Multi-option debt facility	573,413	585,131
Forestry loans	4,832	6,088
Other loans	28	-
Due to subsidiaries	-	-
	578,273	591,219

The Group has an \$850 million Multi Option Debt Issuance Facility which is secured against certain assets and undertakings of the Dunedin City Council Group. Debt is raised by issuing long dated bonds, floating rate notes or by the issue of Promissory Notes usually issued for 90 day terms.

Three independent banks have provided committed facilities to the amount of \$130 million (2015: \$135 million).

The amount of unamortised premium or (discount) on bonds on issue at 30 June 2016 is \$nil (2015: \$nil).

The tender of promissory notes under the multi-option facility generally raises debt for a term of 90 days before being re-tendered. In addition to this, the issue of floating rate notes under the multi-option facility also raises floating rate debt. This type of borrowing is executed at the floating rate at the date of drawdown or at the start of the floating rate reset and exposes the Group to cash flow interest rate risk. Interest rate derivatives are taken out to manage that risk. Floating rate debt is also created by converting fixed rate bond issuance from fixed to floating using interest rate swaps. The credit risk from each derivative is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Dunedin City Treasury Limited issues bonds with a floating or fixed interest rate. The issuing of bonds at fixed interest rates exposes the Group to fair value interest rate risk. As at 30 June 2016 Dunedin City Treasury Limited had the following bonds on issue and promissory notes:

		Group 2016 \$'000	Group 2015 \$'000
Multi-option debt facility			
	Interest Rate		
Promissory Notes		64,619	86,722
Floating Notes 15/10/15	90bp over BKBM	-	50,000
Floating Notes 15/4/16	107bp over BKBM	-	90,000
Bonds 15/11/16	Coupon rate 6.79%	50,000	50,000
Floating Notes 15/2/17	80bp over BKBM	20,000	20,000
Bonds 15/10/17	Coupon rate 7.81%	60,000	60,000
Floating Notes 7/10/17	38bp over BKBM	20,000	20,000
Floating Notes 15/5/18	43bp over BKBM	20,000	20,000
Bonds 17/7/18	Coupon rate 6.57%	50,000	50,000
Bonds 17/12/18	Coupon rate 6.85%	15,000	15,000
Bonds 16/11/20	Coupon rate 5.56%	50,000	50,000
Bonds 15/4/21	Coupon rate 3.15%	30,000	-
Bonds 25/11/21	Coupon rate 4.88%	70,000	70,000
Floating Notes 15/10/22	56bp over BKBM	50,000	-
Bonds 15/4/26	Coupon rate 3.98%	65,000	-
Fair Value Impact on Bonds		8,794	3,409
		<u>573,413</u>	<u>585,131</u>
Forestry Loans	Coupon rate 6.09%	6,518	7,774
Other Loans		112	-
Total term borrowings		<u>580,043</u>	<u>592,905</u>

The forestry loans are from the Ministry of Primary Industries. They are fixed rate loans secured by registered first mortgage over certain land assets and are covered by repayment insurance. The amount is repayable in equal quarterly instalments through to 31 December 2021 and the interest applicable is 6.09%

The repayment period on the term borrowings is as follows:

	Group 2016 \$'000	Group 2015 \$'000
Repayable less than one year	71,770	1,686
Repayable between one to five years	384,479	454,380
Repayable later than five years	123,794	136,839
	<u>580,043</u>	<u>592,905</u>

With the exception of borrowings, the directors' view is that the carrying value of financial assets and liabilities equals their fair value.

The directors estimate the fair value of the Group's borrowings, by discounting their future cash flows at the market rate, to be as follows:

	Group 2016 \$'000	Group 2015 \$'000
Multi-option note facility	586,526	604,459
Forestry loans	6,315	7,514

28 SHAREHOLDER'S ADVANCE

	Group 2016 \$'000	Group 2015 \$'000
Balance at the end of the year	112,000	112,000

The shareholder's advance owing to the Dunedin City Council is unsecured. The directors' view is that this advance forms an integral part of the Council's investment in the company. The terms of the advance agreement between shareholder and company are such that there is no obligation on the company to transfer economic benefit at any specific time. This year, the cash payment to the Council was \$5.9 million (2015: \$5.9 million) on the advance. The interest rate is struck annually, each July, based on rates paid in the market. In 2016, the gross interest on the debt averaged 5.27% (2015: 5.27%).

29 CONTINGENT LIABILITIES

	Group 2016 \$'000	Group 2015 \$'000
Performance bonds	950	1,446

The performance bonds issued are principally in favour of South Island Local Authorities for contract work. There is no indication that any of the above contingent liabilities will crystallise in the foreseeable future.

30 PROPERTY, PLANT AND EQUIPMENT

	Group	Group	Group	Group	Group	Group	Group
	Land	Forest	Buildings	Roads	Network	Plant	
	\$'000	Land	\$'000	Bridges	\$'000	Equipment	Sub-Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2016							
Cost or valuation	10,243	25,574	19,288	6,712	487,731	21,722	
Balance at the beginning of the year	10,243	25,574	19,288	6,712	487,731	21,722	571,270
Increase through acquisition	28,526	-	183,301	-	-	15,567	227,394
Purchases/revaluation	120	801	691	471	31,504	1,382	34,969
Sales	-	-	(3)	-	(6,887)	(358)	(7,248)
Transfers	(15)	-	-	-	-	912	897
Balance at the end of the year	38,874	26,375	203,277	7,183	512,348	39,225	827,282
Accumulated depreciation							
Balance at the beginning of the year	30	-	4,423	3,730	123,596	18,394	150,173
Increase through acquisition	-	-	33,024	-	-	7,366	40,390
Depreciation	-	-	263	174	14,151	1,178	15,766
Impairment	-	-	-	-	-	-	-
Sales	-	-	(3)	-	(6,839)	(348)	(7,190)
Transfers	-	-	-	-	-	(798)	(798)
	30	-	37,707	3,904	130,908	25,792	198,341
Balance at the end of the year	38,844	26,375	165,570	3,279	381,440	13,433	628,941
Comprising:							
Cost	38,569	-	165,570	3,279	381,440	13,433	602,291
Valuation	275	26,375	-	-	-	-	26,650

	Group	Group	Group	Group	Group	Group	Group
	Sub-Total	Motor	Office	Locomotives	Railway	Work in	Total
	\$'000	Vehicles	Equipment	\$'000	Track	Progress	\$'000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2016							
Cost or valuation	571,270	24,761	1,738	4,311	409	20,848	623,337
Balance at the beginning of the year	227,394	38	231	-	-	-	227,663
Increase through acquisition	34,969	2,173	20	274	104	5,288	42,828
Purchases/revaluation	(7,248)	(872)	(25)	-	-	-	(8,145)
Sales	897	1	(982)	-	-	54	(30)
Transfers	827,282	26,101	982	4,585	513	26,190	885,653
Balance at end of year	-						-
Accumulated depreciation	150,173	13,837	1,328	2,102	184	-	167,624
Balance at the beginning of the year	40,390	8	174	-	-	-	40,572
Increase through acquisition	15,766	2,114	47	222	2	-	18,151
Depreciation	-	-	-	-	-	-	-
Impairment	(7,190)	(661)	(25)	-	-	-	(7,876)
Sales	(798)	(1)	(775)	-	-	-	(1,574)
Transfers	198,341	15,297	749	2,324	186	-	216,897
	628,941	10,804	233	2,261	327	26,190	668,756
Balance at the end of the year							
Comprising:							
Cost	602,291	10,804	233	2,261	327	26,190	642,106
Valuation	26,650	-	-	-	-	-	26,650

2015	Group Land \$'000	Group Forest Land \$'000	Group Buildings \$'000	Group Roads Bridges \$'000	Group Network \$'000	Group Plant Equipment \$'000	Group Sub-Total \$'000
Cost or valuation							
Balance at the beginning of the year	11,617	25,574	19,274	6,378	463,357	20,453	546,653
Increase through acquisition	-	-	-	-	23,814	19	23,833
Purchases/revaluation	(22)	-	23	334	546	1,392	2,273
Sales	(1,352)	-	(9)	-	-	(142)	(1,503)
Transfers	-	-	-	-	14	-	14
Balance at the end of the year	10,243	25,574	19,288	6,712	487,731	21,722	571,270
Accumulated depreciation							
Balance at the beginning of the year	110	-	4,155	3,583	110,238	15,851	133,937
Depreciation	-	-	277	147	13,358	1,130	14,912
Impairment	(80)	-	-	-	-	-	(80)
Sales	-	-	(9)	-	-	(141)	(150)
Transfers	-	-	-	-	-	-	-
	30	-	4,423	3,730	123,596	16,840	148,619
Balance at the end of the year	10,213	25,574	14,865	2,982	364,135	4,882	422,651
Comprising:							
Cost	9,923	-	14,865	2,982	364,135	4,882	396,787
Valuation	290	25,574	-	-	-	-	25,864

2015	Group Sub-Total \$'000	Group Motor Vehicles \$'000	Group Office Equipment \$'000	Group Locomotives \$'000	Group Railway Track \$'000	Group Work in Progress \$'000	Group Sub-Total \$'000
Cost or valuation							
Balance at the beginning of the year	546,653	27,701	1,658	4,347	409	9,258	590,026
Increase through acquisition	23,833	-	-	-	-	11,588	35,421
Purchases/revaluation	2,273	3,934	91	110	-	16	6,424
Sales	(1,503)	(6,874)	(11)	(146)	-	-	(8,534)
Transfers	14	-	-	-	-	(14)	-
Balance at the end of the year	571,270	24,761	1,738	4,311	409	20,848	623,337
Accumulated depreciation							
Balance at the beginning of the year	133,937	16,425	1,232	2,035	184	-	153,813
Depreciation	14,912	2,022	107	213	-	-	17,254
Impairment	(80)	-	-	-	-	-	(80)
Sales	(150)	(4,610)	(11)	(146)	-	-	(4,917)
Transfers	-	-	-	-	-	-	-
	148,619	13,837	1,328	2,102	184	-	166,070
Balance at the end of the year	422,651	10,924	410	2,209	225	20,848	457,267
Comprising:							
Cost	396,787	10,924	410	2,209	225	20,848	431,403
Valuation	25,864	-	-	-	-	-	25,864

The directors assess the fair value of land and buildings as the carrying value shown above.

31 FORESTRY ASSETS

	Group 2016 \$'000	Group 2015 \$'000
Balance at the beginning of the year	113,629	111,093
Add costs capitalised in establishing forests during the year	1,947	2,218
Increase in forest from acquisition	237	-
Revaluation	9,524	2,515
Less Value of logs harvested	(1,535)	(2,197)
	<u>123,802</u>	<u>113,629</u>
Gains/(losses) arising from changes in fair value less point of sale costs:		
Attributable to physical changes	841	3,194
Attributable to price changes	9,332	(658)

The directors of City Forests Limited revalue its forestry assets annually and Dunedin City Holdings Limited adopts that value.

The valuation methodology used establishes the fair value of the collective forest and land resource and then subtracts the value of the forestry land at \$25,985,800 value. The NZ IFRS valuation rules require that the value is calculated under the assumption that a stand will not be replanted once felled irrespective of the sustainable forest policy of the directors. The change in the value of the forest from year to year is reflected in the statement of comprehensive income.

Fair value requires calculating the present value of expected net cash flows using a post-tax discount rate. This discount rate used by the company is 6.5% (2015: 7.0%).

The forestry valuation is subject to a number of assumptions. The ones with the most significant volatility or impact on the valuation are the discount rate applied and log prices adopted. The discount rate adopted was 6.5%; a +/- 50 basis point movement in the discount rate would change the valuation by +\$5.95 mil / -\$5.45 mil. A 10% increase or decrease in assumed log prices would change the valuation by +\$11.06 mil / -\$11.05 mil; (note that these sensitivities are shown are independent and different outcome would result from combined changes in discount and log prices).

At 30 June 2016 the company owned stands of trees on 16,469 hectares of a total land holding of 20,453 hectares. During the year the company harvested approx. 306,452 m3 of logs from its forests.

City Forests Limited is exposed to financial risks associated with USD log price and the USD and AUD sawn timber prices. This risk is managed through its financial management policy described within note 14, Financial Instruments. City Forests Limited is a long-term forestry investor that expects log prices to fluctuate within a commodity cycle. It is not possible to hedge against 100% of the price cycle but the company does manage harvest volumes to minimise the impact of the commodity price cycle over the longer term.

The valuer of the forestry asset was an employee of the company who has a Bachelor of Forestry Science with Honours, a Post Graduate Certificate in Executive Management and is a member of the New Zealand Institute of Forestry. He has the appropriate knowledge and the skills to complete the valuation.

A peer review of the valuation process and key inputs was conducted by Chandler Fraser Keating. The peer review was completed with regard to a summary of market transactions at arms length terms and current market conditions. The valuation assumptions include all direct costs and revenues.

32 New Zealand Carbon Credits

The New Zealand Emissions Trading Scheme was enacted under the Climate Change Response Amendment Act 2008 and took effect from 26th September 2008.

A forest owner with forests established after 31st December 1989, under the Act, may opt to join the Emissions Trading Scheme. Post-89 forests will earn carbon credits (NZU's) from 1st January 2008 and these may be traded within New Zealand or converted into Assigned Amount Units (AAU's) and sold internationally. City Forests Limited completed registration of the Post-89 forests under the Emissions Trading Scheme in January 2010. These forests have been sequestering carbon under the scheme since 1st January 2008. Subsequent to our Post-89 registration, the New Zealand Government has allocated City Forests Limited a total of 1,632,903 Post-89 derived NZU's, being the carbon sequestered by these forests during the 2008 to 2016 calendar years. In 2015 3,086 ERU's were purchased, 2,999 were surrendered later in the year to meet a liability the Company had for carbon credits. There has been no carbon credit sales for the financial year.

As at 30th June 2016, 965,903 units were unsold (2015: 751,115). Under the accrual principle, the unsold credits have been valued based on the current market prices and recognised in the financial statements.

In future years there will be a carbon credit liability against a proportion of the carbon credits sequestered from post-1989 forest areas in accordance with New Zealand Emission Trading Scheme Regulations. A proportion of Carbon sequestered from Post-1989 areas will have to be surrendered to compensate for the carbon liability generated from harvesting those forest areas. The intangible asset represents the value of carbon sequestered to date and can be used to settle carbon credit liability on harvesting.

	Year ending 30 June 2016 \$'000	Year ending 30 June 2015 \$'000
New Zealand carbon credits	17,288	4,994

33 DERIVATIVE FINANCIAL INSTRUMENTS

	2016 Asset \$'000	2016 Liability \$'000	2015 Asset \$'000	2015 Liability \$'000
<i>Fair value</i>				
Interest rate swaps	24,789	32,261	23,571	25,112
Analysed as:				
Current	272	203	2,901	2,095
Non-current	24,517	32,058	20,670	23,017
	24,789	32,261	23,571	25,112

34 CAPITAL EXPENDITURE COMMITMENTS

	Group 2016 \$'000	Group 2015 \$'000
Plant and equipment	11,609	18,791

35 FINANCIAL RISK

Dunedin City Treasury Limited provides services and loans to the businesses and the shareholder, co-ordinates access to domestic financial markets, and monitors and manages the financial risks relating to the operations of the Group. These risks include market risk, credit risk and liquidity risk.

35.1 Capital Management Strategy

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The mission statement in the parent company's Statement of Intent is to drive the performance of its Subsidiary and Associated Companies so as to ensure each company provides the maximum advantages in all respects to the ultimate shareholder, the Dunedin City Council. The parent company meets with its shareholder on a regular basis and advises what capacity it has to provide tax effective distributions. The parent board seeks to maximise those distributions while balancing the ongoing need to grow the overall Group business and to maintain the Group's financial strength through sound and innovative financial management.

The intentions of the parent company in respect of distributions for each three-year period are disclosed in the annual Statement of Intent submitted to the Council in public.

35.2 Liquidity Risk

Liquidity risk is the risk that the company will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The company aims to maintain flexibility in funding by keeping committed credit lines available.

The Group evaluates its liquidity requirements on an ongoing basis and Dunedin City Treasury Limited actively manages its liquidity risk through:

- maintaining the best credit rating appropriate to the Dunedin City Council Group expenditure and revenue plans;
- arrangement of appropriate backup facilities to the short term borrowing programme;
- managing a prudent balance of both short and long term borrowing programmes;
- regular review of projected cash flows and debt requirements.

In general the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

The maturity profile and effective interest rates of the Group term borrowings are set out in note 27. The maturity profiles of the Group's financial assets and liabilities, with the exception of equity investments are explained in note 35.9.

35.3 Interest Rate Risk

Under the Dunedin City Council Treasury Risk Management Policy approved on 15 December 2014, Dunedin City Treasury Limited will utilise a portfolio approach to manage interest rate risk for the Group.

The Group uses interest rate swaps to manage its exposure to interest rate movements on its multi-option facility borrowings by swapping a proportion of those borrowings from floating rates to fixed rates.

The notional principal outstanding with regard to the interest rate swaps is:

	Group 2016 \$'000	Group 2015 \$'000
Maturing in less than one year	15,000	120,400
Maturing between one and five years	200,000	120,000
Maturing in more than five years	409,000	286,500
	624,000	526,900

35.4 Currency Market Risk

City Forests Limited is the one company within the Dunedin City Holdings Limited Group that consistently generates cash flows in foreign currency. NZD is the functional currency of both City Forests Limited and the Dunedin City Holdings Limited Group. City Forests Limited manages the risk associated with exchange rate fluctuations through the use of currency derivatives to hedge significant future export sales in accordance with foreign exchange policy established by directors. This foreign exchange policy of City Forests Limited allows foreign exchange forward contracts and the purchase of options in the management of its exchange rate exposures. The instruments purchased are only against the currency in which the exports are sold.

Other companies within the Group will occasionally purchase forward cover against expected purchases in foreign currency.

At balance sheet date, the total notional amount and fair values of outstanding forward foreign exchange contracts to which City Forests Limited is committed are as follows:

	Group 2016 \$'000	Group 2015 \$'000
Forward foreign exchange contracts		
- fair value	(321)	(2,345)
- nominal value (sale of USD and purchase of NZD)	13,074	15,400
Forward foreign exchange contracts		
- fair value	(53)	-
- nominal value (sale of NZD and purchase of USD)	(1,719)	-

35.5 Effectiveness of Cash Flow Hedges

The matched terms method is the method used in applying hedges across the Group. In all cases, the critical terms of both the hedge instrument and the underlying transaction are matched.

	Group 2016 %	Group 2015 %
Effectiveness	100	100

35.6 Credit Risk

Credit risk is the risk that a third party will default on its obligation to the Company, causing the Company to incur a loss.

The Company has processes in place to review the credit quality of customers prior to the granting of credit.

In financial transactions, the Group deals only with credit-worthy counterparties that are rated the equivalent of investment grade and above. This information is supplied by credit rating agencies. The Group's exposure and the credit ratings of its counterparties are continually monitored and the aggregate value of transactions undertaken is spread among the approved counterparties.

Trade receivables consist of a large number of customers spread across diverse industries and geographical areas. The Group does not have any significant credit risk exposure to any single counterparty or Group of counterparties having similar characteristics.

The amounts presented in the balance sheet for trade receivables are net of allowances for doubtful debts. Credit terms differ between companies within the Group.

Past due, but not impaired, receivables are as follows:

	Group 2016 \$'000	Group 2015 \$'000
Past due receivables		
Age analysis: 30-60 days	892	267
60-90 days	334	446
90 days plus	472	551

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard & Poor's credit ratings.

Financial assets analysis

2016

	AA	AA-	No Rating	Group
Cash and cash equivalents	-	17,350	-	17,350
Trade and other receivables	2,513	-	39,875	42,388
Advances due from related parties	215,600	-	1,279	216,879
Mortgage receivables	-	-	-	-
Derivatives	-	24,789	-	24,789
NZ carbon credits	-	-	17,288	17,288
	218,113	42,139	58,442	318,694

2015

Cash and cash equivalents	-	15,889	-	15,889
Trade and other receivables	2,262	-	38,742	41,004
Advances due from related parties	238,116	-	86,205	324,321
Mortgage receivables	-	-	-	-
Derivatives	-	23,571	-	23,571
NZ carbon credits	-	-	4,994	4,994
	240,378	39,460	129,941	409,779

35.7 Sensitivity Analysis of Financial Assets and Liabilities

Based on historic movements and volatilities, the following movements are reasonably possible over a twelve month period:

Proportional foreign exchange rate movement of -10% (depreciation of NZD) and a +10% (appreciation of the NZD) against the USD, from the year end rate of 0.7310 and against the AUD, from the year end rate of 0.9801. A parallel shift of +1%/-1% in the NZD market interest rate from the year end 90 day BBR of 2.41% (2015: 3.08%).

Should these movements occur, the effect on consolidated profit and loss and equity for each category of financial instrument held at balance date is presented below. The movements are illustrative only.

	Carrying Amount \$'000	Interest Rate				FX	
		-100bp		+100bp		-10%	10%
		Profit	Equity	Profit	Equity	Profit	Profit
2016							
Financial assets							
Derivatives – designated as cash flow hedges (interest rate swap and forward currency deals separately disclosed)	24,789	-	-	-	-	1,266	(1,036)
Other financial assets	271,406	-	-	-	-	325	(266)
	296,195	-	-	-	-	1,591	(1,302)
Financial liabilities							
Derivatives – designated as cash flow hedges (interest rate swaps and forward currency deals separately disclosed)	32,261	-	(10,005)	-	9,220	-	-
Other financial liabilities	718,806	1,120	-	(1,120)	-	-	-
	751,067	1,120	(10,005)	(1,120)	9,220	-	-
Total increase/(decrease)		1,120	(10,005)	(1,120)	9,220	1,591	(1,302)
2015							
Financial assets							
Derivatives – designated as cash flow hedges (interest rate swap and forward currency deals separately disclosed)	23,571	-	-	-	-	-	-
Other financial assets	392,250	-	-	-	-	342	(279)
	415,821	-	-	-	-	342	(279)
Financial liabilities							
Derivatives – designated as cash flow hedges (interest rate swaps and forward currency deals separately disclosed)	25,112	161	(3,823)	(161)	2,899	2,436	(1,993)
Other financial liabilities	728,896	1,990	150	(1,990)	(145)	-	-
	754,008	2,151	(3,673)	(2,151)	2,754	2,436	(1,993)
Total increase/(decrease)		2,151	(3,673)	(2,151)	2,754	2,778	(2,272)

1. Cash and cash equivalents include deposits at call which are at floating interest rates. Sensitivity to a 1% movement in rates is immaterial as these deposits are very short term.

2. Derivatives subject to the hedge accounting regime are managed by the company to be 100% effective and thus there is no sensitivity to change in either interest rates or exchange rates. Changes to interest rates charged caused by any change to the credit standing of the Group cannot be hedged.

3. Borrowings within each of the companies of the Group are subject to the Treasury Risk Management Policy. Sensitivity to any movement in the interest rate in the Income Statement is limited to the effect on the amount of floating rate debt that exceeds the amount of the fixed rate hedge.

4. A proportion of derivatives contracted with third parties are offset by corresponding contractual arrangements with the Dunedin City Council. An interest rate movement of plus or minus 1% across the yield curve would have no impact on profit and loss and equity for these derivatives.

5. The shareholder's advance of \$112 million from the Dunedin City Council to Dunedin City Holdings Limited is variable rate debt that is not hedged.

35.8 Fair value of financial instruments

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 NZ \$'000	Level 2 NZ \$'000	Level 3 NZ \$'000	Total NZ \$'000
2016				
Financial assets				
Derivative financial assets	-	24,789	-	24,789
New Zealand carbon credits	17,288	-	-	17,288
	17,288	24,789	-	42,077
Financial liabilities				
Derivative financial liabilities	-	32,261	-	32,261
2015				
Financial assets				
Derivative financial assets	-	23,571	-	23,571
New Zealand carbon credits	4,994	-	-	4,994
	4,994	23,571	-	28,565
Financial liabilities				
Derivative financial liabilities	-	23,880	-	23,880

35.9 Contractual Maturity Analysis of Financial Assets and Liabilities

The tables below analyse the Group's financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Contractual amounts for the interest expense and balance of the shareholder advance have not been included as the interest is currently payable on a year by year basis and there is no contractual date for the repayment of the outstanding balance.

	Carrying Amount \$000's	Contractual Cash Flows \$000's	Less than 1 year \$000's	1 to 2 years \$000's	2 to 5 years \$000's	More than 5 years \$000's
Financial Assets						
2016						
Cash and cash equivalents	17,350	17,350	17,350	-	-	-
Trade and other receivables	42,388	42,388	42,388	-	-	-
Derivative financial instruments	272	26,266	7,113	6,133	8,865	4,156
Investments	216,887	370,709	36,025	36,235	298,449	-
Total	276,897	456,713	102,876	42,367	307,314	4,156
2015						
Cash and cash equivalents	36,993	36,993	36,993	-	-	-
Trade and other receivables	38,902	38,902	38,902	-	-	-
Derivative financial instruments	19,015	28,468	6,342	6,065	11,856	4,205
Investments	358,082	406,564	40,767	34,964	330,815	-
Total	452,992	510,927	123,004	41,029	342,671	4,205
Financial Liabilities						
2016						
Trade and other payables	31,905	31,905	31,905	-	-	-
Derivative financial instruments	32,261	40,786	9,626	7,714	18,280	5,166
Borrowings	580,900	654,123	163,065	120,235	223,450	147,373
Total	645,066	726,814	204,596	127,949	241,730	152,539
2015						
Trade and other payables	24,341	24,341	24,341	-	-	-
Derivative financial instruments	17,594	26,281	6,130	5,908	10,681	3,562
Borrowings	620,998	678,054	230,509	164,454	228,188	54,903
Total	662,933	728,676	260,980	170,362	238,869	58,465

36 RELATED PARTY TRANSACTIONS

The parent entity in the consolidated Group is Dunedin City Holdings Limited which is wholly owned by the Dunedin City Council.

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 24 to the Financial Statements.

Details of the percentage of ordinary shares held in associates are disclosed in note 25 to the Financial Statements.

Amounts receivable from and payable to related parties at balance date are disclosed in notes, 16 and 18.

Transactions with Dunedin City Council and its subsidiaries outside the Dunedin City Holdings Limited Group

Dunedin City Holdings Limited and its subsidiary companies undertake transactions with the Dunedin City Council on an arms-length commercial basis. The Group provided services and traded with the Dunedin City Council in respect of the following transactions.

	Group 2016 \$'000	Group 2015 \$'000
<i>Sales of services to the Dunedin City Council and its subsidiaries outside the Dunedin City Holdings Limited Group:</i>		
Contracting services	7,367	7,481
Interest income	21,829	23,596
Transport services	-	8
	29,196	31,085
<i>Purchases of goods and services from the Dunedin City Council and its subsidiaries outside the Dunedin City Holdings Limited Group:</i>		
Interest	5,921	6,062
Subventions	7,292	8,107
Dividends	-	4,548
Materials/network assets	187	169
Rates and property rentals	977	943
Royalties	14	44
Administration and office services	5	5
	14,396	19,878
<i>As at balance date:</i>		
Receivable from the Dunedin City Council and subsidiaries	739	489
Payable to the Dunedin City Council and subsidiaries (inclusive of shareholders advance)	112,014	112,781

Transactions with companies in which key management personnel have an interest and with close members of the family of key management personnel.

Key management personnel within the Group include the Chief Executives, any manager with the title of Chief Financial Officer or equivalent and any manager with general management responsibilities over a major division. Amounts are to the nearest \$1,000.

During the course of the year:

Taieri Gorge Railway Limited paid \$9,000 (2015: \$15,000) for services from Action Engineering Limited an organisation of which Mr G Crombie is a director. No monies were outstanding at 30 June (2015: nil);

Delta Utility Services Limited and Taieri Gorge Railway Limited paid \$6,000 (2015: \$7,000) for services and provided services of \$2,000 (2015: nil) to The Otago Polytechnic, an organisation of which Mrs K E Grant is a Director. No amounts (2015: \$1,000) was outstanding at 30 June and \$1,000 was payable at 30 June (2015: nil).

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows.

	Parent 2016 \$'000	Parent 2015 \$'000
Directors fees	311	272

The remuneration of directors is agreed annually by the Dunedin City Council in accordance with the policies that it sets from time to time. The remuneration of management is determined by the remuneration committees of each board having regard to the performance of individuals and market trends.

37 COMMITMENTS

	Group 2016 \$'000	Group 2015 \$'000
Minimum operating lease payments		
Payable within one year	2,416	1,921
Payable between one to five years	5,214	3,756
Payable later than five years	526	210
	8,156	5,887
Other commitments		
Undrawn Facilities: Level of committed facilities undrawn was \$130,000,000 (2015: \$135,000,000)		

38 EVENTS AFTER BALANCE SHEET DATE

As at 30 June 2016, the Company's balance date, Delta had an outstanding debt of \$13.4 million related to infrastructure services provided to a counterparty in default. The debt was secured by a mix of mortgage securities held over a Christchurch development

Delta assessed the fair value of its secured debt receivables at balance date partly by reference to a conditional tender to purchase the property in accordance with the terms of a mortgagee sale. After balance date, the conditions of the tender offer were confirmed, and Delta entered a new loan agreement with the successful tenderer to replace its existing debt owing from the counterparty in default.

The fair value of the new loan supports the assessed value of Delta's outstanding debt at balance date, and the new loan continues to be secured by a second mortgage over the development property. The new loan agreement provides for Delta to earn interest and receive an immediate debt reduction of around \$1 million, and for the balance of the loan to be repaid in future years.

Statutory Information
For the Year Ended 30 June 2016

Information on the Directors of
Dunedin City Holdings Limited

Graham William Crombie
 Date appointed - 17 July 2012

Responsibilities Chairman, Company Director

Declarations of Interests

Chair, Otago Museum Trust
 Independent Chair, Action Engineering Limited
 Director, Surf Life Saving NZ
 Chair, NZ Genomics Limited
 Director and Shareholder, Innovatio Limited
 Chair, Dunedin City Treasury Limited
 Director, Dunedin Venues Limited
 Deputy Commissioner, Southern District Health Board
 Associate Commissioner, Commerce Commission

Kathleen Enid Grant
 Date appointed - 17 July 2012

Responsibilities Company Director

Declarations of Interests

Consultant, Gallaway Cook Allan
 Chair of Council, Otago Polytechnic
 Trustee, Sport Otago
 Director, Dunedin City Treasury Limited
 Director, Dunedin Symphony Orchestra
 Commissioner, Southern District Health Board

Brian John Wood
 Date appointed - 17 October 2013

Responsibilities Company Director

Declarations of Interests

Chair, Buller Holdings Limited
 Chair, Westreef Services Limited
 Chair, Buller Recreation Limited
 Chair, Westport Harbour Limited
 Chair, Canterbury Linen Services Limited
 Chair, Abley Transportation Consultants Limited
 Director, Interpret Geospatial Solutions Limited
 Director, Lyttelton Port of Christchurch Limited
 Director, Dunedin City Treasury Limited
 Director, Harrison Grierson Holdings Limited
 Member, Governance Board for Maintenance Contract, West Coast State Highways, Fulton Hogan
 Chair, Project Steering Group, Christchurch City Learning Centre, Christchurch City Council
 Chair, Project Steering Group, Christchurch Town Hall Rebuild

Linda May Robertson
 Date appointed - 17 October 2013

Responsibilities Company Director

Declarations of Interests

Director, Dunedin City Treasury Limited
 Director and Shareholder, RML Consulting Limited
 Member, Audit and Risk Committee, Ministry of Social Development
 Director, New Zealand Registry Services Limited
 Director, King Country Energy Limited
 Member, Technical Advisory Committee for NZ Export Credit Office
 Director, NZPM Group Limited
 Director, Auckland Council Investments Limited
 Director, Crown Irrigation Investments Limited
 Director, NZ Local Government Funding Agency
 Chair, Audit and Risk Committee, Central Otago District Council

Keith Thomas Cooper
 Date appointed - 2 February 2015

Responsibilities Company Director

Declarations of Interests

Shareholder/Director, Littlebrook Farm Limited
 Chair, Otago Rugby Football Union (Inc)
 Director, Dunedin City Treasury Limited
 Chair, Highlanders Provincial Union Limited Partnership
 Director, Miller Creative Group Limited
 Director, Designability Limited
 Director, Miller Construction (SI) Limited

The constitution of Dunedin City Holdings Limited states that one third of the directors retire by rotation and directors appointed through the year must also retire.

Directors' Interests in Contracts

Disclosures of interests made by the directors are recorded in the Company's interest register. Any transaction entered into was in the Group's normal course of business and on its usual terms and conditions.

Directors' Interests in Contracts

Dunedin City Holdings Limited and its subsidiary companies have arranged directors' liability insurance policies, which ensure that the directors will incur no monetary loss as a result of actions undertaken by them. Certain actions are specifically excluded, such as, the incurring of penalties and fines imposed in respect of breaches of the law and any matters arising from dishonesty or criminal behaviour.

Directors' Remuneration and Benefits					
	Remuneration	Company		Remuneration	Company
	\$			\$	
Parent company					
Graham W Crombie	96,140	Dunedin City Holdings Limited	Raewyn J Lovett	21,612	Dunedin Venues Management Limited
Kathleen E Grant	53,814	Dunedin City Holdings Limited	Peter J Hutchison	16,793	Dunedin Venues Management Limited
Linda M Robertson	53,814	Dunedin City Holdings Limited	Glenys J Coughlan	8,397	Dunedin Venues Management Limited
Brian J Wood	53,814	Dunedin City Holdings Limited	Kevin G Winders	8,397	Dunedin Venues Management Limited
Keith T Cooper	53,814	Dunedin City Holdings Limited	Alan McConnon	5,440	Dunedin Venues Management Limited
Parent company total 311,396					
Subsidiaries & associated companies					
Dr Ian M Parton	36,285	Aurora Energy Limited	Peter G Stubbs	4,000	Dunedin Venues Management Limited
	36,285	Delta Utility Services Limited	Geoffrey R Thomas	22,950	Taieri Gorge Railway Limited
Stuart J McLauchlan	24,535	Aurora Energy Limited	Gary M T Williams	15,300	Taieri Gorge Railway Limited
	24,535	Delta Utility Services limited	Fred J McCall	15,300	Taieri Gorge Railway Limited
	30,000	Dunedin International Airport Limited	Hon Stan Rodger	15,300	Taieri Gorge Railway Limited
David J Frow	24,535	Aurora Energy Limited	Graeme M Smart	15,300	Taieri Gorge Railway Limited
	24,535	Delta Utility Services Limited	David W Wood	15,300	Taieri Gorge Railway Limited
Trevor J Kempton	21,470	Aurora Energy Limited	No director of Dunedin City Holdings Limited has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total remuneration received or due, and receivable by the directors as disclosed in the Group financial statements). No directors have received loans from the parent company or the Group.		
	21,470	Delta Utility Services Limited			
Stephen R Thompson	1,800	Aurora Energy Limited	There were no notices from directors of the company requesting to use company information which had been received in their capacity as directors, and which would not otherwise have been available to them		
	1,800	Delta Utility Services Limited			
John F Gallaher	53,000	City Forests Limited	Events subsequent to balance date		
Tony D Allison	28,000	City Forests Limited			
	13,334	Dunedin International Airport Limited	The directors are not aware of any matters or circumstances since the end of the financial year not otherwise dealt with in this report or the Group financial statements that have significantly, or may significantly, affect the operations of Dunedin City Holdings Ltd, the results of those operations or the state of affairs of the parent company or the Group.		
Tim J Mephram	28,000	City Forests Limited			
Michael C Horne	28,000	City Forests Limited	Employee Remuneration		
Patricia A Oakley	20,000	Dunedin International Airport Limited			
Mark Rogers	20,000	Dunedin International Airport Limited	Remuneration range	Parent Company	Subsidiaries
Graham W Crombie	nil	Dunedin City Treasury Limited	\$510,000-519,999	-	1
	nil	Dunedin Venues Limited	\$300,000-309,999	-	1
	2,720	Dunedin Venues Management Limited	\$280,000-289,999	-	3
Kathleen E Grant	6,666	Dunedin International Airport Limited	\$270,000-279,999	-	1
	nil	Dunedin City Treasury Limited	\$260,000-269,999	-	1
	nil	Dunedin Venues Limited	\$210,000-219,999	-	1
Linda M Robertson	nil	Dunedin City Treasury Limited	\$190,000-199,999	-	1
	nil	Dunedin Venues Limited	\$180,000-189,999	-	2
Brian J Wood	nil	Dunedin City Treasury Limited	\$170,000-179,999	-	3
	nil	Dunedin Venues Limited	\$160,000-169,999	-	4
Keith T Cooper	nil	Dunedin City Treasury Limited	\$150,000-159,999	-	4
	nil	Dunedin Venues Limited	\$140,000-149,999	-	6
William H Cockerill	nil	Dunedin Venues Limited	\$130,000-139,999	-	7
Joanne M Conroy	nil	Dunedin Venues Limited	\$120,000-129,999	-	6
			\$110,000-119,999	-	18
			\$100,000-109,999	-	37

**Statement of Service Performance
For the Year Ended 30 June 2016**

The performance targets established in the 2015/16 Statement of Intent for Dunedin City Holdings Limited, and Group, and the results achieved for the Year Ended 30 June 2016 are as follows:

Performance Target	Outcome Achieved
General	
1.0 Statement of Intent Review A review of the draft Statements of Intent for 2016/17 to be completed by 31 December 2015	The review of the draft 2017 Statements of Intent were completed by 31 December 2015
2.0 Operating Activities Reviews of the operating activities of the subsidiaries are to be performed annually or as required by the board of Dunedin City Holdings Limited	Monthly reviews of the operating activities of the Group companies have been performed
3.0 Matters of Substance Dunedin City Holdings Limited is to report matters of substance to Dunedin City Council within five days of the board becoming aware of them	All matters of substance were reported to the Council within five days of occurrence
Financial	
4.0 Performance Monitoring Continual reviews to be performed on a monthly basis in relation to operating initiatives and financial performance of each of the Group companies, excluding Dunedin International Airport Limited which reports on a quarterly basis	Continual monthly reviews of performance throughout the Group have been undertaken
5.0 Reporting Monthly reports to be received from each of the Group companies within 30 days from the end of the month under review Quarterly updates of the consolidated result for the Group be provided to Council An annual review of the performance of the board for each company within the Group be undertaken	Monthly reports were received within 30 days for inclusion in the Dunedin City Holdings Limited monthly board agendas Quarterly updates were provided to Council during the year The boards are constantly reviewed during the year. As directors come up for rotation the composition of directors is reviewed
6.0 Financial Strength The capital structure of the Group companies will be reviewed at the half year and full year balance dates	The Company's Standard and Poor's long term credit rating was reaffirmed at AA in December 2015. The A1+ short term rating remained the same Ongoing reviews of capital structure within the Group were performed
Non-financial	
7.0 Corporate Citizen A review of the activities undertaken by the Group companies for purposes of being a socially and environmentally responsible corporate citizen will be completed annually	A review of activities undertaken in the Group in support of being a good corporate citizen was completed and disclosed in the earlier social section of this report

Financial

The 2015/2016 Statement of Intent, presented to the shareholder in February 2015, projected that the parent company surplus before tax would be \$0.2 million and that the shareholder's funds at year end would be \$117.2 million based upon the continual application of the accounting policies that applied at the date of the Statement of Intent. The actual surplus before tax was \$4.1 million, \$3.9 million higher than expected. The shareholder's funds at the end of the period is \$145.3 million, \$28.1 million higher than expected. The dividends to the Dunedin City Council, the interest on the shareholders advance from the Dunedin City Council plus the net subvention payment from Aurora Energy Limited to Dunedin Venues Limited in February 2015 were projected to be \$11.2m. A total of \$11.2m was paid.



DUNEDIN CITY HOLDINGS LIMITED

Directory

Directors

Graham W Crombie

Kathleen E Grant

Linda M Robertson

Brian J Wood

Keith T Cooper

Group Chief Financial Officer

Grant A McKenzie (resigned effective 5 August 2016)

Registered Office

50 The Octagon
Dunedin
New Zealand

Bankers

ANZ

Taxation Advisors

Deloitte

Solicitors

Anderson Lloyd

Auditor

Audit New Zealand on behalf of the Controller and Auditor General

Independent Auditor's Report

To the readers of Dunedin City Holdings Limited group's financial statements and performance information for the year ended 30 June 2016

The Auditor-General is the auditor of Dunedin City Holdings Limited Group (the Group). The Auditor-General has appointed me, Scott Tobin, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of the Group, consisting of Dunedin City Holdings Limited and its subsidiaries and other controlled entities, on her behalf.

We have audited:

- the financial statements of the Group on pages 20 to 48, that comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on page 51.

Qualified Opinion – Our work was limited over the carrying value of stadium assets in the group financial statements

As disclosed in note 24 on pages 37 and 38, the Group acquired 100% of the shares in Dunedin Venues Limited (DVL) from Dunedin City Council on 30 June 2016. DVL is designated as a public benefit entity for accounting purposes as its primary objective is to own and maintain a stadium, rather than generate a commercial return on its assets.

As disclosed in notes 1 and 2 on page 24, the Group is designated as a for-profit entity and applies accounting standards that comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). NZ IFRS requires fair values and the impairment of assets to be determined on a commercial basis, generally with reference to the cash flows those assets could generate.

The Group has initially recorded the stadium assets acquired using the carrying values in DVL's financial statements, which total \$185.025 million. DVL can support this carrying value as a public benefit entity using non-commercial valuation approaches. However, in consolidating DVL into the for-profit Group financial statements for the first time at 30 June 2016, we consider the Group is required to initially record the stadium assets at carrying values that are supported by a valuation on a commercial basis.

There are indicators that a commercial based valuation of the stadium assets would be materially lower than the carrying value recorded in the Group's statement of financial position. However, the Group has not carried out an assessment of the value of the acquired stadium assets on a commercial basis and we are unable to determine the amount of the adjustment required. Any adjustment required to the stadium assets would be adjusted directly in equity.

In our opinion, except for the possible effects of the matter described above:

- the financial statements of the Group:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with International Financial Reporting Standards and New Zealand Equivalents to International Financial Reporting Standards.
- the performance information of the Group presents fairly, in all material respects, the Group's actual performance, compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives for the year ended 30 June 2016.

Our audit was completed on 30 September 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. We are unable to determine whether there are material misstatements because the scope of our work was limited, as we referred to in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;

- the appropriateness of the reported performance information within the Group's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

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

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparation of the performance information for the Group.

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

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and the performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, the audits of the subsidiary and associate entities, including regulatory disclosure audits for a subsidiary, we have no relationship with or interests in the Group.



Scott Tobin
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand