



DUNEDIN CITY HOLDINGS LIMITED



2018 Annual Report

What we do

Dunedin City Holdings Ltd is Dunedin City Council's wholly owned investment company. Our purpose is to monitor and provide leadership to subsidiary and associate companies, and to deliver financial returns to our shareholder, Dunedin City Council.

Our subsidiary and associate companies own and manage some of Dunedin's key infrastructure. Our portfolio includes:

- Aurora Energy Ltd
- City Forests Ltd
- Dunedin City Treasury Ltd
- Delta Utility Services Ltd
- Dunedin Railways Ltd (72%)
- Dunedin Stadium Property Ltd
- Dunedin Venues Management Ltd
- Dunedin International Airport Ltd (50%)

Our monitoring role involves ongoing oversight of subsidiary companies' financial and non-financial performance against the measures outlined in their Statements of Intent.

In providing leadership to the Group, we seek to create synergies between our subsidiary and associate companies. This allows companies to leverage each other's strengths, and helps us build a portfolio that is greater than the sum of its parts.

As a commercial investment company, we exist to provide a financial return to Dunedin City Council. We balance this with the Council's expectation that its Council Controlled Organisations (CCOs) operate as successful long-term businesses that manage company assets on an economic, environmental and socially sustainable basis.

Dunedin City Holdings also ensures the Group's financial strength is maintained through best practice governance and sound financial management.

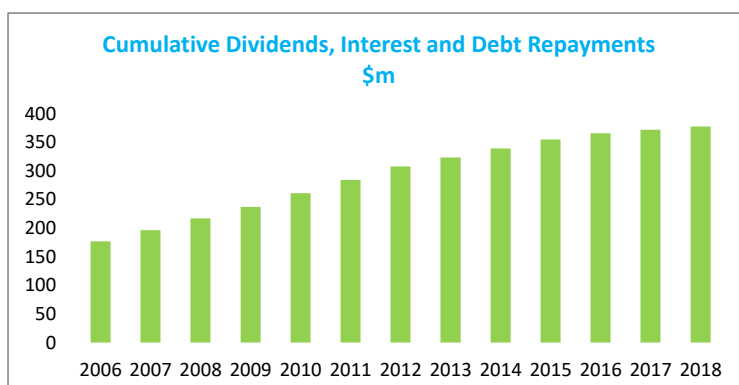
Our performance

Our job is to manage the commercial investments of the Dunedin City Council. To do this effectively the Group must earn enough to:

- meet our financial obligations;
- maintain an adequate level of shareholder's funds; and
- generate cash for reinvestment.

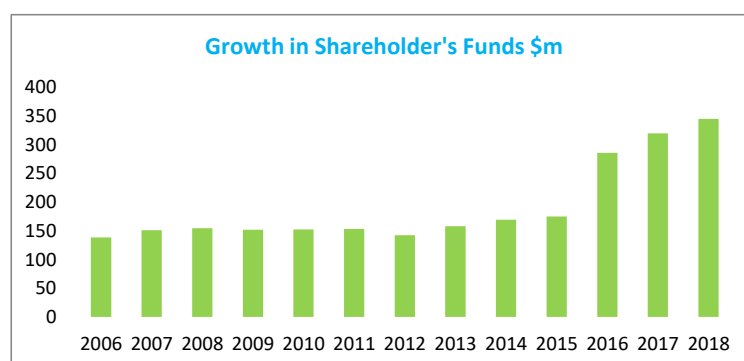
We have:

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

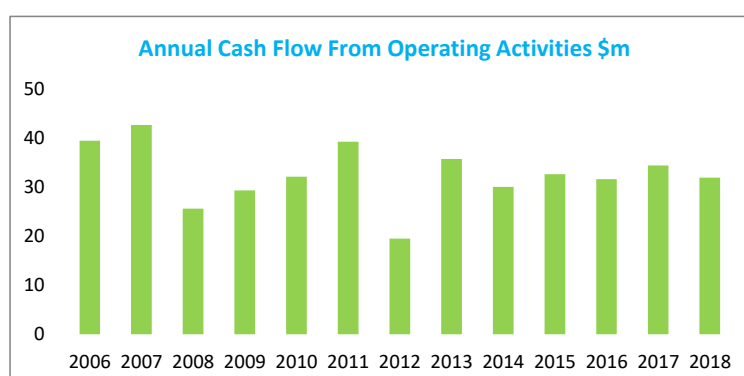


Maintained an adequate level of Shareholder's Funds

The capital injection from the DCC at 30 June 2016 for the purchase of Dunedin Stadium Property Ltd and Dunedin Venues Management Ltd resulted in a significant increase in shareholder's funds in 2015/16



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



Chair's Review

I am pleased to report on another successful year for the DCHL Group ending 30 June 2018.

The Group has returned a net surplus for the year of \$15.5 million. The Group's pre-tax surplus is \$24.3 million, led by a strong year at City Forests Ltd.

The level of distribution to Council remained at \$5.9 million this financial year, in line with the Statement of Intent expectations.

The Group's overall debt increased over the year, as forecast in our Statement of Intent. This was principally driven by Aurora's increased capital expenditure. Most other companies' debt and Council debt remained relatively static.

Aurora Energy Ltd completed its first year as an independent business, with a new team and focus. Aurora's higher levels of network maintenance and investment in new network assets are reflected in its reported capital expenditure of \$78.4m, \$33.2m higher than the same period last year.

Delta Utility Services Ltd recorded a net profit before tax of \$4.3m for this period. Delta's overall financial performance remained positive this year, despite significant change for the Company. Delta's core businesses within the electrical and environmental infrastructure sectors remained solid throughout the year, retaining long-term contracts and securing new work.

City Forests Ltd's surplus for the year increased substantially from that recorded in the previous year again. The Company has reported a pre-tax surplus of \$33.0m, compared to \$27.5m in the 2017 year. The increase in surplus is attributed to favourable market conditions, including domestic demand, but also the revaluation of forestry assets. This contributed to a larger distribution than forecast.

Dunedin City Treasury Ltd has continued to reduce the cost of funding for the DCHL Group and DCC over the 2017/2018 financial year, which was welcome given the Group's increased debt over the period. The Company achieved a pleasing reduction in funding cost of approximately 0.69%, equating to a saving for the group of approximately \$4.1 million, based on average term borrowings over the past year.

Dunedin Venues Management Ltd recorded an operating profit before tax of \$0.9m. This represents an increase of \$0.5m on their 2017 result. This result is largely due to the strong programme of content at Forsyth Barr Stadium over the period, which has included an All Blacks Bledisloe Cup Test, Stevie Nicks and the Pretenders, Roger Waters, Robbie Williams and three Ed Sheeran concerts.

Dunedin Stadium Property Ltd experienced an operating loss, as budgeted. The loss was smaller than that recorded over the same period in 2017, primarily due to a reduction in interest costs.

In December last year, Taieri Gorge Railway Ltd changed its name to Dunedin Railways Ltd to better reflect the wider operations of the Company. In July 2017, a rainfall event over two days caused extensive slips and washouts. The required repairs and loss of income had an impact of approximately \$0.5m. Dunedin Railways Ltd's surplus before the one-off flood costs was slightly above that of the prior year, at \$0.2m. The improvement reflects the continued increase in visitors to the city.

Dunedin International Airport Ltd has experienced its busiest year on record, welcoming its millionth passenger. The impact of new landing charges has contributed to the Company's increased aeronautical revenue, up 40% from the previous year. The Company recorded a post-tax surplus of \$3.4 million, with a dividend of \$0.7m paid to Dunedin City Holdings Ltd.

As the parent Company, DCHL has pursued several initiatives to provide support, leadership and oversight across the Group. This includes establishing a programme of director internships, developing a stronger dashboard of companies' financial and non-financial performance and strengthening the parent Company's risk identification and management structures.

The outlook for the Group continues to be positive.

At the end of 2017 we farewellled Brian Wood from the Board. Brian made a valuable contribution to the Company in his four years as a Director. Brian continues to make a contribution to the Group in his new role as Chair of Delta.

Following Brian's departure we welcomed Quentin Hix to the Board. Quentin has a wide-ranging legal background, and has served as a professional director in a range of public and private organisations. He brings to DCHL valuable experience in governance of holdings and investment organisations, including Ngai Tahu Holdings and Ngati Manawa Development.

We also welcomed DCHL's first Intern Director, Rowena Davenport, in January 2018. Rowena is a skilled Treasury Manager, currently at Motor Trade Finance. She has made a valuable contribution to our discussions.

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 2018 financial year.

Graham Crombie
Chair, Dunedin City Holdings Ltd

Directors' report

Results for the year ended 30 June 2018

	Group \$'000
Revenue	290,757
Profit before tax	24,253
Income Tax	8,760
Net Profit for the year	15,493

State of affairs

The Group has returned a net surplus after tax of \$15.5 million this year. This has decreased slightly from that reported in the previous financial year (\$18.5 million).

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 \$275 million to \$291 million.

The balance sheet of the Group remains strong.

Parent company

Dunedin City Holdings Ltd, as the parent company of the Group, made a net surplus of \$2.8 million, compared to \$2.7 million the previous year.

Parent company payments to the Dunedin City Council

The Statement of Intent provided for a \$5.9 million payment of funds to the Dunedin City Council, made up of interest on the shareholder's advance.

The final distribution of cash to the Dunedin City Council from Dunedin City Holdings Ltd and subsidiaries was made up of:

	\$'000
Interest payments from Dunedin City Holdings Ltd on shareholder's advance	5,902

Review of operations

Parent company

The parent company continues to work closely with all its subsidiary companies. It has assisted in undertaking reviews of activities and business cases within the Group, led Group-wide initiatives, and provided strategic guidance, the benefits of which we are confident will be evident in ensuing years.

In the next financial year we will be turning our attention to our longer term strategic planning processes. We look forward to continuing to build on our engagement with our shareholder, our subsidiary and associate companies, and the wider community.

Subsidiary and Associate Companies

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

Outlook

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

At the time of writing this report, the Commerce Commission announced that it has decided to file court proceedings against Aurora Energy Ltd for breaching its regulated quality standards in 2016 and 2017. The financial consequences of this matter (if any) are not known yet.

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

Dunedin Railways Ltd has experienced a setback with this year's slip, but has a positive outlook with forecast cruise ship growth.

Dunedin Venues Management Ltd has no confirmed concerts in the 2019 calendar year at this stage, impacting on both the quality of offering to members, economic impact to the city along with profitability. The Company is active in the market, endeavoring to secure content.

Dunedin Stadium Property Ltd's outlook remains unchanged.

Dunedin City Treasury Ltd 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.

Financial statements

The audited financial statements for the year ended 30 June 2018 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 \$304,000, up from \$288,000 the previous year.

**Statement of responsibility
For the year ended 30 June 2018**

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

The Board of Dunedin City Holdings Ltd accepts 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 Ltd, except for any adjustments that may have been required in relation to the carrying value of Dunedin Stadium Property Ltd's fixed assets in the group financial statements, the depreciation expense in the group statement of financial performance and the related financial information in the group statement of service performance, the annual group financial statements fairly reflect the financial position and operations of Dunedin City Holdings Ltd for the financial year ended 30 June 2018.



Chair
1 October 2018



Director
1 October 2018

Aurora Energy Limited

What we do

Aurora Energy Ltd owns the electricity network assets of poles, lines, cables and substations in Dunedin, Central Otago and Queenstown Lakes. Its function is to transfer electricity from the national grid to the end consumer.

What we did this year

This year marks the first year of operation for Aurora Energy as a standalone network owner with a new Board, management and team. We are an organisation of 135 staff based in Dunedin, Cromwell and Frankton who are dedicated to running the network with the support of contractors in the field.

A fresh start provides fresh opportunity. The organisation began the year with two main priorities, to continue the renewal of our electricity network while building the organisation's capacity to deliver its largest work programme ever. We focused our activities on safety, asset management, operational performance, customer orientation and building a high performance team.

We take our responsibility to provide a safe, reliable electricity supply to our customers and the community very seriously. In 2017, Aurora Energy set out a multi-year plan of asset renewal and investment to ensure that our network remains safe and reliable for the long term. We committed to a new level of investment to upgrade the ageing network and cater for future growth with elevated levels of spend targeted across all types of network assets.

Those plans have turned into action and this year saw us invest record levels in replacing, upgrading and maintaining our assets. We agree that it is unacceptable for our assets to fail in service due to their condition or a lack of maintenance. Low levels of investment in the past means that a proportion of our assets are now in poor condition and need renewing - in particular poles, overhead lines and zone substations. Our focus is to bring that situation under control, while recognising that it will take time to rectify.

Last year we took urgent steps to address the pressing issue of some of our worst condition poles through our Fast Track Pole Programme that concluded in December. That was a start, but with the age and state of the network, we still have a lot of work ahead to inspect, maintain and upgrade other equipment.

Our immediate focus has been on the electricity poles on our network. We are nearly a third of the way through a pole inspection and renewal programme at the end of which every one of our 54,000 poles will have had an inspection in the last five years and, where necessary, replaced or reinforced.

To illustrate what has already been achieved, in the last 18 months we have replaced or reinforced more than 5,000 of the 54,000 poles on the Aurora Energy network.

We have a lot to do over the next ten years but we are committed to making the needed investment and to target that investment on the parts of our network that need it the most. Safety will continue to be our number one priority when making those decisions.

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

The people as at 30 June 2018

Directors

Steve R Thompson (Chair)
Margaret P Devlin (Chair Audit & Risk Committee)
Dave J Frow
Brenden J Hall

Chief Executive

Richard Fletcher

At a glance

	2018 \$'000	2017 \$'000
Revenue	106,501	102,868
Net surplus for the year	425	7,294
Shareholder's funds	190,819	190,432
Total assets	535,549	472,619

City Forests Ltd**What we do**

City Forests Ltd is a forest owner that harvests and markets the products from the 16,795 hectares of forests that it owns and or manages. Products are sold in both the export and domestic markets.

What we did this year

Directors are pleased to report another record financial performance for City Forest Limited for the year in terms of both profit after tax of \$23.9m and dividends paid of \$8.0m. This is a record dividend as a result of the favourable trading conditions experienced during the year.

The Company continues to supply both the South Korean and Chinese log markets with regular shipments. This financial year was a continuation of the favourable and relatively stable period in Asian log markets extending from late 2015. The combination of increasing log market prices, shipping costs and a lower value New Zealand Dollar when combined delivered a period of very strong and stable log export returns for New Zealand forest owners.

The Company continues to supply domestic mills in Otago and Southland. Overall 38.1% (44.3% previous year) of log production from the Company's forests was supplied to Domestic customers. Prices for logs supplied to domestic customers increased during the year due to competing price pressure from the alternative log export market.

The Company had a busy production year making the most of favourable log markets. The overall cut from the forest estate was 303,922m³. This represents a 1.4% variance compared to its long term sustainable cut level, which has increased due to forest acquisition.

The Company is committed to achieving best practice in Health and Safety performance. The Company recorded a Lost Time Injury Frequency (LTIF) of 31.7 lost time injuries per 1 million hours worked (7.1 previous year).

The Company continues to demonstrate its commitment to responsible and sustainable management of its forest estates. The Company has held uninterrupted Forest Stewardship Council (FSC) certification since 2000. The Company products are sold as FSC certified.

During the year the Company purchased 706 ha of new land including approximately 80 ha of trees. The land is situated close to the Company's existing Takitua and Millers forests. These blocks are principally farmland and will be progressively planted during the 2018 and 2019 planting seasons providing an increase in the Company's sustainable harvest level and carbon sequestration. The Company continues with its strategy of estate expansion where quality forest or land can be acquired economically in proximity to the existing estate.

Company Forests are valued annually on 30 June and increased in value by \$13,585m from the previous year. The main drivers of the valuation increase were increases in 5 year average log prices and a revision of forecast forest yields and production costs. During the year the company adopted a market based valuation approach for forestry land being a change from QV value method used in prior years.

The outlook for the 2019 financial year is to deliver a strong result in line with that achieved over recent financial years. The underlying operational performance is predicted to be similar, however profitability will be dependent on how log markets track throughout the year. The Company's financial performance is driven by export and domestic log sales and strong customer relationships. A dividend of \$6.5 million is forecast for the 2019 year.

Looking to the medium term future the Company is optimistic that 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 domestically and from 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.

Recent forest acquisitions have increased the Company's annual sustainable cut level to approximately 300,000m³ per annum. The Company is well placed with a mature, harvest ready forest and proven export capability to make the most of market opportunities.

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

The people as at 30 June 2018**Directors**

John F Gallaher (Chair)
Christopher C Hopkins (appointed 1 January 2018)
Michael C Horne
Tim M Mephram (Chair Audit Committee)
Tony D Allison (resigned 31 December 2017)

Chief Executive

Grant Dodson

At a glance

	2018 \$'000	2017 \$'000
Revenue	74,029	55,901
Net surplus for the year	23,913	20,104
Shareholder's funds	160,343	139,058
Total assets	228,951	206,452

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

This year, Delta's core business activities in the electrical and environmental infrastructure sectors delivered solid results for the year ended 30 June 2018. We retained existing long term contracts and managed to secure new work activity with both new and current customers. Overall financial performance for the year remained positive, achieving a better than budget operating profit.

Total revenue was \$93.6 million for FY18 (FY17: \$105.7 million). Operating revenue decreased by 11.9% to \$92.7 million (FY17: \$105.2 million), but was above budget (budget \$87.4 million). The decreases from 2017 reflects the change in company structure that resulted in the transfer of asset management and engineering functions which Delta performed on the Aurora Energy Network to Aurora Energy on 1 July 2017 and the progressive exit from our solid waste operations.

Delta managed several capital projects on behalf of their three major electrical network customers during FY18. This included the completion of the Fast Track pole programme and the Gorge Creek project, on behalf of Aurora Energy. As well as making good progress on Aurora Energy's new Carisbrook zone substation build. Further north, Delta completed several re-conductor projects and transformers conversions on behalf on Network Tasman and completed three major projects for Nelson Electricity.

Delta's environmental services business secured several long-term contracts during FY18. In Central Otago, Delta secured the QLDC high profile turf contract for the next eight years and in North Canterbury, the Waimakariri District Council renewed their parks and reserve contract for a further seven years. In Dunedin, the Council extended the northern parks contract to include the city's southern region cricket grounds, and Delta's specialist tree services business continued to help maintain the reliability of the Aurora Energy network by clearing a total of 44.3 km of vegetation away from powerlines.

During FY18, Delta reviewed and refocused their safety and business strategies. Their overall safety vision is 'Everyone Home Safe, Every day' and plans to achieve this are centred on three main themes – Risk Focused, Worker Engaged and Leadership Motivated. During the year Delta achieved a 50 per cent reduction in lost time events and a 13 per cent reduction in the total recordable injury rate. They also maintained the visibility of safety leadership across the organisation, with the Board of Directors' Health and Safety Committee and Managers actively visiting a variety of worksites during the year. When redeveloping their business strategy, Delta revised their vision and purpose and centred their plan on six key pillars: People, Processes, Customers, Planning, Efficiency, and Innovation.

Delta introduced a new staff recognition programme during the year, to recognise and encourage employees who go above and beyond the duty of work in customer service, safety and living their core values. They also introduced a new customer charter which represents their four main assurances: Providing a quality service, never compromising on safety, supporting the environment and providing valuable solutions.

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

The people as at 30 June 2018**Directors**

Brian J Wood (Chair)
Tony D Allison (appointed 1 November 2017, Chair Audit & Risk Committee)
Steven W Grave
Trevor J Kempton

Chief Executive

Mike Costelloe

At a glance

	2018 \$'000	2017 \$'000
Revenue	93,641	105,733
Net surplus for the year	3,776	4,830
Shareholder's funds	22,122	20,023
Total assets	60,746	61,864

Dunedin City Treasury Limited**What we do**

Dunedin City Treasury Ltd provides the DCC Group with funding and financial services and manages the financial risks of the Group.

What we did this year

Dunedin City Treasury Ltd has continued to reduce the cost of funding for the DCC Group over the 2017/2018 financial year. The Company achieved a pleasing reduction in funding cost of approximately 0.69%, equating to a saving of \$4.1 million across the Group based on average term borrowings over the past year.

Helping to drive the reduced cost of funding were two refinances undertaken by the Company in October 2017. These involved refinancing a \$20 million Floating Rate Note (FRN) and a \$60 million MTN, by issuing a new FRN and MTN of \$45 million and \$35 million, issued for periods of 3 and 7 years respectively. The new MTN maturing 16 October 2024 has a coupon of 3.79% which compares favourably to the coupon of 7.81% for the October 2017 MTN maturity.

Dunedin City Treasury Ltd increased its use of short term funding this year, taking advantage of continued low short term funding costs. The Company has \$120 million promissory notes on issue at 30 June 2018, compared with \$60 million for the same date last year. The Company has achieved strong results with this promissory note programme. The average rate achieved was +0.017% basis points over the 3 month benchmark interest rate, and the average bid coverage ratio was 2.4 times the promissory notes tendered. These results indicate strong investor appetite for our paper.

The Company has also continued to ensure that funding facilities are spread over time, to help manage funding risk. Throughout the financial year, the Company has less than \$200 million of funding due to mature in any forward one year period.

Over the past year, the Official Cash Rate (OCR) has remained unchanged at 1.75%, the lowest OCR setting since the introduction of the OCR in 1999. The yield curve has flattened over the year, with lower bond and swap yields reflecting a benign inflationary outlook.

The Board considers the Dunedin City Treasury Ltd continues to provide significant benefit to the DCHL Group, DCC and Dunedin ratepayers through its provision of cost effective funding to the DCHL Group.

The Company's activity is governed by the DCC Treasury Risk Management Policy, which is designed to manage risk across a range of areas. The Company maintained compliance with the Policy at all times and continues to manage treasury activity in the best interests of the Group.

The Company continues to provide management services to the Waipori Fund which is Dunedin City Council investment fund of \$87.3 million as at 30 June 2018. The result for the year was a \$6,554,078 surplus, before an inflation adjustment of \$926,393 which was a return of 7.8%. With an inflation factor of 1.1%, the return after inflation was 6.7%.

The Company's Standard and Poor's long term credit rating was reaffirmed at AA in December 2017. The A1+ short term rating remained the same as previously reported.

The people as at 30 June 2018**Directors**

Graham W Crombie (Chair)
Keith T Cooper
Kathy E Grant
Quentin C S Hix (appointed 1 January 2018)
Linda M Robertson (Chair Audit Committee)
Brian J Wood (resigned 31 December 2017)

Treasury Manager

Richard Davey

At a glance

	2018 \$'000	2017 \$'000
Revenue	29,474	31,865
Net surplus for the year	171	115
Shareholder's funds	(8,448)	(1,319)
Total assets	632,667	594,267

Dunedin Stadium Property Limited

What we do

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

What we did this year

During the year the Directors reviewed the asset management plan and approved an appropriate budget for future years to ensure that the assets are maintained at an operational level.

Dunedin Stadium Property Ltd has a management contract in place with Dunedin Venues Management Limited confirming that the day to day operation of the stadium is Dunedin Venues Management Ltd's responsibility.

Dunedin Stadium Property Ltd's governance workload has proven lighter than expected. Effective from 1 July 2018, Joanne Conroy's term as a Director ended, and the Directors of Dunedin City Holdings Ltd became Directors of Dunedin Stadium Property Ltd. Those Directors will not receive remuneration for serving on the Board of Dunedin Stadium Property Ltd. William Cockerill remains the Chair of Dunedin Stadium Property Ltd.

The people as at 30 June 2018

Directors

William H Cockerill (Chair)
Joanne M Conroy (retired 30 June 2018)
Graham W Crombie

At a glance

	2018 \$'000	2017 \$'000
Loss before tax and subvention	(9,529)	(10,394)
Net loss for the year	(7,619)	(8,233)
Shareholder's funds	78,889	83,939
Total assets	171,398	180,349

Dunedin Venues Management Limited**What we do**

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

What we did this year

We have barely had time to draw breath wrapping up the last year and we're launching into the new financial year with the first concert, Kendrick Lamar. The 2017/18 year has been a record breaker for concerts under the roof. In last year's report we spoke about the lack of major concerts for the year. As yet another example of the volatility of the industry, this year saw a turnaround with six concerts in the past financial year. This included three Ed Sheeran concerts bringing in 108,000 fans – almost the population of Dunedin. The economic impact from Stadium concerts alone contributed almost \$50m to the local economy. During the next 12 months the team will continue to focus on new revenue streams to supplement a potentially quieter concert year and no international rugby due to Rugby World Cup 2019.

Dunedin benefits significantly from the conference business through Dunedin Venues Management Ltd. This year we hosted 4,838 delegates who attended 19 multi-day conferences at the Dunedin Centre. The MBIE Convention Delegate Survey Year to Dec 2016 shows the average spend for all delegates who spent time away from home to attend conferences was \$438 per person per night. This equates to an injection of \$4.2m by delegates (min 2 night stay) into the city which represents 20% growth from last year. This is a pleasing result in a competitive market.

Our event in partnership with Allied Press, The Great Kiwi Home and Living Show entered into its second year. Whilst there were slightly smaller numbers attending compared to the first year, it was once again well supported by local and national businesses. Celebrity Chef Pete Evans, was the guest chef and his cooking demonstrations were very popular. In terms of other business, our turf team have been utilising their skills at various grounds around the city as well as ensuring the University of Otago Oval is in top notch condition. The two One Day International cricket matches both played to sold out crowds and Dunedin's weather played its part in the festivities for both games.

Whilst the organisation is commercially focused, it is also tasked with ensuring access for our community groups to enjoy the venues through the administration of the Community Access Grant which provides a fund of \$750,000 for associated venue costs for community events. There is always massive demand for funding and we were thrilled to host 71 community events which were attended by 30,441 patrons. There was such a variety of community events, it was a great representation of the fund's purpose.

We wish to acknowledge and thank our partners and sponsors who continue to be an integral part of our journey as we strive to develop, grow and succeed in our business.

The people as at 30 June 2018**Directors**

Raewyn J Lovett (Chair)
Joanne Conroy (appointed 1 January 2018)
Glenys J Coughlan
Kevin G Winders (Chair Audit & Risk Committee)
Peter J Hutchison (retired 31 December 2017)

Chief Executive

Terry Davies

At a glance

	2018 \$'000	2017 \$'000
Revenue	16,641	13,745
Net surplus for the year	602	299
Shareholder's funds	1,985	1,083
Total assets	5,953	4,480

Dunedin Railways Limited**What we do**

Dunedin Railways Ltd operates a tourist and excursion train on the Taieri Gorge railway line and on the Seaside line north of Dunedin, and also undertakes rail touring using the Dunedin Silver Fern railcar throughout the South Island. Year after year the train trip through the Taieri Gorge remains a key attraction for residents, visitors to the region and for visiting cruise ship passengers.

What we did this year

The company was affected by a flood in July 2017 which closed the Taieri Gorge line for a period of two months. The repair cost of the flood/slip damage was \$459,000. In addition to the repair cost revenue was \$175,000 below budget during the two month closure period due to the alternative trip offered generating lower revenue due to its price point.

The Company would have delivered a profit in line with its budget were it not for the flood/slip closure. The Company's revenue is up 9% on the previous year which a good achievement given the lost revenue during the closure period.

Health and Safety

The Company has made a continued investment in Health and Safety with the appointment of a new role of Health Safety Training and Environment Coordinator in December 2017. This role is to support improvements in Health and Safety across the Company.

AO passenger carriage purchase and refurbishment

The Company purchased six AO passenger carriages from Kiwi Rail in the financial year. The refurbishment has commenced on two carriages with many safety and amenity enhancements. These two carriages will go into service in FY19 to meet the expected increase in cruise ship customers.

Company name change

The Company changed its name from Taieri Gorge Railway Limited to Dunedin Railways Limited on 1 December 2017. This aligned the Company name with the brand and marketing which changed in 2015 to better reflect the Company's multiple offerings.

CEO change

CEO Murray Bond retired in October 2017 after 25 years of service. The Company notes its thanks for Murray's contribution. Craig Osborne was appointed the Company CEO in September 2017.

Directors

After 19 years' service Gary Williams retired as a Director on 12 of January 2018.

Judy Bevin was appointed as a Director on 12 January 2018.

Volunteers

The Company acknowledge the commitment and contribution the volunteers of the Otago Excursion Train Trust make to tour and cruise ship customers. The Volunteers enhance our cruise ship product with their warmth, knowledge and dedication. For the first time the Company appointed a Cruise Leader whose role includes liaising with the volunteers and coordinating the volunteer program.

The year ahead

The 2019 year is expected to be one of further growth for the Company. There is expected to be an increase in the number of Cruise ship visits from 86 in 2018 to 110 in 2019.

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

The people as at 30 June 2018**Directors**

Geoff R Thomas (Chair)
Hon Stan Rodger (Deputy Chair)
Judy Bevin (appointed 12 January 2018)
Richard Roberts
Graeme M Smart
David W Wood
Gary M T Williams (resigned 12 January 2018)

Chief Executive

Craig Osborne (appointed 1 September 2017)
Murray Bond (retired 31 October 2017)

At a glance

	2018 \$'000	2017 \$'000
Revenue	7,547	6,939
Net surplus for the year	(260)	172
Shareholder's funds	1,935	2,195
Total assets	4,345	3,816

Dunedin International Airport**What we do**

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.

What we did this year

In terms of passenger numbers, 2018 was another record year for the airport. The total numbers of passengers for the year was 1,030,512 which represents an increase of 5.9% on the previous year and follows on from a 7.0% increase in the 2017 year. In January 2018 we welcomed our one millionth passenger. This was a major milestone and represented a 45% increase in passenger movements through the airport over the last ten years.

There remains strong demand for services through Dunedin Airport. Last year we reported that our busiest month on record was March 2017, with 87,730 passengers. This record was surpassed three times this year, with March 2018 at 95,163, our new busiest month on record.

Aeronautical revenue of \$7,287,000, which constituted 44.1% of total revenue, was 39.9% ahead of the previous year. In March 2017 we commenced consultation with our airline customers on airport charges for regular passenger transport (RPT) operators at Dunedin Airport. It is a legislative requirement under The Airport Authorities Act 1966 that all airport companies consult over charges with all substantial customers, before any new or altered charges are implemented. The previous landing charges consultation occurred in 2011. The consultation process was successfully concluded in June 2017 with updated airport charges taking effect from 1 July 2017. These changes, in addition to increasing passenger numbers, had a significant positive impact on the 2017 – 2018 aeronautical revenue.

Non-aeronautical income (excluding interest income, dividends received, gain on sale of fixed assets, and fair value movements of investments) increased 6.4% above last year to \$9,273,000. This revenue stream is derived from passenger activities, retail, property, car parking and the airport's dairy farming operations and constitutes 56.1% of our total revenue.

Over the year we have been involved in collaborative campaign work with Air New Zealand to promote our City and region. Various channels were utilised as part of the domestic campaign work. This year we have strengthened and initiated partnerships with several organisations and events within the region including TRENZ, Yellow-Eyed Penguin Trust, iD Fashion, Alps to Ocean Cycle Trail, OUSA Beer and Food Festival, and Wild Dunedin Festival. We have continued to focus on strengthening relationships with our community and identifying opportunities to share information about the airport and how we work with our partners.

The unprecedented growth in passengers through our airport, and the consequential congestion at peak times of the day, continued to strengthen the case for further investment into our airport infrastructure. The future 20-year master plan has now been completed, with the plan outlining the infrastructure planning pathway over the next two decades. The master plan passenger forecast for the year 2036, predicts an annual passenger volume of 1.74 million passengers based on conservative forecasting methods.

Outstanding compliance and safety performance over the past 12 months continues to demonstrate Dunedin Airports' commitment in maintaining a safe and compliant environment. No major findings were raised by our regulatory bodies, which include the Civil Aviation Authority, Ministry of Primary Industries, New Zealand Customs Service and the Otago Regional Council.

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

The people as at 30 June 2018**Directors**

Stuart J McLauchlan (Chair)
Tony D Allison (Chair Audit & Risk Committee)
Patricia A Oakley
Mark F Rogers

Chief Executive

Richard Roberts

At a glance

	2018 \$'000	2017 \$'000
Revenue	16,522	14,130
Net surplus for the year	3,275	2,321
Shareholder's funds	61,781	59,559
Total assets	88,657	88,050

Note the financial information above is for the full Company. As an associate investment, Dunedin City Holdings Ltd's share is 50%.

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 Ltd

Dunedin City Holdings Ltd is a Council Controlled Trading Organisation (CCTO), and the subsidiaries of Dunedin City Holdings Ltd are either a CCTO or CCO. Aurora Energy Ltd is an Energy Company as defined by the Energy Companies Act 1992.

Dunedin City Holdings Ltd 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 Ltd 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. They should also act in accordance with best governance practice.

Dunedin City Holdings Ltd 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

Each subsidiary Company 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 Ltd 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 Statements of Intent.

The DCC Treasury Risk Management policy determines 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 Chair 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 Ltd 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 Dunedin City Holdings Ltd Board has 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 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 Ltd's Group boards are committed to sound, practical corporate governance.

Environmental, social and economic performance

For the year ended 30 June 2018

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 encourage each Company within the group to act as a socially responsible corporate citizen.	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.

Aurora Energy's safety approach took account of its new status as a direct employer of staff. A Safety Choices programme was launched to make safety highly visible as a core value. Critical risk standards, an important element of Aurora Energy's safety management framework, were developed to provide clarity on expectations and mandatory controls for staff and the multiple service providers operating on the network at any given time. Aurora Energy's public awareness programme continued to inform the community about keeping safe around its electricity network.

City Forests continued to improve its health and safety systems in accordance with its annual plan. The areas of contractor certification, pre-operation risk assessment, internal safety audit systems, fatigue management and drug and alcohol testing were focus areas for the year.

During FY18, Delta redeveloped its five year safety strategy - reducing a twenty-plus page document into a one-page roadmap, supported by a short and coherent video. Delta achieved a 50 per cent reduction in lost time events and a 13 per cent reduction in the total recordable injury rate. The Board of Directors and Managers made frequent onsite safety observations and workgroup safety days gave focused attention to critical risk and the importance of planning.

Dunedin Railways Ltd appointed a HSE and Training Coordinator in December 2017. This has improved implementation of hazard controls, investigation of incidents and assurance of corrective actions. The Company has increased its regular pro-active safety management practices this year, and put additional cross checking processes in place for railway maintenance.

During the year, Dunedin Venues Management Ltd contracted an external Risk, Health and Safety expert to review their current system completing a Gap Analysis Report for action. These actions continue to be implemented focused on safety and continuous improvement. A focus on employee engagement has seen the number of staff actively involved in Health and Safety significantly increase over the period.

Dunedin International Airport Ltd continues to be an active member of the Dunedin Health & Safety Forum which it instigated in April 2015. This initiative has increased its membership across the Dunedin business community to over 80 organisations. Dunedin International Airport continues to work towards implementation of an Airport Safety Management System (SMS) by 31st March 2019, as required by Civil Aviation Rules. The airport is also in the early implementation stages of new software which will give greater control and monitoring of safety procedures, and enable the airport to provide online safety and security inductions to all staff and contractors.

Environmental

Aurora Energy's electricity distribution network supports the switch to electric, emission-free transport. The public charging network for electric vehicles further expanded in Otago, with five rapid chargers on Aurora Energy's network in Dunedin, Roxburgh, Alexandra, Cromwell and Wanaka. Through its partnership with ChargeNet, Aurora Energy is supporting the installation of additional chargers at key driving locations.

City Forests Ltd has held uninterrupted Forest Stewardship Council certification since 2000. City Forests continues to be a participant in the emissions trading scheme and the Company's forests store a significant volume of carbon. New land acquired during the year will increase City Forests carbon sequestration once established in trees.

The community continues to benefit from the significant network of walking and cycle tracks, picnic areas and other public amenities maintained by City Forests. The Company continues to encourage the public use of its forests in a controlled fashion through a permit system with numerous recreational activities and organised events occurring during the year. The Rally of Otago, walking, mountain biking, horse trekking and hunting access are the most notable activities.

During FY18, Delta renewed its EnviroMark Gold status across its entire organisation. In support of their environmental sustainability commitment, Delta purchased a number of battery operated tools including chainsaws, hedge cutters and leaf blowers, which replaced petrol driven units. In June 2018 Delta also placed an order for the new EV Mean Green ride-on mower. Delta maintained full compliance with the Resource Management Act and they achieved their fuel efficiency target across their light commercial fleet.

A number of initiatives occurred during the year at Dunedin Venues, including replacing light fittings as they fail with LED and a review of gas usage at the Dunedin Centre to ensure efficient usage. The Company engages an external party in the delivery of further operation efficiencies.

In May and June of 2018, Dunedin International Airport established tenant recycling. Early reports indicate a 9% increase in waste diverted from landfill. The airport expects to implement public recycling by the end of the next financial year. Dunedin Airport also processes all the sewage produced from the airport and 29 rental houses. The airport's worm farm ensures the Company does not send any solid waste to landfill from all of the treated sewage processed.

Community involvement

Our community involvement continues to cover a wide range of civic, charitable, sporting and recreational activities. In 2018, this support comprised a combination of financial sponsorship or assistance, the provision of staff resources and other forms of non-financial donation, such as loads of firewood and falcon safe network designs, from within the Group's resources.

The following organisations and events received contributions from DCHL Group companies this year: The Otago Hospice, the Cancer Society, the Otago Peninsula Biodiversity Trust, Orokonui Ecosanctuary, Otago Rescue Helicopter Trust, St John Ambulance, the Fifehire Foundation, Wildlands (NZ Falcon), YEP Trust, Alps 2 Ocean Cycleway, Momona Playcentre, Yellow Eyed Penguin Trust, conservation of the rare kārearea or New Zealand falcon, Tahuna Intermediate School's special robot project, the Aurora Energy Otago Science and Technology Fair, the Connexis Annual Connection Awards.

A large number of smaller organisations also received contributions such as loads of firewood or train tickets for raffle or auction prizes. Dunedin Airport also hosted a number of school and community airport visits.

The Dunedin City Council's Community Access Grant ensured local Groups enjoyed the facilities at Forsyth Barr Stadium and the Dunedin Centre with a variety of events hosted - 70 community events with 36,856 attendees.

Financial information

- Group financial statistics
- Statement of financial performance
- Statement of other comprehensive income
- Statement of movements in equity
- Statement of financial position
- Statement of cash flows
- Notes to the financial statements

Group financial statistics

	2018 \$'000	2017 \$'000	2016 \$'000	2015 \$'000	2014 \$'000
Revenue	290,757	275,073	270,625	251,067	233,978
Profit before tax, impairment and subvention payment from continuing activities	24,253	28,902	37,452	26,429	28,616
Profit/(loss) after tax from continuing operations	15,493	18,512	20,309	12,755	13,800
Tax	8,760	10,390	9,851	6,382	7,524
Surplus/(deficit) after tax	15,493	18,512	20,309	12,952	12,483
Net interest paid to the Council on advance	5,902	5,902	5,902	5,902	6,731
After tax cost of Dunedin Stadium Property Ltd subvention payment	-	-	5,250	5,250	5,250
Net surplus before shareholder interest and subvention	21,395	24,414	31,461	24,104	24,464
Cash flows from operating activities	31,892	34,416	31,634	32,565	30,084
Shareholder's funds	345,124	320,129	285,615	175,173	169,549
Shareholder's advance	112,000	112,000	112,000	112,000	112,000
Total shareholder's interest	457,124	432,129	397,615	287,173	281,549
Rate of return (on shareholder funds)	4.5%	5.8%	7.1%	7.4%	7.4%
Dividend paid	-	-	-	4,548	3,719
Net interest paid to the Council on advance	5,902	5,902	5,902	5,902	6,731
After tax cost of Dunedin Stadium Property Ltd subvention payment	-	-	5,250	5,250	5,250
Total interest, subvention and dividends paid to the Council	5,902	5,902	11,152	15,700	15,700
Total assets	1,241,463	1,171,778	1,143,093	1,029,435	1,034,432
Shareholder's funds to total assets	27.8%	27.3%	25.0%	17.0%	16.4%

Statement of financial performance
For the year ended 30 June 2018

	<i>Note</i>	Group 2018 \$'000	Group 2017 \$'000
Revenue			
Operating revenue	1	263,487	250,788
Financial income	2	13,685	14,656
Forest revaluation reserve	7	13,585	9,629
Total operating revenue		290,757	275,073
Expenditure			
Other expenses	3	147,298	128,321
Employee expenses		57,313	54,017
Audit fees	3	394	288
Financial expenses	3	34,510	37,077
Depreciation and amortisation		28,627	27,629
Total operating expenditure		268,142	247,332
Operating surplus		22,615	27,741
Share of associate surplus		1,638	1,161
Surplus before taxation		24,253	28,902
Less taxation expense	4	8,760	10,390
Surplus after taxation		15,493	18,512
Attributable to:			
Equity holders of the parent		15,566	18,464
Minority Interest		(73)	48
		15,493	18,512

Dunedin City Holdings Limited

Statement of other comprehensive income For the year ended 30 June 2018

	Note	Group 2018 \$'000	Group 2017 \$'000
Other comprehensive income			
Gain (loss) on forestry land revaluations		2,277	3,584
Gain (loss) on interest rate swap hedges		(6,483)	7,163
Gain (loss) on foreign exchange hedges		(1,303)	877
Gain (loss) on carbon credit revaluation		5,158	(586)
Other comprehensive income associates		177	6,095
Income tax on other comprehensive income		(1,059)	(338)
Net income recognised directly as other comprehensive income		(1,233)	16,795
Surplus after taxation		15,493	18,512
Total comprehensive income for the year		14,260	35,307
Attributable to:			
Equity holders of the parent		14,333	35,259
Minority interest		(73)	48
		14,260	35,307

Statement of changes in equity For the year ended 30 June 2018

	Group 2018 \$'000	Group 2017 \$'000
Movements in equity		
Opening equity	328,314	290,457
Total comprehensive income for the year	14,260	35,307
Contributions of Equity	2,550	2,550
Distributions to equity holders of the parent	-	-
Closing equity	345,124	328,314

**Statement of financial position
As at 30 June 2018**

	Note	Group 2018 \$'000	Group 2017 \$'000	Group 2016 \$'000
Current assets				
Cash and cash equivalents	13	1,973	15,072	17,350
Other current financial assets	5	31,980	18,883	19,017
Derivative financial instruments	21	-	426	272
Trade and other receivables	14	28,784	27,320	42,388
Taxation refund receivable		2,654	941	880
Inventories	9	11,356	9,650	5,078
Other current assets	10	-	1,122	16
Prepayments		945	1,178	1,125
Total current assets		77,692	74,592	86,126
Non-current assets				
Term receivables	14	11,968	12,841	-
Other non-current financial assets	5	170,009	184,914	197,870
Derivative financial instruments	21	11,262	16,181	24,517
Investments in associate companies	12	30,867	29,755	23,203
Intangible assets - carbon credits	8	27,024	23,413	17,288
Intangible assets - other		1,236	1,480	1,531
Forestry assets	7	150,172	136,333	123,802
Property, plant and equipment	6	761,233	700,454	673,598
Total non current assets		1,163,771	1,105,371	1,061,809
Total assets		1,241,463	1,179,963	1,147,935
Current liabilities				
Short term borrowings	17	3,638	473	857
Trade and other payables	15	28,612	33,942	31,905
Employee entitlements / provisions	23	5,539	5,458	4,914
Accrued expenditure	16	332	335	139
Derivative financial instruments	21	786	125	203
Provision for tax		5,096	2,869	2,067
Current portion of term loans	18	-	1,686	1,770
Total current liabilities		44,003	44,888	41,855
Non-current liabilities				
Term loans	18	609,570	570,870	578,273
Shareholder's advance - DCC	19	112,000	112,000	112,000
Employee entitlements	23	967	886	867
Other non-current liabilities	20	963	1,105	682
Derivative financial instruments	21	20,889	21,605	32,058
Deferred taxation	4	107,947	100,295	91,743
Total non-current liabilities		852,336	806,761	815,623
Equity				
Share capital	27	121,039	118,489	115,939
Accumulated funds	28	143,072	131,007	119,476
Minority interest in subsidiaries		543	616	568
Revaluation reserves	29	16,828	16,650	10,555
Cash flow hedge reserves	29	(10,686)	(3,126)	(10,712)
Forest revaluation reserves	29	65,917	53,858	43,341
Carbon credit reserve	29	8,411	10,820	11,290
Total equity		345,124	328,314	290,457
Total liabilities and equity		1,241,463	1,179,963	1,147,935

Statement of cash flows
For the year ended 30 June 2018

	Note	Group 2018 \$'000	Group 2017 \$'000
Cash flow from operating activities			
<i>Cash was provided from:</i>			
Receipts from customers		229,242	218,468
Effect of exchange		559	-
Interest received		12,347	14,213
Income tax refund		591	730
Dividend received		704	704
		<u>243,443</u>	<u>234,115</u>
<i>Cash was applied to:</i>			
Suppliers and employees		172,490	159,250
Finance costs paid		35,012	37,366
Taxation paid		2,817	2,270
Net GST paid/ (received)		1,232	813
		<u>211,551</u>	<u>199,699</u>
Net cash flow from operating activities	33	<u>31,892</u>	<u>34,416</u>
Cash flow from investing activities			
<i>Cash was provided from:</i>			
Sale of property, plant and equipment		2,460	804
Carbon credits sold		8,010	-
Decrease in investments		1,961	17,867
		<u>12,431</u>	<u>18,671</u>
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment		97,489	47,845
Increase in investments		-	7,811
		<u>97,489</u>	<u>55,656</u>
Net cash flow from investing activities		<u>(85,058)</u>	<u>(36,985)</u>
Cash flow from financing activities			
<i>Cash was provided from:</i>			
Call on Capital		2,550	2,550
Loans raised		42,697	-
		<u>45,247</u>	<u>2,550</u>
<i>Cash was applied to:</i>			
Loans repaid		5,178	2,259
		<u>5,178</u>	<u>2,259</u>
Net cash flow from financing activities		<u>40,069</u>	<u>291</u>
Net increase/(decrease) in cash		(13,097)	(2,278)
Opening cash and cash equivalents		15,072	17,350
Closing cash and cash equivalents		<u>1,975</u>	<u>15,072</u>

Notes to the financial statements For the year ended 30 June 2018

Reporting entity

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

Dunedin City Holdings Ltd 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 Ltd Group are for the year ended 30 June 2018.

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

Dunedin City Holdings Ltd 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.

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 1 October 2018.

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, with the exception of the valuation of Dunedin Stadium Property's fixed assets and the related depreciation expense.

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.

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.

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 11 and 12);
- valuation of forestry assets (note 7);
- valuation of derivative financial instruments (note 21);
- carrying value of the deferred tax liability (note 4).

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.

Prior period adjustment

In prior years City Forests Limited used QV rating values for the land valuation. As at 30 June 2018 City Forests Limited instructed Morice Limited to provide NZ IFRS 13 *Fair Value* compliant valuations of the land for 30 June 2016, 2017 and 2018. As a result the company has restated the value of the land within property, plant and equipment and the land revaluation reserve within equity as at 30 June 2016 and 30 June 2017. The restatement to the value of land has also resulted in flow on adjustments to the land revaluation movement through other comprehensive income.

Changes to the comparative Statement of Financial Position including opening position as at 1 July 2016 and 30 June 2017 are detailed below:

	2016 Reported position \$'000	2016 Land valuation adjustment \$'000	2016 Restated position \$'000	
Forest revaluation reserve	38,499	4,842	43,341	
Total equity	285,615	4,842	290,457	
Non-current assets forest land	26,375	4,842	31,217	
Property, plant and equipment	668,756	4,842	673,598	
Total assets	1,143,093	4,842	1,147,935	
	2017 Reported position \$'000	2017 Land valuation adjustment \$'000	2016 Land valuation adjustment \$'000	2017 Restated position \$'000
Forest revaluation reserve	45,673	3,343	4,842	53,858
Total equity	320,129	3,343	4,842	328,314
Non-current assets forest land	27,570	3,343	4,842	35,755
Property, plant and equipment	692,269	3,343	4,842	700,454
Total assets	1,171,778	3,343	4,842	1,179,963

Changes to the comparative Statement of Other Comprehensive Income for 30 June 2017 are detailed below:

	2017 Reported amount \$'000	2017 Adjustment \$'000	2016 Restated position \$'000
Forestry land revaluation through other comprehensive income	241	3,343	3,584
Total other comprehensive income	31,964	3,343	35,307

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 *Equity method in separate financial statements*

Amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates.

Amendments to NZ IAS 1 *Disclosure Initiatives*

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

Amendments to NZ IAS 16 *Leases*.
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 *Revenue from contracts with customers*
Adoption date: year ended 30 June 2019

NZ IFRS 15 *Revenue from contracts with customers* 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 *Financial Instruments*,
Adoption date: year ended 30 June 2019

NZ IFRS 9 *Financial Instruments* will eventually replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. 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 profit or loss.

1 Operating revenue

Accounting policy

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.

	Group 2018 \$'000	Group 2017 \$'000
Sale revenue	263,005	250,720
Gain on sale of assets	482	68
	<u>263,487</u>	<u>250,788</u>

2 Financial income

Accounting policy

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.

	Group 2018 \$'000	Group 2017 \$'000
Interest on advances to related parties	12,082	13,883
Interest on other investments	1,043	772
Dividends	1	1
Net gain on foreign currency transactions	559	-
	<u>13,685</u>	<u>14,656</u>

3 Separately disclosed expenditure

Accounting policy

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.

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.

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.

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

	Group 2018 \$'000	Group 2017 \$'000
Other expenses		
Bad debts written off	154	542
Impairment of intangible assets	10	-
Increase/(decrease) in impairment provision for receivables	116	205
Donations	31	57
Rental expense on operating leases	3,828	3,696
Research expenditure	205	145
Other expenditure	142,954	123,676
Expenditure of continuing activities	147,298	128,321

Audit fees

Audit New Zealand:		
Financial statements	269	254
Regulatory (information disclosure) reporting	20	19
Price and quality thresholds and other regulatory reporting	15	15
Other Providers:		
Internal audit	90	-
Total audit fees	394	288

Accounting policy

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.

	Group 2018 \$'000	Group 2017 \$'000
Financial expenses		
Interest - related parties	5,872	5,946
Interest - term loans	28,638	31,122
Net loss on foreign currency transactions	-	9
Total financial expenses	34,510	37,077

4 Taxation

Accounting policy

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.

Income Tax

	Group 2018 \$'000	Group 2017 \$'000
Operating surplus/(loss)	24,253	28,902
Tax thereon at 28%	6,791	8,093
Plus/(Less) the tax effect of differences		
Revenue not liable for taxation	(301)	(73)
Expenditure not deductible for taxation	1,587	1,688
Tax losses to be utilised	384	1,547
Under/(over) tax provision in prior years	(195)	(395)
Other	494	(470)
Taxation charge	8,760	10,390
Effective tax rate	36.1%	35.9%
The taxation charge is represented by:		
Current tax provision	1,944	3,337
Deferred tax provision	7,011	7,079
Under/(over) tax provision in prior years	70	(802)
Under/(over) deferred tax in prior years	(265)	776
	8,760	10,390
Tax expense continuing activity	8,760	10,390
Tax expense discontinued activity	-	-
	8,760	10,390

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 and Dunedin Venues Management Limited are members of an income tax consolidated Group. The income tax consolidated Group is taxed as a single entity and each member is jointly and severally liable for the Group's income tax liability, except to the extent that members of the group elect to limit this 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 2018 and earlier years which will be available for use in subsequent reporting periods totalling \$17,682,265 (2017: \$20,832,857).

Accounting policy

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.

Deferred tax

	Group \$'000 Opening Balance Sheet	Group \$'000 Charged to Equity	Group \$'000 Charged to Income	Group \$'000 Closing Balance Sheet Assets	Group \$'000 Closing Balance Sheet Liabilities	Group \$'000 Closing Balance Sheet Net
2018						
Property, plant and equipment	57,571	-	2,301	(283)	60,155	59,872
Employee benefits	3,812	-	132	(1,521)	5,465	3,944
Forest	24,396	-	3,804	-	28,200	28,200
Forest costs capitalised	10,178	-	(384)	-	9,794	9,794
Other Investments	5,363	1,285	740	(25)	7,413	7,388
Hedge reserve – foreign exchange contracts	141	(364)	-	(223)	-	(223)
Hedge reserve – interest rate swaps	(1,166)	138	-	(1,028)	-	(1,028)
Balance at the end of the year	100,295	1,059	6,593	(3,080)	111,027	107,947
2017						
Property, plant and equipment	54,905	-	2,666	(231)	57,802	57,571
Employee benefits	3,283	-	323	(1,636)	5,242	3,606
Forest	21,700	-	2,696	-	24,396	24,396
Forest costs capitalised	9,861	-	317	-	10,178	10,178
Other Investments	3,857	(116)	1,828	(4)	5,573	5,569
Hedge reserve – foreign exchange contracts	(104)	245	-	-	141	141
Hedge reserve – interest rate swaps	(1,752)	586	-	(1,166)	-	(1,166)
Balance at the end of the year	91,750	715	7,830	(3,037)	103,332	100,295

5 Other financial assets

Accounting policy

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.

	Group 2018 \$'000	Group 2017 \$'000
Current loan repayments due from Dunedin City Council	30,000	17,041
Other current financial assets	1,980	1,842
Total other current financial assets	31,980	18,883
Loan repayments due from Dunedin City Council:		
Maturity one to five years	57,515	57,515
Maturity over five years	112,485	127,390
	170,000	184,905
Shares and units in other companies and funds	9	9
Total other non current financial assets	170,009	184,914

Advances

The advances (above) due from the Dunedin City Council had a weighted average interest rate of 4.77% (2017: 6.41%).

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.

6 Property, plant and equipment

Accounting policy

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.

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.

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 Morice Limited.

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

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
2018							
Cost or valuation							
Balance at the beginning of the year	38,569	36,144	146,512	7,188	542,316	92,384	863,113
Increase through acquisition	-	-	-	-	-	-	-
Purchases/revaluation	30	5,650	617	698	60,603	1,839	69,437
Sales	(290)	-	(1,641)	-	(1,265)	(7,982)	(11,178)
Transfers	290	-	552	-	-	2,690	3,532
Balance at the end of the year	38,599	41,794	146,040	7,886	601,654	88,931	924,904
Accumulated depreciation							
Balance at the beginning of the year	-	389	19,729	4,072	145,888	48,256	218,334
Increase through acquisition	-	-	-	-	-	7	7
Depreciation	-	-	2,851	180	16,039	6,114	25,184
Impairment	-	(70)	(1,081)	-	-	(3,159)	(4,310)
Sales	(30)	-	(264)	-	(555)	(3,771)	(4,620)
Transfers	30	-	260	-	-	2,054	2,344
Balance at the end of the year	38,599	41,475	124,545	3,634	440,282	39,430	687,965
Comprising:							
Cost	38,599	-	124,545	3,634	440,282	39,430	646,490
Valuation	-	41,475	-	-	-	-	41,475

	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
2018							
Cost or valuation							
Balance at the beginning of the year	863,113	26,934	1,001	4,738	639	41,366	937,791
Increase through acquisition	-	-	-	-	-	-	-
Purchases/revaluation	69,437	2,302	515	130	77	18,012	90,473
Sales	(11,178)	(2,849)	(74)	(529)	(141)	(139)	(14,910)
Transfers	3,532	331	83	-	-	(298)	3,648
Balance at end of year	924,904	26,718	1,525	4,339	575	58,941	1,017,002
Accumulated depreciation							
Balance at the beginning of the year	218,334	15,493	762	2,557	192	-	237,338
Increase through acquisition	7	-	21	-	-	-	28
Depreciation	25,184	2,420	109	282	10	-	28,005
Impairment	(4,310)	(77)	(2)	-	-	-	(4,389)
Sales	(4,620)	(2,313)	(66)	(614)	(141)	-	(7,754)
Transfers	2,344	116	81	-	-	-	2,541
Balance at the end of the year	236,939	15,639	905	2,225	61	-	255,769
Balance at the end of the year	687,965	11,079	620	2,114	514	58,941	761,233
Comprising:							
Cost	646,490	11,079	620	2,114	514	58,941	719,758
Valuation	41,475	-	-	-	-	-	41,475

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
2017							
Cost or valuation							
Balance at the beginning of the year	38,874	31,217	146,750	7,183	512,348	94,797	831,169
Increase through acquisition	-	-	-	-	-	-	-
Purchases/revaluation	(13)	4,538	290	5	30,020	1,869	36,709
Sales	(2)	-	(19)	-	(52)	(2,596)	(2,669)
Transfers	(290)	-	(509)	-	-	(1,686)	(2,485)
Balance at the end of the year	38,569	35,755	146,512	7,188	542,316	92,384	862,724
Accumulated depreciation							
Balance at the beginning of the year	30	-	17,184	3,904	130,908	47,092	199,118
Increase through acquisition	-	-	-	-	-	-	-
Depreciation	-	-	2,823	168	15,032	6,505	24,528
Impairment	-	-	-	-	-	-	-
Sales	-	-	(18)	-	(52)	(2,510)	(2,580)
Transfers	(30)	-	(260)	-	-	(2,831)	(3,121)
Balance at the end of the year	38,569	35,755	126,783	3,116	396,428	44,128	644,779
Comprising:							
Cost	38,569	-	126,783	3,116	396,428	44,128	609,024
Valuation	-	35,755	-	-	-	-	35,755

	Group	Group	Group	Group	Group	Group	Group
	Sub-Total	Motor	Office	Locomotives	Railway	Work in	
	\$'000	Vehicles	Equipment	\$'000	Track	Progress	Sub-Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2017							
Cost or valuation							
Balance at the beginning of the year	831,169	26,556	1,989	4,585	513	25,708	890,520
Increase through acquisition	-	-	-	-	-	-	-
Purchases/revaluation	36,709	2,852	105	154	126	15,356	55,302
Sales	(2,669)	(2,074)	(28)	-	-	-	(4,771)
Transfers	(2,485)	(400)	(1,065)	-	-	302	(3,648)
Balance at the end of the year	862,724	26,934	1,001	4,739	639	41,366	937,403
Accumulated depreciation							
Balance at the beginning of the year	199,118	15,298	1,549	2,324	186	-	218,475
Increase through acquisition	-	-	-	-	-	-	-
Depreciation	24,528	2,263	98	234	5	-	27,128
Impairment	-	-	-	-	-	-	-
Sales	(2,580)	(1,952)	(28)	-	-	-	(4,560)
Transfers	(3,121)	(116)	(857)	-	-	-	(4,094)
Balance at the end of the year	217,945	15,493	762	2,558	191	-	236,949
Balance at the end of the year	644,779	11,441	239	2,181	448	41,366	700,454
Comprising:							
Cost	609,024	11,441	239	2,181	448	41,366	664,699
Valuation	35,755	-	-	-	-	-	35,755

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

7 Forestry assets

Accounting policy

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.

	Group 2018 \$'000	Group 2017 \$'000
Balance at the beginning of the year	136,333	123,802
Add costs capitalised in establishing forests during the year	2,353	2,083
Increase in forest from acquisition	2,575	3,212
Revaluation	13,585	9,629
Less Value of logs harvested	(4,674)	(2,393)
Balance at the end of the year	<u>150,172</u>	<u>136,333</u>
Gains/(losses) arising from changes in fair value less point of sale costs:		
Attributable to physical changes	5,129	(6,054)
Attributable to price changes	8,620	18,585

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 crop and an independent market value has been used to establish the forest land value and land resource. 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% (2017: 6.5%).

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 +\$7.78 mil / -\$7.09 mil. A 10% increase or decrease in assumed log prices would change the valuation by +\$12.09 mil / -\$12.07 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 2018 the Company owned stands of trees on 17,284 hectares of a total land holding (including lease, Joint Venture & Forestry Right) of 21,094 hectares. During the year the Company harvested approx. 303,922 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 22, Financial Risk. 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 Woodlands Pacific. 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.

8 New Zealand Carbon Credits

Accounting policy

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.

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 2,319,923 Post-89 derived NZU's, being the carbon sequestered by these forests during the 2008 to 2018 calendar years. There has been carbon credit sales during the financial year of 400,000 units.

As at 30th June 2018, 1,280,834 units were unsold (2017: 1,369,304). 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 2018 \$'000	Year ending 30 June 2017 \$'000
New Zealand carbon credits - non current	27,024	23,413

9 Inventories

Accounting policy

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.

	Group 2018 \$'000	Group 2017 \$'000
Raw materials and stores	6,986	8,255
Work in progress	4,370	1,395
Finished goods	-	-
	11,356	9,650

10 Other current assets

	Group 2018 \$'000	Group 2017 \$'000
Land	-	275
Development in progress	-	847
	-	1,122

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

11 Investments in subsidiary companies

	2018	2017
Parent company	Percentage Interest Held	
Name of entity (principal activities)		
City Forests Limited (Forestry)	100	100
Dunedin City Treasury Limited (Finance)	100	100
Aurora Energy Limited (Energy)	100	100
Dunedin Railways Limited (Transport)	72	72
Delta Utility Services Limited (Contractor and Asset Manager)	100	100
Dunedin Stadium Property Limited (Stadium ownership)	100	100
Dunedin Venues Management Limited (Events)	100	100

All subsidiary companies have balance dates of 30 June 2018.

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.

Dunedin Railways Limited registered a change of name from Taieri Gorge Railway Limited on 1 December 2017.

It is possible a commercial based valuation of the Dunedin Stadium Property Limited assets (Forsyth Barr Stadium) 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.

12 Investments in associate companies

Accounting policy

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.

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.

	Group 2018	Group 2017
Name of entity (principal activities, place of business)	Percentage Interest Held	
Dunedin International Airport Limited (Transport, Momona NZ)	50	50
Otago Chipmill Limited (Forestry, Milburn NZ) - wound up December 2017	-	49.9

For the purpose of applying the equity method of accounting, the financial statements of Dunedin International Airport Limited for the year ended 30 June have been used. The financial statements of Otago Chipmill Limited for the year ending 31 December 2017 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		Other Associates	
	As at 30 June		As at 30 June	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
Summarised statement of financial position				
Current assets				
Cash and cash equivalents	699	788	-	81
Other current assets	1,276	559	-	4
Total current assets	1,975	1,347	-	85
Non-current assets	86,684	86,428	-	-
Total assets	88,659	87,775	-	85
Current liabilities	3,840	3,115	-	-
Non-current liabilities				
Financial Liabilities	8,000	9,100	-	-
Other financial liabilities	15,036	16,001	-	-
Total-non current liabilities	23,036	25,101	-	-
Total liabilities	26,876	28,216	-	-
Net assets	61,783	59,559	-	85
Less Impairment	-	-	-	-
Other adjustments	(50)	(50)	-	-
Net assets after impairment and other adjustments	61,733	59,509	-	85
Carrying value of associates 50%, 0%	30,867	29,755	-	43
Summarised statement of comprehensive income				
Revenue (excl interest received)	16,560	14,113	-	-
(Loss)/Gain on investment	(130)	-	-	-
Interest and Dividends received	92	17	-	-
Total Revenue	16,522	14,130	-	-
Less expenses				
Depreciation and amortisation	2,957	2,872	-	-
Interest expense	469	464	-	-
Other expenses	8,335	7,633	-	-
Total expenses	11,761	10,969	-	-
Operating surplus/(deficit) before tax	4,761	3,161	-	-
Income tax	1,486	840	-	-
Operating surplus/(deficit) after tax	3,275	2,321	-	-
Other comprehensive income	355	12,190	-	-
Total comprehensive income/(deficit)	3,630	14,511	-	-
Dividends received from associate	704	704	-	-

13 Cash and cash equivalents

Accounting policy

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.

	Group	Group
	2018	2017
	\$'000	\$'000
Cash and bank	1,973	15,072

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.

14 Trade and other receivables

Group Group

Accounting policy

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

	Group 2018 \$'000	Group 2017 \$'000
Trade receivables	18,437	24,274
Estimated impairment	(596)	(403)
	<u>17,841</u>	<u>23,871</u>
Due from related parties:		
Subsidiaries	-	-
Other related parties	268	3,124
Other current receivables	10,675	325
	<u>28,784</u>	<u>27,320</u>
Term receivables	11,968	12,841

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 2018 \$'000	Group 2017 \$'000
Opening doubtful debts provision	(403)	(609)
Additional provisions made during the year	(378)	(1,031)
Receivables written off during the year	154	542
Provisions reversed during the year	31	695
Doubtful debts on acquisition	-	-
Closing doubtful debts provision	<u>(596)</u>	<u>(403)</u>

15 Trade and other payables

Accounting policy

Trade and other payables are stated at cost.

	Group 2018 \$'000	Group 2017 \$'000
Trade payables	26,739	26,983
Due to related parties:		
Dunedin City Council and subsidiaries	78	109
	<u>78</u>	<u>109</u>
Other payables:		
GST payable	514	1,029
Other current liabilities	1,281	5,821
	<u>1,795</u>	<u>6,850</u>
	<u>28,612</u>	<u>33,942</u>

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

16 Accrued expenditure

Group
2018
\$'000

Group
2017
\$'000

Accruals	332	335
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17 Short term borrowings

Group
2018
\$'000

Group
2017
\$'000

Short term borrowing	3,638	473
	<u>3,638</u>	<u>473</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 Term borrowings (secured)

Accounting policy

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.

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.

	Group 2018 \$'000	Group 2017 \$'000
Current		
Forestry Loans	-	1,686
	-	1,686
Non-current		
Multi-option debt facility	609,570	567,378
Forestry loans	-	3,492
	609,570	570,870

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 three month terms.

Three independent banks have provided committed facilities to the amount of \$125 million (2017: \$125 million).

The amount of unamortised premium or (discount) on bonds on issue at 30 June 2018 is nil (2017: nil).

The tender of promissory notes under the multi-option facility generally raises debt for a term of three months 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 2018 Dunedin City Treasury Limited had the following bonds on issue and promissory notes:

Multi-option debt facility		Group 2018 \$'000	Group 2017 \$'000
	Interest Rate		
Promissory notes		119,389	59,702
Bonds 15/10/17	Coupon rate 7.81%	-	60,000
Floating rate notes 7/10/17	38bp over BKBM	-	20,000
Floating rate notes 15/5/18	43bp over BKBM	-	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
Floating rate notes 15/11/19	50bp over BKBM	50,000	50,000
Floating rate notes 16/10/20	43bp over BKBM	45,000	-
Bonds 16/11/20	Coupon rate 5.56%	50,000	50,000
Bonds 15/4/21	Coupon rate 3.15%	30,000	30,000
Bonds 25/11/21	Coupon rate 4.88%	70,000	70,000
Floating rate notes 15/10/22	56bp over BKBM	50,000	50,000
Floating rate notes 15/02/24	65bp over BKBM	25,000	25,000
Bonds 16/10/24	Coupon rate 3.79%	35,000	-
Bonds 15/4/26	Coupon rate 3.98%	65,000	65,000
Fair value impact on bonds		5,181	2,676
		609,570	567,378
Forestry Loans		-	5,178
Total term borrowings		609,570	572,556

The forestry loans were repaid during the year. In the 2017 year, the Forestry loans were from the Ministry of Primary Industries. They were fixed rate loans secured by registered first mortgage over certain land assets and were covered by repayment insurance.

The repayment period on the term borrowings is as follows:

	Group 2018 \$'000	Group 2017 \$'000
Repayable less than one year	65,000	101,686
Repayable between one to five years	414,389	328,194
Repayable later than five years	130,181	142,676
	<u>609,570</u>	<u>572,556</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 2018 \$'000	Group 2017 \$'000
Multi-option note facility	615,686	577,561
Forestry loans	-	4,671

19 Shareholder's advance

	Group 2018 \$'000	Group 2017 \$'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 (2017: \$5.9 million) on the advance. The interest rate is struck annually, each July, based on rates paid in the market. In 2018, the gross interest on the debt averaged 5.27% (2017: 5.27%).

20 Other non-current liabilities

	Group 2018 \$'000	Group 2017 \$'000
Other non-current liabilities	963	1,105

21 Derivative financial instruments

Accounting Policy

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.

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 (reviewed and last approved 29 August 2017). 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 asset or 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.

	2018 Asset \$'000	2018 Liability \$'000	2017 Asset \$'000	2017 Liability \$'000
<i>Fair value</i>				
Interest rate swaps	11,262	21,675	16,607	21,730
Analysed as:				
Current	-	786	426	125
Non-current	11,262	20,889	16,181	21,605
	11,262	21,675	16,607	21,730

22 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.

22.1 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 Associate 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.

Dunedin City Holdings Limited's forecast distributions for each three year period are disclosed in their annual Statement of Intent.

22.2 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 18. The maturity profiles of the Group's financial assets and liabilities, with the exception of equity investments are explained in note 22.9.

22.3 Interest rate risk

Under the Dunedin City Council Treasury Risk Management Policy approved on 29 August 2017, Dunedin City Treasury Limited 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 2018 \$'000	Group 2017 \$'000
Maturing in less than one year	42,500	32,500
Maturing between one and five years	437,500	350,000
Maturing in more than five years	382,500	407,500
	862,500	790,000

22.4 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 2018 \$'000	Group 2017 \$'000
Forward foreign exchange contracts		
- fair value	(799)	656
- nominal value (sale of USD and purchase of NZD)	14,400	8,800
Forward foreign exchange contracts		
- fair value	-	-
- nominal value (sale of NZD and purchase of USD)	-	-

22.5 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 2018 %	Group 2017 %
Effectiveness	100	100

22.6 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 2018 \$'000	Group 2017 \$'000
Past due receivables		
Age analysis: 30-60 days	1,380	547
60-90 days	325	232
90 days plus	1,221	781

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

2018

	AA	AA-	No Rating	Group
Cash and cash equivalents	-	1,973	-	1,973
Trade and other receivables	1,874	-	26,910	28,784
Advances due from related parties	200,000	-	1,980	201,980
Mortgage receivables	-	-	-	-
Derivatives	-	11,262	-	11,262
NZ carbon credits	-	-	27,024	27,024
	201,874	13,235	55,914	271,023

2017

	AA	AA-	No Rating	Group
Cash and cash equivalents	-	15,072	-	15,072
Trade and other receivables	2,238	-	25,082	27,320
Advances due from related parties	201,946	-	1,842	203,788
Mortgage receivables	-	-	-	-
Derivatives	-	16,607	-	16,607
NZ carbon credits	-	-	23,413	23,413
	204,184	31,679	50,337	286,200

22.7 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 0.6754. A parallel shift of +1%/-1% in the NZD market interest rate from the year end 90 day BBBR of 2.01% (2017: 2.41%).

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
2018							
Financial assets							
Derivatives – designated as cash flow hedges (interest rate swap and forward currency deals separately disclosed)	11,262	-	-	-	-	2,369	(1,938)
Other financial assets	221,803	-	-	-	-	209	(171)
	233,065	-	-	-	-	2,578	(2,109)
Financial liabilities							
Derivatives – designated as cash flow hedges (interest rate swaps and forward currency deals separately disclosed)	21,675	-	(22,137)	-	20,284	-	-
Other financial liabilities	751,947	1,120	-	(1,120)	-	-	-
	773,622	1,120	(22,137)	(1,120)	20,284	-	-
Total increase/(decrease)		1,120	(22,137)	(1,120)	20,284	2,578	(2,109)
	Carrying Amount \$'000	Interest Rate				FX	
		-100bp		+100bp		-10%	10%
		Profit	Equity	Profit	Equity	Profit	Profit
2017							
Financial assets							
Derivatives – designated as cash flow hedges (interest rate swap and forward currency deals separately disclosed)	16,607	-	-	-	-	1,583	817
Other financial assets	242,740	-	-	-	-	158	(129)
	259,347	-	-	-	-	1,741	688
Financial liabilities							
Derivatives – designated as cash flow hedges (interest rate swaps and forward currency deals separately disclosed)	21,730	-	(18,358)	-	16,946	-	-
Other financial liabilities	712,012	1,120	-	(1,120)	-	-	-
	733,742	1,120	(18,358)	(1,120)	16,946	-	-
Total increase/(decrease)		1,120	(18,358)	(1,120)	16,946	1,741	688

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.

22.8 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
2018				
Financial assets				
Derivative financial assets	-	11,262	-	11,262
New Zealand carbon credits	27,024	-	-	27,024
	<u>27,024</u>	<u>11,262</u>	<u>-</u>	<u>38,286</u>
Financial liabilities				
Derivative financial liabilities	-	21,675	-	21,675
	<u>-</u>	<u>21,675</u>	<u>-</u>	<u>21,675</u>
2017				
Financial assets				
Derivative financial assets	-	16,607	-	16,607
New Zealand carbon credits	23,413	-	-	23,413
	<u>23,413</u>	<u>16,607</u>	<u>-</u>	<u>40,020</u>
Financial liabilities				
Derivative financial liabilities	-	21,730	-	21,730
	<u>-</u>	<u>21,730</u>	<u>-</u>	<u>21,730</u>

22.9 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						
2018						
Cash and cash equivalents	1,973	1,973	1,973	-	-	-
Trade and other receivables	28,784	28,784	28,784	-	-	-
Derivative financial instruments	11,262	19,868	7,243	5,505	5,546	1,574
Investments	201,989	311,673	22,922	23,335	265,416	-
Total	<u>244,008</u>	<u>362,298</u>	<u>60,921</u>	<u>28,840</u>	<u>270,962</u>	<u>1,574</u>
2017						
Cash and cash equivalents	15,072	15,072	15,072	-	-	-
Trade and other receivables	27,320	27,320	27,320	-	-	-
Derivative financial instruments	16,607	22,453	8,622	6,105	6,245	1,481
Investments	203,797	237,661	24,587	24,985	188,080	8
Total	<u>262,796</u>	<u>302,506</u>	<u>75,601</u>	<u>31,090</u>	<u>194,325</u>	<u>1,489</u>
Financial liabilities						
2018						
Trade and other payables	28,612	28,612	28,612	-	-	-
Derivative financial instruments	21,675	36,039	11,343	9,192	12,803	2,701
Borrowings	613,208	679,631	206,871	64,801	273,624	134,335
Total	<u>663,495</u>	<u>744,282</u>	<u>246,826</u>	<u>73,993</u>	<u>286,427</u>	<u>137,036</u>
2017						
Trade and other payables	33,942	33,942	33,942	-	-	-
Derivative financial instruments	21,730	30,127	11,432	8,745	10,246	(296)
Borrowings	573,029	655,680	183,393	82,408	228,935	160,944
Total	<u>628,701</u>	<u>719,749</u>	<u>228,767</u>	<u>91,153</u>	<u>239,181</u>	<u>160,648</u>

23 Employee entitlements/provisions

Accounting policy

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.

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.

	Group 2018 \$'000	Group 2017 \$'000
Current liabilities		
Long service leave	245	278
Annual leave	4,570	4,354
Gratuities	126	160
Sick leave	57	147
Other provisions	541	519
	<u>5,539</u>	<u>5,458</u>
Non-current liabilities		
Long service leave	578	508
Gratuities	389	378
	<u>967</u>	<u>886</u>

24 Contingent liabilities

	Group 2018 \$'000	Group 2017 \$'000
Performance bonds	1,269	1,208

The performance bonds issued are in favour of South Island Local Authorities, including the Dunedin City Council, for contract work by Delta Utility Services Limited. There is no indication that any of the above contingent liabilities will crystallise in the foreseeable future.

Breach of Default Price-Quality Path Reliability Standards

Network reliability standards are contained in the Commerce Commission's Default Price-Quality Path for Electricity Distribution Businesses. The regulations provide for pecuniary penalties in the event that a company breaches its standards in 2 of any 3 successive years.

During the 2016/17 financial reporting period, the Commerce Commission initiated an investigation into Aurora Energy Limited's breach of regulated network reliability standards in the 2015, 2016 and 2017 disclosure years.

Aurora Energy Ltd has since also breached its regulated network reliability targets for the 2018 disclosure year, giving rise to a third instance of breaching 2 of any 3 successive years.

The maximum fines for each instance of breaching the regulated reliability targets are \$500,000 for an individual and \$5,000,000 in any other case. Any such fine(s) must be sought through the courts and determined by a court ruling.

Subsequent to year end and to the finalisation of the audit of Aurora Energy Ltd, the Commerce Commission announced that it had decided to file court proceedings against Aurora Energy Ltd for breaching its regulated quality standards in 2016 and 2017. The Commerce Commission will be asking the High Court to impose financial penalties on Aurora Energy Ltd under the Commerce Act. The financial consequences of this matter (if any) were not known.

The Commerce Commission has issued a notice requiring Dunedin City Holdings Limited to supply documents as part of its investigation of contraventions by Aurora Energy Limited of the regulated network reliability standards imposed by clause 9.1 of the Electricity Distribution Services Default Price-Quality Determination 2015. This is to examine if any persons may be secondarily liable for Aurora Energy Limited's network reliability breaches. As the investigation is ongoing, the financial impact on Dunedin City Holdings Limited is not known yet.

25 Capital expenditure commitments

	Group 2018 \$'000	Group 2017 \$'000
Plant and equipment	22,773	11,340
Land	-	-

26 Commitments

	Group 2018 \$'000	Group 2017 \$'000
Minimum operating lease payments		
Payable within one year	2,822	2,961
Payable between one to five years	4,212	4,918
Payable later than five years	579	535
	<u>7,613</u>	<u>8,414</u>

Other commitments

Undrawn Facilities: Level of committed facilities undrawn was \$125,000,000 (2017: \$125,000,000)

27 Equity – Share Capital

Issued capital

970,939,000 ordinary shares

Group 2018 \$'000	Group 2017 \$'000
121,039	118,489

On incorporation, Dunedin City Holdings Limited issued 100,000,000 ordinary shares in favour of the Dunedin City Council. Only \$100,000 was called. During the year ended 30 June 2018 a further 2,550,000 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
• June 2017	2,550,000 ordinary shares
• June 2018	2,550,000 ordinary shares

28 Accumulated funds

Balance at the beginning of the year

Group companies

Associate companies

Net profit for the year

Dividend distributions

Minority share of (surplus) / deficit

Transfer to reserves – forest

Transfer to reserves – carbon credit

Balance at the end of the year

Group 2018 \$'000	Group 2017 \$'000
118,606	108,296
12,401	11,180
131,007	119,476
15,493	18,512
-	-
73	(48)
(9,782)	(6,933)
6,282	-
143,072	131,007

Represented by

Group companies

Associate companies

Balance at the end of the year

Group 2018 \$'000	Group 2017 \$'000
129,033	118,606
14,039	12,401
143,072	131,007

29 Reserves

Associate company asset revaluation reserve

Balance at beginning of the year

Gain/(loss) recognised on cash flow hedges/assets

Balance at the end of the year

Group 2018 \$'000	Group 2017 \$'000
16,650	10,555
178	6,095
16,828	16,650

The reserve relates to assets of Dunedin International Airport Limited.

Hedging reserve

Balance at beginning of the year

Gain/(loss) recognised on cash flow hedges:

Interest rate swaps/fx forwards

Deferred tax arising on hedges (note 21)

Balance at the end of the year

(3,126)	(10,712)
(7,034)	6,902
(752)	1,522
226	(838)
(10,686)	(3,126)

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

Net revaluations of forest

Net revaluation of forest land

Balance at the end of the year

53,858	43,341
9,782	6,933
2,277	3,584
65,917	53,858

Carbon credit reserve

Balance at beginning of the year

Transfer from retained earnings

Gain in carbon credits above initial recognition value

Balance at the end of the year

10,820	11,290
(6,282)	-
3,873	(470)
8,411	10,820

30 Earnings per share

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

	Group 2018	Group 2017
Shares at year end	970,939,000	968,389,000
Weighted average number of ordinary shares	850,000,000	850,000,000
Basic earnings per share – continuing operations	\$ 0.0182	\$ 0.0218
Earnings per paid up share from continuing operations	\$0.13	\$0.16

Diluted earnings per share

The Group had no dilutive potential ordinary shares during the current or previous period.

31 Dividends

No dividends were paid during the financial year (2017: nil).

32 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 11 to the Financial Statements.

Details of the percentage of ordinary shares held in associates are disclosed in note 12 to the Financial Statements.

Amounts receivable from and payable to related parties at balance date are disclosed in notes 14 and 15.

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 2018 \$'000	Group 2017 \$'000
<i>Sales of services to the Dunedin City Council and its subsidiaries outside the Dunedin City Holdings Limited Group:</i>		
Contracting services	9,372	10,391
Interest income	11,896	13,706
Transport services	134	157
	<u>21,402</u>	<u>24,254</u>
<i>Purchases of goods and services from the Dunedin City Council and its subsidiaries outside the Dunedin City Holdings Limited Group:</i>		
Interest	5,902	5,906
Materials/network assets	167	32
Rates and property rentals	1,635	1,810
Administration and office services	302	11
	<u>8,006</u>	<u>7,759</u>
<i>As at balance date:</i>		
Receivable from the Dunedin City Council and subsidiaries	1,225	1,086
Payable to the Dunedin City Council and subsidiaries (inclusive of shareholders advance)	112,157	112,075

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:

Dunedin Railways Limited and Dunedin Venues Management Limited paid \$275,131 (2017: \$47,000) for services and provided services of \$13,000 (2017: \$13,000) to Action Engineering Limited, an organisation of which Mr G Crombie is a director. \$26,000 was payable at 30 June (2017: \$1,000);

Dunedin Venues Management Limited received \$26,000 (2017: \$19,000) and paid \$5,000 (2017: \$nil) for services with Gallaway Cook Allan an organisation of which Mrs K Grant was a consultant during the year. \$3,000 was receivable at 30 June (2017: nil);

Dunedin Venues Management Limited paid \$14,444 (2017: \$15,911) for services and provided services of \$14,323 (2017: \$14,694) to Miller Creative Group Limited, an organisation of which Mr K Cooper is a director. No monies were outstanding at 30 June (2017: nil).

Compensation of key management personnel

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

	Parent 2018 \$'000	Parent 2017 \$'000
Director's fees	329	320

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.

33 Reconciliation of operating surplus to net cash flows from operating activities

	Group 2018 \$'000	Group 2017 \$'000
Operating surplus/(deficit)	15,493	18,512
Share of net surplus/(deficit) in associated companies	(1,638)	(1,161)
<i>Items not involving cash flows</i>		
Depreciation	28,627	27,629
Depletion of forest	4,674	2,394
Deferred tax	6,495	8,199
Asset impairment	-	-
Forest revaluation	(13,585)	(11,003)
(Increase)/Decrease in cash flow hedge valuation	63	948
Other non-cash items	(17,481)	(19,726)
<i>Impact of changes in working capital items</i>		
(Increase)/Decrease in trade and other receivables	13,604	15,068
(Increase)/Decrease in other current assets	-	-
(Increase)/Decrease in inventories	(6,278)	(4,572)
(Increase)/Decrease in prepayments	180	(53)
(Increase) /Decrease in tax refund due	(1,774)	(61)
Increase /(Decrease) in trade and other payables	(3,293)	2,037
Increase /(Decrease) in provision for tax	3,029	802
Increase /(Decrease) in other current liabilities	818	740
<i>Items classified as investing or financing activities</i>		
Gain on sale of property, plant and equipment	(754)	(464)
Loss on sale of property, plant and equipment	893	-
Items related to development property	-	-
Movement in capital creditors	2,819	(4,873)
Net cash inflows from operating activities	31,892	34,416

34 Events after balance date

The directors are not aware of any events after balance requiring disclosure.

**Statutory information
For the year ended 30 June 2018**

Information on the Directors of Dunedin City Holdings Ltd as at 30 June 2018

Graham William Crombie

Date appointed - 17 July 2012

Responsibilities Chairman, Company Director

Declarations of interests

Chair, Dunedin City Holdings Ltd
Chair, Dunedin City Treasury Ltd
Chair, NZ Genomics Ltd
Chair, Otago Museum Trust
Chair, South Island Information Services Service Level Alliance
Chair, TANZ eCampus Ltd
Deputy Commissioner, Southern District Health Board
Director and Shareholder, Innovatio Ltd
Director, A G Foley Ltd
Director, Dunedin Stadium Property Ltd
Director, Surf Life Saving NZ
Independent Chair, Action Engineering Ltd
Shareholder, WJ Investments Ltd

Kathleen Enid Grant

Date appointed - 17 July 2012

Responsibilities Company Director

Declarations of interests

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

Quentin C S Hix

Date appointed - 1 January 2018

Responsibilities Company Director

Declarations of interests

Director and Shareholder, Property Planit Ltd
Director and Shareholder, Quentin Hix Legal Ltd
Director, Aoraki Investments Ltd
Director, Aoraki Management Services Ltd
Director, Aoraki Trust Management Ltd
Director, Dunedin City Holdings Ltd
Director, Dunedin City Treasury Ltd
Director, Institute of Environmental Science and Research Ltd
Director, Ngai Tahu Holdings Corporation Ltd
Director, One To One Corporate Trustees 2011 Ltd
Director, One To One Corporate Trustees Ltd
Director, Presbyterian Support South Canterbury Ltd
Board member, Presbyterian Support South Canterbury Inc
Member, Te Rununga O Ngai Tahu's governing board
Trustee of various client trusts

Linda May Robertson

Date appointed - 17 October 2013

Responsibilities Company Director

Declarations of interests

Chair, Audit and Risk Committee, Central Otago District Council
Chair, Pacific Radiology Group
Director and Shareholder, RML Consulting Ltd
Director, Auckland Council Investments Ltd
Director, Crown Irrigation Investments Ltd
Director, Dunedin City Holdings Ltd
Director, Dunedin City Treasury Ltd
Director, NZ Local Government Funding Agency
Director, NZPM Group Ltd
Member, Audit and Risk Committee, Ministry of Social Development
Member, Technical Advisory Committee for NZ Export Credit Office
Trustee, Central Lakes Trust

Keith Thomas Cooper

Date appointed - 2 February 2015

Responsibilities Company Director

Declarations of interests

Chair, Highlanders Provincial Union Ltd Partnership
Chair, Otago Rugby Football Union (Inc)
Director and Shareholder, Littlebrook Farm Ltd
Director, Designability Ltd
Director, Dunedin City Holdings Ltd
Director, Dunedin City Treasury Ltd
Director, Miller Creative Group Ltd

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.

Dunedin City Holdings Ltd 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.

Dunedin City Holdings Limited

Directors' remuneration and benefits

	Remuneration \$000	Company		Remuneration \$000	Company
Parent Company					
Graham W Crombie	101	Dunedin City Holdings Ltd	Geoffrey R Thomas	25	Dunedin Railways Ltd
Kathleen E Grant	57	Dunedin City Holdings Ltd	Gary M T Williams	8	Dunedin Railways Ltd
Keith T Cooper	57	Dunedin City Holdings Ltd	Richard Roberts	16	Dunedin Railways Ltd
Linda M Robertson	57	Dunedin City Holdings Ltd	Hon Stan Rodger	16	Dunedin Railways Ltd
Quentin C S Hix	29	Dunedin City Holdings Ltd	Graeme M Smart	16	Dunedin Railways Ltd
Brian J Wood	28	Dunedin City Holdings Ltd	David W Wood	16	Dunedin Railways Ltd
			Judith A Bevin	8	Dunedin Railways Ltd
Parent Company total	329				

Subsidiaries & associated companies

Stuart J McLauchlan	32	Dunedin International Airport Ltd
Steve W Grave	43	Delta Utility Services Ltd
Brendon J Hall	45	Aurora Energy Ltd
David J Frow	45	Aurora Energy Ltd
Trevor J Kempton	43	Delta Utility Services Ltd
Margaret P Devlin	45	Aurora Energy Ltd
Stephen R Thompson	86	Aurora Energy Ltd
Brian J Wood	77	Delta Utility Services Ltd
	nil	Dunedin City Treasury Ltd
Tony D Allison	28	Delta Utility Services Ltd
	16	City Forests Ltd
	23	Dunedin International Airport Ltd
John F Gallaher	55	City Forests Ltd
Christopher C Hopkins	15	City Forests Ltd
Tim J Mephram	30	City Forests Ltd
Michael C Horne	30	City Forests Ltd
Patricia A Oakley	23	Dunedin International Airport Ltd
Mark Rogers	23	Dunedin International Airport Ltd
Graham W Crombie	nil	Dunedin City Treasury Ltd
	12	Dunedin Stadium Property Ltd
Quentin C S Hix	nil	Dunedin City Treasury Ltd
Kathleen E Grant	nil	Dunedin City Treasury Ltd
Linda M Robertson	nil	Dunedin City Treasury Ltd
Keith T Cooper	nil	Dunedin City Treasury Ltd
William H Cockerill	18	Dunedin Stadium Property Ltd
Joanne M Conroy	12	Dunedin Stadium Property Ltd
	9	Dunedin Venues Management Ltd
Raewyn J Lovett	26	Dunedin Venues Management Ltd
Peter J Hutchison	9	Dunedin Venues Management Ltd
Glenys J Coughlan	18	Dunedin Venues Management Limited
Kevin G Winders	18	Dunedin Venues Management Limited

No director of Dunedin City Holdings Ltd 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.

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.

Events subsequent to balance date

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.

Employee remuneration

Remuneration range	Parent Company	Subsidiaries
\$390,000-399,999	-	1
\$350,000-359,999	-	1
\$300,000-309,999	-	2
\$280,000-289,999	-	1
\$260,000-269,999	-	1
\$230,000-239,999	-	4
\$220,000-229,999	-	1
\$190,000-199,999	-	2
\$180,000-189,999	-	1
\$170,000-179,999	-	5
\$160,000-169,999	-	2
\$150,000-159,999	-	6
\$140,000-149,999	-	14
\$130,000-139,999	-	8
\$120,000-129,999	-	18
\$110,000-119,999	-	24
\$100,000-109,999	-	43

**Statement of service performance
For the year ended 30 June 2018**

The performance targets established in the 2017/18 Statement of Intent for Dunedin City Holdings Ltd and the results achieved for the year ended 30 June 2018 are as follows:

Performance target

Outcome achieved

Business objectives

1. Review and approve the Statements of Intent and plans of each of the Group companies for consistency with the strategic direction of the DCC.
2. Review the operating activities of each of the Group companies along with Dunedin City Holdings Ltd for compliance with the goals and objectives of the Statement of Intent.
3. Review the performance of each Group Company against their Statement of Intent goals and objectives.

The review of the draft 2019 Statements of Intent of subsidiary companies were completed by 31 December 2017. Amendments were made to the Board's satisfaction. Updated and final Statements of Intent were received by the Board by 30 June 2018 and forwarded to the DCC as ultimate shareholder.

Reviews of the operating activities were performed as required by the Board of Dunedin City Holdings Ltd.

Continual monthly reviews of companies' performance against key Statement of Intent goals have been undertaken. Subsidiaries' performance against Statement of Intent goals also reported on to DCC on a quarterly basis.

Financial

3. Monitor financial performance of each of the Group companies
4. Monitor the capital structure of each Group Company
5. Review the capital expenditure of each of the Group of companies for compliance and approval as required by Dunedin City Holdings Ltd

Continual monthly reviews of operating initiatives and financial performance of each of the Group companies have been undertaken, with Dunedin International Airport Ltd reviewed on a quarterly basis

The Company's Standard and Poor's long term credit rating was reaffirmed at AA in December 2017. The A1+ short term rating remained the same
Reviews of capital structure within the Group were performed at the half year and full year balance dates

Continual monthly reviews of capital expenditure of each of the Group companies have been undertaken, with Dunedin International Airport Ltd reviewed on a quarterly basis

Shareholders

6. Engage with the shareholder annually on opportunities for the Company and/or its subsidiaries to contribute, or assist where possible, with Council's community outcomes (as listed in the annual plan)
7. Bring to the attention of the shareholder any strategic or operational matters where there may be conflict between the Council's community outcomes and those of the Company and seek the shareholder's view on these
9. Encourage each Company within the Group to act as a socially and environmentally responsible corporate citizen
8. Keep the shareholders informed of all substantive matters

Consideration was given to the shareholder's expectations in the annual Company's Statement of Intent

There were no matters of conflict requiring escalation to the shareholder

Reviews of the activities undertaken by the Group companies for purposes of being a socially and environmentally responsible corporate citizen have been undertaken throughout the year

All substantive matters were reported to the shareholder within 24 hours of the Dunedin City Holdings Ltd board becoming aware of them

Parent Financial forecasts

\$'000

1a. EBITDA	7,133
1b. Net profit after tax	11
1c. Cash flow from operations	422
1d. Capital expenditure	-
1e. Term loans	29,000
2. Interest/dividend distributions to shareholder	5,902
3. Shareholder's funds to total assets	52%

Parent Achievement

\$'000

EBITDA	10,038
Net profit after tax	3,302
Cash flow from operations	3,345
Capital expenditure	-
Term loans	23,060
Interest/dividend distributions to shareholder	5,902
Shareholder's funds to total assets	54%

**Statement of service performance
For the year ended 30 June 2018**

The results achieved for the Dunedin City Holdings Group for the year ended 30 June 2018 are as follows:

Performance target**Group Financial forecasts**

No Group forecasts were prepared in the 2017/2018 Statement of Intent. The Board of Dunedin City Holdings Ltd has included Group targets in 2018/2019 Statement of Intent.

Outcome achieved**Group Achievement****\$'000**

EBITDA	87,390
Net profit after tax	15,493
Cash flow from operations	31,892
Capital expenditure	97,489
Term loans	609,570
Interest/dividend distributions to shareholder	5,902
Shareholder's funds to total assets	28%

Directory

Directors

Graham W Crombie

Keith T Cooper

Kathleen E Grant

Linda M Robertson

Quentin C S Hix (appointed 1 January 2018)

Brian J Wood (resigned 31 December 2017)

Registered Office

50 The Octagon
Dunedin
New Zealand

Bankers

Westpac

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 statement of service performance for the year ended 30 June 2018

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

We have audited:

- the financial statements of the Group on pages 19 to 46, that comprise the statement of financial position as at 30 June 2018, the statement of financial performance, the 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 statement of service performance of the Group on pages 49 and 50.

Qualified Opinion – Our work was limited over the carrying value of stadium assets, the related depreciation expense and related financial information in the statement of service performance

In our opinion, except for the matter described in the Basis for our qualified opinion section of our report:

- the financial statements of the Group on pages 19 to 46:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2018; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS); and
- the statement of service performance of the Group on pages 49 and 50 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 2018.

Our audit was completed on 1 October 2018. This is the date at which our qualified opinion is expressed.

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

Basis for our qualified opinion

As disclosed in the notes to the financial statements on page 23, the Group is designated as a for-profit entity and applies accounting standards that comply with 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.

As disclosed in note 11 on page 34, the Group includes Dunedin Stadium Property Limited (DSPL) which is designated as a public benefit entity for accounting purposes. The Group initially recorded the stadium assets using the carrying values in DSPL's financial statements as at 30 June 2016, which totalled \$185 million. DSPL could support this carrying value as a public benefit entity using non-commercial valuation approaches. However, on consolidating DSPL into the for-profit Group financial statements, we considered that the Group was required to record the stadium assets at carrying values that are supported by commercial valuation approaches.

There are indicators that a commercial valuation approach for the stadium assets would result in a materially lower carrying value in the Group's statement of financial position. The carrying value of stadium assets at 30 June 2018 is \$170.7 million (2017: \$177.8 million). 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 adjustments required. We are also unable to determine the adjustments required to the related depreciation expense on the stadium assets for the year ended 30 June 2018 and the summary financial information disclosed in the Group's statement of service performance on page 49 and 50.

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

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

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

Responsibilities of the Board of Directors for the financial statements and the statement of service performance

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

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

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

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

Responsibilities of the auditor for the audit of the financial statements and the statement of service performance

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements and the statement of service performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We evaluate the appropriateness of the reported service performance within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of service performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the statement of service performance, including the disclosures, and whether the financial statements and the statement of service performance represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the statement of service performance of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated statement of service performance. We are responsible solely for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 18 and pages 47 and 48, but does not include the financial statements and the statement of service performance, and our auditor's report thereon.

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

In connection with our audit of the financial statements and the statement of service performance, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the statement of service performance or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report the fact. As described in the Basis for our qualified opinion section above, we could not obtain sufficient evidence to confirm the financial information relating to the stadium assets. Accordingly, we are unable to conclude whether or not the other information

that includes financial information about the company is materially misstated with respect to this matter.

Independence

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

In addition to the audit, we have completed statutory and regulatory engagement for the Group's subsidiaries and associate entities. These engagements are compatible with those independence requirements.

Other than the audit and these engagement, we have no relationship with, or interests in, the Group or any of its subsidiaries or associate entities.



Julian Tan
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand