



DUNEDIN CITY HOLDINGS LIMITED

2017 Annual Report

What we do

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

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

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

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

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

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

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

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

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

Our challenge

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

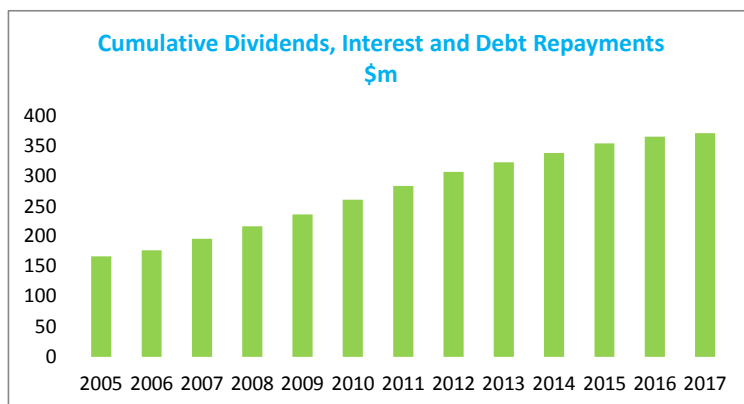
Our performance

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

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

We have:

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

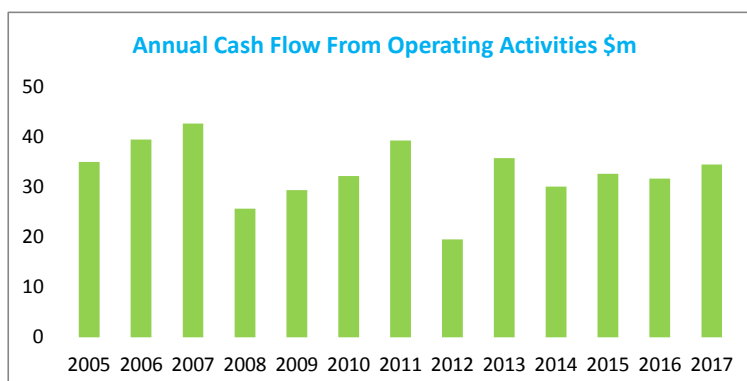


Maintained an adequate level of Shareholders Funds

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



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



Dunedin City Holdings Limited

Our mission

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

2017 highlights

- I We have returned the Group a before tax profit of \$28.90 million
- I We have reduced debt by \$7.87 million during the year
- I Aurora Energy Limited continues to undertake significant capital work on its network
- I Delta Utility Services Limited continues to provide surpluses to the Group
- I City Forests Limited surplus increased by \$4.08 million from the previous year
- I Dunedin Venues Management Limited created new revenue streams to combat a quiet concert period
- I Taieri Gorge Railway Limited continues to provide surpluses on the back of a tourism growth in the region
- I Dunedin International Airport Limited experienced significant increase in aeronautical revenue

Chair's Review

I am pleased to report on another successful year for the Group ending 30 June 2017.

The Group has returned a net surplus for the year of \$18.5 million. The pre-tax surplus of \$29.0 million is \$5.8 million ahead of target. This is the first year that the results of Dunedin Stadium Property Limited and Dunedin Venues Management Limited have been included in the Group result having been brought under the Dunedin City Holdings umbrella at the end of June 2016.

Group borrowings continue to decline being \$573 million at the end of the 2017 financial year compared to \$581 million at the end of the previous financial year. The Group borrowing figure includes the debt for the DCC as this is provided by Dunedin City Treasury Limited, a Group member. This decrease in debt levels is pleasing this year given it has occurred in a period of strong capital reinvestment within the Group.

The level of distribution to Council reduced from \$11.2 million last year to \$5.9 million this financial year in line with the Statement of Intent expectations. This planned reduction reflects the capital investment program Aurora Energy Limited are implementing.

We were pleased with the performance of all the companies in the group.

The end of the 2016/17 year saw the separation of Aurora Energy Limited functions from Delta Utility Services Limited.

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

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

City Forests Limited's surplus for the year again increased substantially from that recorded in the previous year. A pre-tax surplus of \$27.5 million was generated compared to \$22.3 million the year before. The increase in surplus is attributed to both favourable market conditions, most notably domestic demand, but also a substantial revaluation of forestry assets. This led to an increase in the dividend paid on that budgeted.

Dunedin City Treasury Limited has completed the installation of a new Treasury Management System and maintained its Standard and Poor's AA long term credit rating and its A1+ short term rating during the year.

Dunedin Stadium Property Limited's result was impacted by reduced subvention receipts and we are working with the companies to maintain the cash funding model that has been in place through subvention receipts.

Dunedin Venues Management Limited achieved a pre-tax surplus \$401,000 this financial year even without any major concerts filling Forsyth Barr Stadium, compared to \$568,000 in 2015/16 with three major concerts. This shows the strength of diversification and the development of new revenue streams.

Taieri Gorge Railway Limited continues to generate a small surplus reflecting the continuation of the increase in tourist numbers arriving in our city.

Dunedin International Airport Limited achieved a post-tax surplus of \$2.3 million in 2016/17 compared to a surplus of \$2.0 million in 2015/16. This allowed a dividend paid to Dunedin City Holdings Limited of \$704,000 to be declared.

The outlook for the Group continues to be positive.

Aurora Energy has a fast track pole program focusing on removing the risk of close to 3,000 priority poles by the end of December 2017. On a longer-term basis their asset renewal programme will extend to a total of 14,000 poles across the network, replacement of ageing sub-transmission cables, an upgrade of overhead lines and other network equipment.

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 2017 financial year.

Directors' report

Results for the year ended 30 June 2017

	Group \$'000
Revenue	275,073
Profit before tax	28,902
Income Tax	10,390
Net Profit for the year	18,512

State of affairs

The after tax net surplus for the Group has decreased from that reported in the previous financial year. Net surplus after tax for 2016/17 was \$18.6 million compared to \$20.3 million in the previous year.

Healthy increases in revenue for all companies within the Group along with an increase in the forestry valuation, have seen an increase in operating revenue from \$235 million to \$252 million.

The balance sheet of the Group remains strong.

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

Parent company

Dunedin City Holdings Limited, as the parent company of the Group, made a net surplus of \$2.7 million, compared to \$4.2 million the previous year.

The Company received a reduction in dividends from the subsidiary companies which resulted in overall reduced revenue to the previous year.

Parent company payments to the Dunedin City Council

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

The final distribution was made up as follows:

	\$'000
Interest payments from Dunedin City Holdings Limited on shareholders' advance	5,902
Net tax subvention payment to Dunedin Stadium Property Limited	-
Total cash distribution to the Dunedin City Council and Dunedin City Council CTOs outside the Dunedin City Holdings Limited Group from Dunedin City Holdings Limited and subsidiaries	5,902

Review of operations

Parent company

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

Subsidiary Companies

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

Dunedin International Airport Limited (Associate)

Dunedin International Airport Limited achieved an operating surplus of \$2.3 million for the year, ahead of its result of \$2.0 million for the previous financial year. Revenue was up and expenditure levels were consistent with the previous financial year resulting in the increased surplus level.

The Company maintained its level of its dividend to Dunedin City Holdings Limited in the year of \$704,000.

Outlook

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

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

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

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

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

Financial statements

The audited financial statements for the year ended 30 June 2017 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 \$288,000, up from \$260,000 the previous year.

Dunedin City Holdings Limited

Statement of responsibility For the year ended 30 June 2017

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

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

In the opinion of the Board of Dunedin City Holdings Limited, except for any adjustments that may have been required in relation to the carrying value of Dunedin Stadium Property Limited'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 Limited for the financial year ended 30 June 2017.



Chair
14 September 2017



Director
14 September 2017

Principal activities of the group

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

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

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

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

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

- **Aurora Energy Limited** is New Zealand's sixth-largest electricity distributor, annually receiving 1,390GWh of electricity for distribution to more than 88,144 homes and businesses in Dunedin and Central Otago.
- **City Forests Limited** owns approximately 16,795 hectares of land from which forest products are grown, harvested and marketed.
- **Dunedin City Treasury Limited** provides the Group with funding and financial services and manages the financial risks of the Group.
- **Delta Utility Services Limited** is a multi-utility service provider specialising in delivering essential services to community, corporate and private customers. As asset manager to Aurora Energy Ltd it was responsible for the efficient distribution of electricity in Dunedin city and an increasingly large proportion of Central Otago.
- **Taieri Gorge Railway Limited** operates a tourist and community-orientated train on the Taieri Gorge railway line and provides other train services in the South Island, principally for charters and excursions.
- **Dunedin Venues Management Limited** is an event, turf and stadium and facilities management company which currently operates out of the Forsyth Barr Stadium and Dunedin Centre/Town Hall Complex.
- **Dunedin Stadium Property Limited** owns Forsyth Barr Stadium and as such has responsibilities as both a landlord and owner and for ensuring the Stadium is appropriately maintained.
- **Dunedin International Airport Limited** (Associate) operates the Dunedin Airport. It also farms adjacent land in partnership with sharemilkers and owns a small residential housing estate on land adjoining the airfield to the north.

Aurora Energy Limited

What we do

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

What we did this year

Aurora Energy has made significant investments during the year on maintaining the network and renewing assets due for replacement, improving the risk profile of its infrastructure assets and catering for future growth in electricity demand.

Revenue increased to \$102.9 million, up on the \$100.0 million achieved last year. Higher operating expenses reduced the pre-tax surplus to \$11.3 million, down on last year's \$16.3 million. At \$7.3 million, the surplus after tax was up on last year's \$6.5 million due to a reduction in subvention payments within the group. The company paid a \$1.4 million post-tax cash subvention payment to Dunedin Stadium Property Limited in FY17 compared to a \$7.2 million pre-tax payment in the prior year. Total assets increased by \$36.1 million to \$472.6 million during the year.

From 1 July 2017, Aurora Energy now directly employs its asset management, engineering, network operation and corporate services functions, and is contracted to provide shared services support to Delta for another year. Around 100 staff transferred from Delta to Aurora Energy on 1 July 2017. Delta continues to provide Aurora Energy's core maintenance and faults response services under a commercial contract.

During the year, 1,580 power poles were replaced or newly installed on the Aurora Energy network, double last year's total. A total of 39 kilometres of vegetation was cleared from near power lines, preventative work that helps improve network reliability. In Central Otago, residential and commercial development activity remained at high levels, particularly in Wanaka and the Wakatipu basin; while further irrigation development slowed, reflecting low international dairy prices.

Growth in connection numbers was stronger than last year. In Central Otago, connection growth was 3.5% (2.8% last year) and in Dunedin, 0.5% (0.3% last year). Total connections at year end topped 88,000, with 54,935 in Dunedin and 33,096 in Central Otago. Annual energy demand is expected to remain stable in the short to medium-term.

Aurora Energy is in a major phase of investment to modernise, maintain and expand its network, much of which was built in the 1960s and 70s. Over the ten years 2017-2027, it plans to invest a total of \$721 million, a significant uplift in expenditure compared to prior periods, to maintain its distribution network and upgrade its substations and transformers, switchgear and other assets.

Current network maintenance and asset renewal investments are in excess of the levels at which Aurora is compensated under default price-quality regulation. Aurora Energy has confirmed its intention to apply to the regulator to switch to a customised price-quality path to fund future investment. The outcome of the company's application will be subject to Commerce Commission approval and customer consultation and would not likely take effect before 2020.

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

The people as at 30 June 2017

Directors

S R Thompson (Chair)
D J Frow
T J Kempton (resigned 30 June 2017)
B J Wood (resigned 30 June 2017)
M P Devlin (appointed 1 July 2017)
B J Hall (appointed 1 July 2017)

Chief Executive

Grady Cameron

At a glance

	2017 \$'000	2016 \$'000
Revenue	102,868	100,032
Net surplus for the year	7,294	6,463
Shareholder's funds	190,432	183,648
Total assets	472,619	436,452

City Forests Limited

What we do

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

What we did this year

City Forests has had a successful year generating a strong trading profit and cash flows that have enabled the payment of a \$6.0 million dividend to Dunedin City Holdings Limited. This dividend payment is comparable to the \$6.5m dividend paid in the previous year.

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

Export log volumes delivered to the Company's principal South Korean and Chinese customers have been steady during the year. New Zealand dollar returns from exporting are determined by the key factors of market price, freight rates and exchange rate. When considered together New Zealand Dollar returns from harvesting have been very favourable and steadily increasing throughout the year, a trend that has been in place since December 2015. This period of market stability has been a key driver of Company profitability for the 2016 and 2017 financial years and although positive, a return to more frequent market volatility remains a risk.

The domestic log market purchased 44% (45% previous year) of the log production from the Companies estate. Domestic demand has been strong and domestic log prices have been steadily increasing as local mills benchmark against export log market pricing.

The Board and Management of the Company are committed to achieving best practice in Health and Safety performance. Company resources allocated to the governance and oversight of this key operational area is considerable. The Company recorded one lost time injury, a leg strain in a silvicultural operation, during the 12 month period generating a Lost Time Injury Frequency of 7.1.

During the year the company purchased the majority of the Clutha District Council forests and a private block neighbouring our estate. A total of 397ha has been added to the Company estate and the additional productive forest will provide a positive addition to the Companies sustainable cut level as it matures. The Company continues with its strategy of modest estate expansion where quality forest or land can be acquired economically in proximity to existing forests.

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

Company Forests are valued annually on 30 June and have increased in value by \$12.531m from the previous year. The main drivers of the valuation increase are increasing log prices, a revision of predicted forest yields to better match improved growth and the addition of new forest area.

Environmental stewardship and community recreation has been a continuing feature of Company operations. The Company continues its Forest Stewardship Certification which it has held since 2000. This involves having sustainable forest management practices, environmental management plans, reserve areas and working to protect rare threatened and endangered species habitat for species such as Eldin's galaxid, South Island Robin and the New Zealand Falcon. Recreation activity has been high during the year the Company has hosted a number of events such as The Rally of Otago, Military exercises and the Army Twin Peaks Battle Tab. There is daily public use of Company Forests principally for mountain biking, walking and hunting.

The outlook for the 2018 financial year is to continue to deliver positive operational results from supplying domestic and export log markets. The underlying operational performance is predicted to be similar to 2017 however this will be dependent on how log export returns and domestic log sales track throughout the year. Carbon revenues are expected to once again become a contributor to Company performance in the medium term and carbon prices have recovered from 2013 lows. Carbon revenues provide financial recognition of the Company's wider positive environmental impact.

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

This Company's annual harvest is now at long term sustainable levels of approximately 285,000 m3 per annum. The Company is well placed with a mature, harvest ready forest and proven marketing capability to make the most of market opportunities for logs and carbon.

The people as at 30 June 2017

Directors

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

Chief Executive

G A A Dodson

At a glance

	2017 \$'000	2016 \$'000
Revenue	46,239	48,304
Net surplus for the year	20,104	16,021
Shareholder's funds	130,873	116,059
Total assets	198,267	178,024

Delta Utility Services Limited

What we do

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

What we did this year

The year was marked by steady demand for Delta's core services in the energy and environmental sectors. The company achieved an improved post-tax surplus on slightly lower turnover, building on last year's solid performance. Significant long term contracts were won or renewed from new and existing customers.

Operating revenues increased to \$105.2 million, up from last year's \$102.5 million, reflecting steady demand for energy and environmental services provided to existing and new customers. Profit after tax was \$4.8 million, up slightly on last year's result of \$4.7 million. Total assets increased by \$0.7 million to \$61.9 million during the year. Term borrowings decreased by \$3.7 million to \$25.5 million during the year.

From 1 July 2017, Delta's asset management and engineering functions transferred to Aurora Energy. Delta will continue to provide Aurora Energy's core maintenance and faults response services under contract, and also complete capital projects that are awarded from Aurora Energy. This change gives dedicated resources and a clearer focus to the two companies, as different businesses with different customers.

During the year, Delta continued to deliver asset management, maintenance and construction services to Aurora Energy, with increased requirements for asset renewal, maintenance and system growth. Delta managed \$45.2 million of capital projects for Aurora Energy, up from \$37.2 million last year.

Delta provides specialist electricity services throughout New Zealand. The company entered year seven of its long term electricity network maintenance contract with Network Tasman that runs to March 2021. During the year, Delta installed 47,000 smart meters as electricity meter owners continued to convert the remainder of their fleet to the newer technology.

Delta's environmental business continued its success in parks and reserves and roadside vegetation control services throughout the South Island. Delta renewed its greenspace contract with Waimakariri District Council for a further seven years, and secured the parks contract for northern Dunedin – both via competitive tender. The solid waste business performed well, providing services to Clutha, Dunedin City and Waitaki local authorities. The Dunedin City Council put the operating contract for Green Island landfill out to market and Delta's long-standing involvement there came to a conclusion at year-end.

Delta operates in working environments with critical risk exposure. The company continued its focus on strengthening its current Safety Management System in the areas of capacity and resilience while having an action-based approach to safety improvements. The total recordable injury frequency rate during the year was 4.33 per 200,000 hours. The care and wellbeing of its people remains at the forefront of continuous safety improvement at Delta.

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

The people as at 30 June 2017

Directors

B J Wood (appointed Chair 1 July 2017)
T J Kempton
S W Grave (appointed 1 July 2017)
D J Frow (resigned 30 June 2017)
S R Thompson (resigned 30 June 2017)

Chief Executive

Grady Cameron (resigned 30 June 2017)

At a glance

	2017 \$'000	2016 \$'000
Revenue	105,733	106,663
Net surplus for the year	4,830	4,673
Shareholder's funds	20,023	17,618
Total assets	61,864	61,163

Dunedin City Treasury Limited

What we do

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

What we did this year

Dunedin City Treasury has again reduced the reliance on short term funding with the amount of promissory notes on issue as at 30 June 2017 of \$60.0 million compared to \$65.0 million as at 30 June 2016. The Company achieved good results with its promissory note programme. The average rate achieved was +0.021% basis points over the 3 month benchmark interest rate (3mth BKB), which was an excellent result. The average bid coverage ratio was 2.7 times the promissory notes tendered, which reflects strong investor appetite for our paper.

In November 2016, the \$50.0 million November 2016 medium term note was refinanced with a new floating rate note issue for \$50.0 million for a term of 3 years. The new issue was priced attractively at a margin of just +0.50% above 3mth BKB (current 3mth BKB = 1.98%). This compares to the coupon rate of 6.79% on the maturing issue. The issue attracted a broad range of investors.

In February 2017, the \$20.0 million floating rate note maturity was refinanced with a new floating rate note of \$25.0 million for a term of 7 years at a margin of +0.65% above 3mth BKB. This compares to a margin of +0.80% on the maturing issue. Refinancing the floating rate note for this term enabled the Company to comfortably maintain greater than 20% of debt with maturity dates of 5 years or longer.

The Company achieved a reduction in the cost of funds of approximately -0.40% over the period. In addition to this, there is less than \$200.0 million of funding maturing in any one year period from 30 June 2017 onwards.

The Company continues to provide management services to the Waipori Fund which is Dunedin City Council investment fund of \$84.2 million as at 30 June 2017. The result for the year was a \$5,709,217 surplus, before an inflation adjustment of \$1,782,376 which was a return of 6.9%. With an inflation factor of 2.1%, the return after inflation was 4.8%.

The Company's Standard and Poor's long term credit rating was reaffirmed at AA in December 2016. The A1+ short term rating remained the same as previously reported.

The people as at 30 June 2017

Directors

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

Treasury Manager

R Davey

At a glance

	2017 \$'000	2016 \$'000
Revenue	31,865	36,545
Net surplus for the year	115	39
Shareholder's funds	(1,319)	(5,847)
Total assets	594,267	608,145

Dunedin Stadium Property Limited

What we do

Dunedin Stadium Property Limited 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

Dunedin Stadium Property Limited registered a change of name from Dunedin Venues Limited on 15 December 2016.

On 30 June 2016 the shareholding was transferred from the Dunedin City Council to Dunedin City Holdings Limited, and as the transfer occurred on 30 June 2016, the consolidated result for the Group for the comparative year includes the balance sheet of Dunedin Stadium Property Limited at 30 June 2016. The operational results for the 2016 year have been shown for comparison only as the results were not consolidated into the Group result at 30 June 2016.

The people as at 30 June 2017

Directors

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

At a glance

	2017 \$'000	2016 \$'000
Loss before tax and subvention	(10,394)	(11,185)
Net loss for the year	(8,233)	(3,558)
Shareholder's funds	83,939	88,911
Total assets	180,349	187,793

Dunedin Venues Management Limited

What we do

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

What we did this year

This past year has been a very good representation of the volatile nature of our business having three major concerts in the 2015/2016 financial year and then an absence of any major artists for the 2016/2017 financial year. Any year without major concerts filling Forsyth Barr Stadium would usually give cause for concern, however we are reporting a net surplus before taxation of \$401,000 for this past financial year. This has in fact brought immense satisfaction as it shows the strength in an organisation that has diversified itself and created new revenue streams to combat a quiet concert period. In a city of firsts, DVML contributed to this when Forsyth Barr Stadium was converted into an indoor racetrack hosting the D1NZ National Drifting Championships for the first time ever under a roof. The Great Kiwi Home and Living Show was created through a joint venture with Allied Press with an audience of 8,000 in its first weekend. The British and Irish Lions played for the first time at Forsyth Barr Stadium where they were narrowly defeated by the Highlanders. We commenced a new contract managing the University of Otago Oval and the event delivery of the Black Caps v South Africa test match. A new concept in cricket corporate hospitality saw the introduction of the Village Green which was enjoyed by many.

DVML is tasked with creating economic impact for Dunedin City and it is delivering. Since opening the doors of Forsyth Barr Stadium for Rugby World Cup 2011, there has been an estimated \$165m additional spend injected into the local economy from approximately 30 significant events with approximately 60% of attendees of major events coming from outside of the city. We continue to work hard to forge strong commercial relationships and increase utilisation across all of our venues. The Dunedin Centre has again performed well with DVML managing 14 multi-day conferences hosting 3910 delegates. 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 so this equates to a spend of \$3.4m by delegates (2 night stay) into the city. The value of the conference delegate is often overlooked but should be held in high regard as their spend is significantly higher than the holidaymaker at \$244 per person per night. (International Visitor Survey YE December 2016).

The Dunedin City Council's Residents Opinion Survey 2016 shows increased satisfaction levels of 88% for Forsyth Barr Stadium and 86% for the Dunedin Centre. The Community Access Grant ensured local groups enjoyed the facilities with a variety of events hosted - 79 community events with 43,979 attendees.

We are thankful to all of our clients who utilise our facilities throughout the year.

The people as at 30 June 2017

Directors

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

Chief Executive

T Davies

At a glance

	2017 \$'000	2016 \$'000
Revenue	13,745	12,758
Net surplus for the year	299	407
Shareholder's funds	1,083	484
Total assets	4,452	5,921

Taieri Gorge Railway Limited

What we do

Taieri Gorge Railway Limited 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 experienced a satisfactory trading year, as a result of the general tourist market recovering a little, resulting in some growth on the Taieri Gorge and cruise ship train services. Rail touring and short trips for cruise customers using the Dunedin Silver Fern railcar again grew significantly and now form an important part of the business. An after tax profit of \$172,000 has been achieved in spite of increased expenditure on track and carriage maintenance work. Track sleeper replacement has been maintained at a higher level as the company invests in an improved track structure in order to ensure safe operations into the future. The market has been negatively influenced by the Kaikoura earthquake which affected visitation to the east coast of the South Island, and by the continuing negative effects of the 2011 Christchurch earthquakes. There were also significant weather-related cruise ship cancellations this season. General market growth continues to be restrained in this region but will increase as more accommodation is restored in Christchurch and when the Kaikoura road re-opens.

As a result of the tourist market commencing growth in this region, and with a busier cruise market in the year ahead, the Board remains cautiously optimistic. The coming summer season is likely to show continued recovery in tourist numbers. Business initiatives have been introduced to increase passenger numbers on the daily train and to maximise revenue on cruise ship days. The trend of cruise visitors to take independent attractions rather than shore excursions organised by the shipping lines has been the focus of company efforts to maximise passenger numbers on cruise days.

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

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

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

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

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

The people as at 30 June 2017

Directors

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

Chief Executive

M J Bond

At a glance

	2017 \$'000	2016 \$'000
Revenue	6,939	6,578
Net surplus for the year	172	137
Shareholder's funds	2,195	2,023
Total assets	3,915	3,652

Corporate governance

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

The role of Dunedin City Holdings Limited

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

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

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

Subsidiary companies

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

The Group treasury policy 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 Chairman and Chief Executive Officer must be kept separate at all times.

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

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

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

Review of board membership

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

The work of the boards

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

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

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

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

Environmental, social and economic performance

For the year ended 30 June 2017

Summary

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

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

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

Group highlights

Health and safety

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

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

During the year, Delta Utility Services Limited continued to strengthen their current Safety Management System in the areas of capacity and resilience while having an action-based approach to safety improvements. Managers made regular onsite safety observations and workgroups continued to participate in interactive safety days. The use of visual safety boards have become common place at Delta and continue to be used in conjunction with daily and weekly team briefings.

During the year, Aurora Energy Limited complied with its public safety obligations under the Electricity Act 1992, maintaining a public safety management system in accordance with the Electricity Safety Regulations (2010). The intent of the system is to prevent serious harm to any members of the public or significant damage to their property. From 1 July 2017, Aurora Energy will facilitate all future re-certifications to New Zealand Standard 7901:2008.

During the year, Dunedin Venues Management Limited 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.

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

Environmental

Delta's environmental business continued its steady growth in a competitive market through the renewal of long term contracts and winning new business. Their specialist tree services business cleared a total of 39 kilometres of vegetation away from power lines on the Aurora network for improved reliability. During 2017, 11 major safety improvements to operational practices, one example being the introduction of helmet communications for the Delta tree services teams.

The hunt for new and innovative ways to continually improve the organisation at Delta was highlighted when work was carried out in asbestos disposal at the Green Island Landfill. Their Environmental team initiated the project to develop a new asbestos disposal procedure that was praised by Worksafe New Zealand as an example of what should be seen at other landfill sites.

Globally, the electricity market is being reinvented, as technology and innovation change how electricity is generated, supplied and consumed. Changing consumer demands and preferences of electricity users is also driving change through an expectation of greater choice, real time interaction, always-on connectivity, better reliability and security. Aurora Energy's role is to find ways to accommodate the changing demands on their electricity infrastructure from both consumers and new technologies.

City Forests Limited has held uninterrupted Forest Stewardship Council certification since 20000. City Forests continues to be a participant in the emissions trading scheme and the Company's forests store a significant volume of carbon.

The community continues to benefit from the significant network of walking and cycle tracks, picnic areas and other public amenities maintained by City Forests. 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. Significant military exercises, the Rally of Otago, walking, mountain biking, horse trekking and hunting access are the most notable events.

In October 2016, Dunedin Venues Management Limited contracted a new waste management service provider, implementing at the same time improved recycling systems within the Company, resulting in a 20% increase in non-organic recycled waste.

A number of initiatives occurred during the year and 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.

Community involvement

Our community involvement continues to cover a wide range of civic, charitable, sporting and recreational activities. In 2017, this support comprised of a combination of financial sponsorship or assistance, the provision of staff resources and other forms of non-financial donation, such as loads of firewood and falcon safe network designs, from within the Group's resources.

The promotion of education, culture, sport and health receives assistance from all companies across the Group. The Cancer Society Otago/Southland, Canterbury West Coast Air Rescue Trust, Connections Education and Development Trust, Dunedin Community Care Trust, LandSAR Golden Bay and LandSAR Motueka, Leukaemia & Blood Cancer New Zealand, Ronald McDonald House South Island, Otago Rugby Referees, Save the Otago Peninsula, Festival of Colour, Otago Science and Technology Fair, research and conservation of the rare karearea or New Zealand falcon, and the Yellow-eyed Penguin all benefited from contributions during the year.

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 - 79 community events with 43,979 attendees.

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

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

Dunedin City Holdings Limited

Group financial statistics

	2017 \$'000	2016 \$'000	2015 \$'000	2014 \$'000	2013 \$'000
Revenue	275,073	270,625	251,067	233,978	231,234
Profit before tax, impairment and subvention payment from continuing activities	28,902	37,452	26,429	28,616	38,586
Profit/(loss) after tax from continuing operations	18,512	20,309	12,755	13,800	24,053
Tax	10,390	9,851	6,382	7,524	7,166
Surplus/(deficit) after tax	18,512	20,309	12,952	12,483	20,512
Net interest paid to the Council on advance	5,902	5,902	5,902	6,731	5,903
After tax cost of Dunedin Stadium Property Limited subvention payment	-	5,250	5,250	5,250	5,250
Net surplus before shareholder interest and subvention	24,414	31,461	24,104	24,464	31,665
Cash flows from operating activities	34,416	31,634	32,565	30,084	35,745
Shareholder's funds	320,129	285,615	175,173	169,549	159,197
Shareholder's advance	112,000	112,000	112,000	112,000	112,000
Total shareholder's interest	432,129	397,615	287,173	281,549	271,197
Rate of return (on shareholder funds)	5.8%	7.1%	7.4%	7.4%	12.9%
Dividend paid	-	-	4,548	3,719	4,547
Net interest paid to the Council on advance	5,902	5,902	5,902	6,731	5,903
After tax cost of Dunedin Stadium Property Limited subvention payment	-	5,250	5,250	5,250	5,250
Total interest, subvention and dividends paid to the Council	5,902	11,152	15,700	15,700	15,700
Total assets	1,171,778	1,143,093	1,029,435	1,034,432	1,036,228
Shareholder's funds to total assets	27.3%	25.0%	17.0%	16.4%	15.4%

Dunedin City Holdings Limited

Statement of financial performance For the year ended 30 June 2017

	<i>Note</i>	Group 2017 \$'000	Group 2016 \$'000
Revenue			
Operating revenue	3	250,788	234,644
Financial income	4	14,656	26,457
Forest revaluation reserve	26	9,629	9,524
Total operating revenue		275,073	270,625
Expenditure			
Other expenses	5	128,321	124,653
Employee expenses		54,017	48,538
Audit fees	5	288	260
Financial expenses	5	37,077	42,062
Depreciation and amortisation		27,629	18,639
Total operating expenditure		247,332	234,152
Operating surplus		27,741	36,473
Share of associate surplus		1,161	979
Surplus before subvention and taxation		28,902	37,452
Less subvention payment		-	7,292
Surplus before taxation		28,902	30,160
Less taxation expense	8	10,390	9,851
Surplus after taxation		18,512	20,309
Attributable to:			
Equity holders of the parent		18,464	20,271
Minority Interest		48	38
		18,512	20,309

Dunedin City Holdings Limited

Statement of other comprehensive income For the year ended 30 June 2017

	Note	Group 2017 \$'000	Group 2016 \$'000
Other comprehensive income			
Gain (loss) on forestry land revaluations		241	-
Gain (loss) on interest rate swap hedges		7,163	(9,932)
Gain (loss) on foreign exchange hedges		877	1,971
Gain (loss) on carbon credit revaluation		(586)	10,832
Other comprehensive income associates		6,095	(7)
Income tax on other comprehensive income		(338)	(1,790)
Net income recognised directly as other comprehensive income		13,452	1,074
Surplus after taxation		18,512	20,309
Total comprehensive income for the year		31,964	21,383
Attributable to:			
Equity holders of the parent		31,916	21,345
Minority interest		48	38
		31,964	21,383

Statement of changes in equity For the year ended 30 June 2017

		Group 2017 \$'000	Group 2016 \$'000
Movements in equity			
Opening equity		285,615	174,838
Total comprehensive income for the year		31,964	21,383
Contributions of Equity		2,550	115,839
Retained earnings adjustment on acquisition of subsidiaries	11	-	(26,445)
Distributions to equity holders of the parent	7	-	-
Closing equity		320,129	285,615

Dunedin City Holdings Limited

Statement of financial position As at 30 June 2017

	Note	Group 2017 \$'000	Group 2016 \$'000
Current assets			
Cash and cash equivalents	13	15,072	17,350
Other current financial assets		18,883	19,017
Derivative financial instruments	32	426	272
Trade and other receivables	15	27,320	42,388
Taxation refund receivable		941	880
Inventories	20	9,650	5,078
Other current assets	21	1,122	16
Prepayments		1,178	1,125
Total current assets		74,592	86,126
Non-current assets			
Term receivables	15	12,841	-
Other non-current financial assets	22	184,914	197,870
Derivative financial instruments	32	16,181	24,517
Investments in associate companies	24	29,755	23,203
Investments in subsidiary companies	23	-	-
Intangible assets - carbon credits	27	23,413	17,288
Intangible assets - other		1,480	1,531
Forestry assets	26	136,333	123,802
Property, plant and equipment	25	692,269	668,756
Total non current assets		1,097,186	1,056,967
Total assets		1,171,778	1,143,093
Current liabilities			
Short term borrowings	16	473	857
Trade and other payables	17	33,942	31,905
Employee entitlements	18	5,458	4,914
Accrued expenditure	19	335	139
Derivative financial instruments	32	125	203
Provision for tax		2,869	2,067
Current portion of terms loans	29	1,686	1,770
Total current liabilities		44,888	41,855
Non-current liabilities			
Term loans	29	570,870	578,273
Shareholder's advance - DCC	30	112,000	112,000
Provisions	18	886	867
Other non-current liabilities	28	1,105	682
Derivative financial instruments	32	21,605	32,058
Deferred taxation	9	100,295	91,743
Total non-current liabilities		806,761	815,623
Equity			
Share capital	10	118,489	115,939
Accumulated funds	11	131,007	119,476
Minority interest in subsidiaries		616	568
Revaluation reserves	12	16,650	10,555
Cash flow hedge reserves	12	(3,126)	(10,712)
Forest revaluation reserves	12	45,673	38,499
Carbon credit reserve	12	10,820	11,290
Total equity		320,129	285,615
Total liabilities and equity		1,171,778	1,143,093

Dunedin City Holdings Limited

Statement of cash flows For the year ended 30 June 2017

	Note	Group 2017 \$'000	Group 2016 \$'000
Cash flow from operating activities			
<i>Cash was provided from:</i>			
Receipts from customers		218,468	206,298
Interest received		14,213	27,431
Income tax refund		730	157
Dividend received		704	704
		<u>234,115</u>	<u>234,590</u>
<i>Cash was applied to:</i>			
Suppliers and employees		159,250	143,925
Finance costs paid		37,366	46,940
Taxation paid		2,270	3,971
Subvention payment to DVL/DVML		-	8,259
Net GST paid/ (received)		813	(139)
		<u>199,699</u>	<u>202,956</u>
Net cash flow from operating activities	14	<u>34,416</u>	<u>31,634</u>
Cash flow from investing activities			
<i>Cash was provided from:</i>			
Sale of property, plant and equipment		804	584
Decrease in investments		17,867	29,884
Net cash on acquisition of subsidiaries		-	1,983
		<u>18,671</u>	<u>32,451</u>
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment		47,845	41,626
Increase in investments		7,811	1,753
		<u>55,656</u>	<u>43,379</u>
Net cash flow from investing activities		<u>(36,985)</u>	<u>(10,928)</u>
Cash flow from financing activities			
<i>Cash was provided from:</i>			
Call on Capital		2,550	-
Loans raised		-	-
		<u>2,550</u>	<u>-</u>
<i>Cash was applied to:</i>			
Loans repaid		2,259	19,245
Dividends		-	-
		<u>2,259</u>	<u>19,245</u>
Net cash flow from financing activities		<u>291</u>	<u>(19,245)</u>
Net increase/(decrease) in cash		(2,278)	1,461
Opening cash and cash equivalents		17,350	15,889
Closing cash and cash equivalents		<u>15,072</u>	<u>17,350</u>

Notes to the financial statements For the year ended 30 June 2017

1 Reporting entity

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

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

The financial statements of the Dunedin City Holdings Limited Group are for the year ended 30 June 2017.

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

Dunedin City Holdings Limited is a profit orientated entity.

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

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

2 Significant accounting policies

Statement of compliance

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

The financial statements were authorised for issue by the directors on 14 September 2017.

Basis of accounting

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

The accounting policies have been applied consistently by Group entities.

Basis of consolidation

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

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

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

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

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

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

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

Associate entities

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

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

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

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

Investment in associates

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

Joint ventures

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

Non-current assets held for sale

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

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

Goodwill

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

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

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

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

Revenue recognition

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

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

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

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

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

Construction contracts

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

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

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

Leasing

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

The Group as Lessor

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

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

The Group as Lessee

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

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

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

Foreign currencies

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

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

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

Borrowing costs

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

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

Government loans

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

Employee entitlements

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

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

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

Goods and services tax (GST)

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

Taxation

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

Assets held under finance leases are depreciated.

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

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

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

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

Forests

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

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

Derecognition of non-financial assets

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

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

Investment property

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

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

Intangible assets

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

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

Research and development expenditure

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

Patents and trademarks

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

Impairment of assets excluding goodwill

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

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

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

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

Inventories

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

Cash and cash equivalents

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

Financial instruments

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

Trade and other receivables

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

Investments

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

Investments in debt and equity securities

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

Trade and other payables

Trade and other payables are stated at cost.

Borrowings

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

Financial liability and equity

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

Derivative financial instruments and hedge accounting

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

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

The use of financial derivatives in each entity within the Group is governed by the Dunedin City Council's Treasury Risk Management Policy (approved September 2016). The policy provides written principles on the use of financial derivatives.

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

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

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

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

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

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

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

Carbon credits

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

Cost in the case of purchased units.

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

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

Provisions

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

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

Critical accounting estimates and assumptions

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

- impairment of investments in subsidiaries, associate companies and jointly controlled operations (notes 22, 23, and 24);
- valuation of forestry assets (note 26);
- valuation of derivative financial instruments (note 32);
- carrying value of the deferred tax liability (note 9).

Discontinued operations

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

Changes in accounting policy

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

Standards amended or issued during the year

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

Standard

Brief Outline

Amendments to NZ IAS 27 *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.

NZ IFRS 15 *Revenue from contracts with customers*

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.

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 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 the surplus or deficit.

3 Operating revenue

	Group 2017 \$'000	Group 2016 \$'000
Sale revenue	250,720	234,264
Gain on sale of assets	68	380
	<u>250,788</u>	<u>234,644</u>

4 Financial income

	Group 2017 \$'000	Group 2016 \$'000
Subvention income	-	7
Interest on advances to related parties	13,883	21,977
Interest on other investments	772	4,473
Dividends	1	-
Net gain on foreign currency transactions	-	-
	<u>14,656</u>	<u>26,457</u>

5 Separately disclosed expenditure

	Group 2017 \$'000	Group 2016 \$'000
Other expenses		
Bad debts written off	542	13,529
Impairment of intangible assets	-	-
Increase/(decrease) in impairment provision for receivables	205	(9,353)
Donations	57	46
Rental expense on operating leases	3,696	3,334
Research expenditure	145	192
Other expenditure	123,676	116,905
Expenditure of continuing activities	<u>128,321</u>	<u>124,653</u>

Audit fees

Audit New Zealand:		
Financial statements	254	190
Regulatory (information disclosure) reporting	19	19
Price and quality thresholds and other regulatory reporting	15	15
Other Providers:		
Internal audit	-	36
Total audit fees	<u>288</u>	<u>260</u>

Financial expenses

Interest - related parties	5,946	5,928
Interest - term loans	31,122	35,784
Net loss on foreign currency transactions	9	350
Total financial expenses	<u>37,077</u>	<u>42,062</u>

6 Earnings per share

	Group 2017	Group 2016
Basic earnings per share is calculated by dividing the net surplus attributable to the shareholder of the Group by the weighted average number of ordinary shares on issue during the year.		
Number of shares		
Shares at year end	968,389,000	965,839,000
Weighted average number of ordinary shares	850,000,000	850,000,000
Basic earnings per share – continuing operations	\$ 0.0218	\$ 0.0239
Earnings per paid up share from continuing operations	\$0.16	\$0.18

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

7 Dividends

No dividends were paid during the financial year (2016: nil).

8 Income tax

	Group 2017 \$'000	Group 2016 \$'000
Operating surplus/(loss)	28,902	30,160
Tax thereon at 28%	8,093	8,445
Plus/(Less) the tax effect of differences		
Revenue not liable for taxation	(73)	(266)
Expenditure not deductible for taxation	1,688	1,744
Tax losses to be utilised	1,547	-
Under/(over) tax provision in prior years	(395)	(99)
Other	(470)	27
Taxation charge	10,390	9,851
Effective tax rate	35.9%	32.7%
The taxation charge is represented by:		
Current tax provision	3,337	2,107
Deferred tax provision	7,079	7,843
Under/(over) tax provision in prior years	(802)	(82)
Under/(over) deferred tax in prior years	776	(17)
	10,390	9,851
Tax expense continuing activity	10,390	9,851
Tax expense discontinued activity	-	-
	10,390	9,851

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

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

Dunedin City Holdings Limited, as a member of the income tax consolidated Group, has access to the Group's imputation credit account. After taking into account imputation credits attached to accrued dividends and known income tax payments/refunds, Dunedin City Holdings Limited has direct access to consolidated Group imputation credits that relate to 30 June 2017 and earlier years which will be available for use in subsequent reporting periods totalling \$20,832,587 (2016: \$17,120,186).

9 Deferred tax

	Group \$'000	Group \$'000	Group \$'000	Group \$'000	Group \$'000	Group \$'000
	Opening Balance Sheet	Charged to Equity	Charged to Income	Closing Balance Sheet Assets	Closing Balance Sheet Liabilities	Closing Balance Sheet Net
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
2016						
Property, plant and equipment	53,970	(162)	1,097	(208)	55,113	54,905
Employee benefits	(1,553)	(29)	(145)	(1,698)	(29)	(1,727)
Forest	19,033	-	2,667	-	21,700	21,700
Forest costs capitalised	9,730	-	131	-	9,861	9,861
Other Investments	2,575	2,311	3,981	90	8,777	8,867
Hedge reserve – foreign exchange contracts	(656)	552	-	(104)	-	(104)
Hedge reserve – interest rate swaps	(739)	(1,124)	104	(1,759)	-	(1,759)
Balance at the end of the year	82,360	1,548	7,835	(3,679)	95,422	91,743

10 Equity – Share Capital

Issued capital

968,389,000 ordinary shares

Group 2017 \$'000	Group 2016 \$'000
118,489	115,939

On incorporation, Dunedin City Holdings Limited issued 100,000,000 ordinary shares in favour of the Dunedin City Council. Only \$100,000 was called. On 30 June 2017 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

11 Accumulated funds

Balance at the beginning of the year

Group companies

Associate companies

Group 2017 \$'000	Group 2016 \$'000
108,296	122,179
11,180	10,327

Net profit for the year

Dividend distributions

Minority share of surplus

Adjustment on acquisition of subsidiaries

Transfer to reserves – forest (note 12)

Transfer to reserves – carbon credit (note 11)

Balance at the end of the year

18,512	20,309
-	-
(48)	(38)
-	(26,445)
(6,933)	(6,856)
-	-
131,007	119,476

Represented by

Group companies

Associate companies

Balance at the end of the year

118,606	108,296
12,401	11,180
131,007	119,476

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

12 Reserves

Associate company asset revaluation reserve

Balance at beginning of the year

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

Balance at end of year

Group 2017 \$'000	Group 2016 \$'000
10,555	10,562
6,095	(7)
16,650	10,555

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 20)

Gain on settlement of interest rate swaps to equity

Balance at the end of the year

(10,712)	(3,322)
6,902	(9,975)
1,522	2,018
(838)	572
-	(5)
(3,126)	(10,712)

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

38,499	31,642
6,933	6,857
241	-
45,673	38,499

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

11,290	2,820
-	-
(470)	8,470
10,820	11,290

13 Cash and cash equivalents

	Group 2017 \$'000	Group 2016 \$'000
Cash and bank	15,072	17,350

Cash and short-term deposits comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Short-term deposits are made at call deposit rates.

The credit risk on liquid funds is limited as the banks used are banks with high credit ratings assigned by international credit rating agencies.

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

	Group 2017 \$'000	Group 2016 \$'000
Operating surplus/(deficit)	18,512	20,309
Share of net surplus/(deficit) in associated companies	(1,161)	(979)
<i>Items not involving cash flows</i>		
Depreciation	27,629	18,639
Depletion of forest	2,394	1,535
Deferred tax	8,199	5,658
Asset impairment	-	-
Forest revaluation	(11,003)	(9,524)
(Increase)/Decrease in cash flow hedge valuation	948	3,369
Other non-cash items	(19,726)	(6,490)
<i>Impact of changes in working capital items</i>		
(Increase)/Decrease in trade and other receivables	15,068	(1,384)
(Increase)/Decrease in other current assets	-	-
(Increase)/Decrease in inventories	(4,572)	59
(Increase)/Decrease in prepayments	(53)	54
(Increase) /Decrease in tax refund due	(61)	(164)
Increase /(Decrease) in trade and other payables	2,037	6,030
Increase /(Decrease) in provision for tax	802	(3,151)
Increase /(Decrease) in other current liabilities	740	(173)
<i>Items classified as investing or financing activities</i>		
Gain on sale of property, plant and equipment	(464)	(380)
Loss on sale of property, plant and equipment	-	62
Items related to development property	-	-
Movement in capital creditors	(4,873)	(1,836)
Net cash inflows from operating activities	34,416	31,634

15 Trade and other receivables

	Group 2017 \$'000	Group 2016 \$'000
Trade receivables	24,274	37,778
Estimated impairment	(403)	(609)
	23,871	37,169
Due from related parties:		
Subsidiaries		
Other related parties	3,124	4,787
Other current receivables	325	432
	27,320	42,388
Term receivables	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 2017 \$'000	Group 2016 \$'000
Opening doubtful debts provision	(609)	(9,865)
Additional provisions made during the year	(1,031)	(4,197)
Receivables written off during the year	542	13,529
Provisions reversed during the year	695	21
Doubtful debts on acquisition	-	(97)
Closing doubtful debts provision	(403)	(609)

16 Short term borrowings

	Group 2017 \$'000	Group 2016 \$'000
Short term borrowing	473	857
Related party borrowings	-	-
	<u>473</u>	<u>857</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.

17 Trade and other payables

	Group 2017 \$'000	Group 2016 \$'000
Trade payables	26,983	25,906
Due to related parties:		
DCHL subsidiaries	-	-
Dunedin City Council and subsidiaries	109	19
	<u>109</u>	<u>19</u>
Other payables:		
GST payable	1,029	833
Other current liabilities	5,821	5,147
	<u>6,850</u>	<u>5,980</u>
	<u>33,942</u>	<u>31,905</u>

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

18 Employee entitlements/provisions

	Group 2017 \$'000	Group 2016 \$'000
Current liabilities		
Long service leave	278	310
Annual leave	4,354	4,098
Gratuities	160	189
Sick leave	147	157
Other provisions	519	160
	<u>5,458</u>	<u>4,914</u>
Non-current liabilities		
Long service leave	508	492
Gratuities	378	375
	<u>886</u>	<u>867</u>

19 Accrued expenditure

	Group 2017 \$'000	Group 2016 \$'000
Accruals	335	139

20 Inventories

	Group 2017 \$'000	Group 2016 \$'000
Raw materials and stores	8,255	3,282
Work in progress	1,395	1,774
Finished goods	-	22
	<u>9,650</u>	<u>5,078</u>

21 Other current assets

	Group 2017 \$'000	Group 2016 \$'000
Land	275	15
Development in progress	847	1
	<u>1,122</u>	<u>16</u>

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

22 Investments non current

	Group 2017 \$'000	Group 2016 \$'000
Loan repayments due from Dunedin City Council:		
Maturity one to five years	57,515	72,228
Maturity over five years	127,390	125,634
	184,905	197,862
Shares and units in other companies and funds	9	8
Total other investments	184,914	197,870

Advances

The advances (above) due from the Dunedin City Council had a weighted average interest rate of 6.45% (2015: 6.46%).

Shares and units in other companies and funds

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

23 Investments in subsidiary companies

Parent company	2017 Percentage Interest Held	2016
Name of entity (principal activities)		
City Forests Limited (Forestry)	100	100
Dunedin City Treasury Limited (Finance)	100	100
Aurora Energy Limited (Energy)	100	100
Taieri Gorge Railway Limited (Transport)	72	72
Delta Utility Services Limited (Contractor and Asset Manager)	100	100
Dunedin Stadium Property Limited (Stadium ownership)	100	100
Dunedin Venues Management Limited (Events)	100	100

All subsidiary companies have balance dates of 30 June 2017.

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 Stadium Property Limited registered a change of name from Dunedin Venues Limited on 15 December 2016.

Acquisitions

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

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

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

	Group 2017 \$'000	Group 2016 \$'000
Cash and cash equivalents	-	3,983
Other current financial assets	-	175
Trade and other receivables	-	2,221
Deferred taxation	-	242
Property, plant and equipment	-	187,091
Trade and other payables	-	(5,913)
Employee entitlements	-	(104)
Provision for tax	-	(379)
Term loans	-	(94,112)
Other non-current liabilities	-	(362)
Derivative financial instruments	-	(3,447)
Total identifiable net assets	-	89,395

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

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

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

24 Investments in associate companies

	Group 2017	Group 2016
	Percentage Interest Held	
Name of entity (principal activities, place of business)		
Dunedin International Airport Limited (Transport, Momona NZ)	50	50
Otago Chipmill Limited (Forestry, Milburn NZ)	49.9	49.9

For the purpose of applying the equity method of accounting, the financial statements of Dunedin International Airport Limited for the year ended 30 June have been used. The financial statements of Otago Chipmill Limited for the year ending 31 December 2016 were used as these were the financial statements closest to the year end of Dunedin City Holdings Limited.

None of the associate companies are listed and therefore there are no published price quotations to establish the fair value of these investments.

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

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

	Dunedin International Airport Limited As at 30 June		Other Associates As at 30 June	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Summarised statement of financial position				
Current assets				
Cash and cash equivalents	788	132	81	97
Other current assets	559	493	4	-
Total current assets	1,347	625	85	97
Non-current assets	86,428	69,615	-	-
Total assets	87,775	70,240	85	97
Current liabilities	3,115	1,706	-	4
Non-current liabilities				
Financial Liabilities	9,100	9,100	-	-
Other financial liabilities	16,001	12,978	-	-
Total-non current liabilities	25,101	22,078	-	-
Total liabilities	28,216	23,784	-	4
Net assets	59,559	46,456	85	93
Less Impairment	-	-	-	(54)
Other adjustments	(50)	(50)	-	(93)
Net assets after impairment and other adjustments	59,509	46,406	85	(54)
Carrying value of associates 50%, 49.9%	29,755	23,203	43	(27)
Summarised statement of comprehensive income				
Revenue (excl interest received)	14,113	13,140	-	-
Interest received	17	18	-	-
Total Revenue	14,130	13,158	-	-
Less expenses				
Depreciation and amortisation	2,872	2,851	-	-
Interest expense	464	624	-	-
Other expenses	7,633	7,002	-	-
Total expenses	10,969	10,477	-	-
Operating surplus/(deficit) before tax	3,161	2,681	-	-
Income tax	840	723	-	-
Operating surplus/(deficit) after tax	2,321	1,958	-	-
Other comprehensive income	12,190	(13)	-	-
Total comprehensive income/(deficit)	14,511	1,945	-	-
Dividends received from associate	704	704	-	-

25 Property, plant and equipment

	Group	Group	Group	Group	Group	Group	Group
	Land	Forest	Buildings	Roads	Network	Plant	Sub-Total
	\$'000	Land	\$'000	Bridges	\$'000	Equipment	\$'000
2017							
Cost or valuation							
Balance at the beginning of the year	38,874	26,375	146,750	7,183	512,348	94,797	826,327
Increase through acquisition	-	-	-	-	-	-	-
Purchases/revaluation	(13)	1,195	290	5	30,020	1,869	33,366
Sales	(2)	-	(19)	-	(52)	(2,596)	(2,669)
Transfers	(290)	-	(509)	-	-	(1,686)	(2,485)
Balance at the end of the year	38,569	27,570	146,512	7,188	542,316	92,384	854,539
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)
	-	-	19,729	4,072	145,888	48,256	217,945
Balance at the end of the year	38,569	27,570	126,783	3,116	396,428	44,128	636,594
Comprising:							
Cost	38,569	-	126,783	3,116	396,428	44,128	609,024
Valuation	-	27,570	-	-	-	-	27,570

	Group	Group	Group	Group	Group	Group	Group
	Sub-Total	Motor	Office	Locomotives	Railway	Work in	Total
	\$'000	Vehicles	Equipment	\$'000	Track	Progress	\$'000
2017							
Cost or valuation							
Balance at the beginning of the year	826,327	26,556	1,989	4,585	513	25,708	885,678
Increase through acquisition	-	-	-	-	-	-	-
Purchases/revaluation	33,366	2,852	105	154	126	15,356	51,959
Sales	(2,669)	(2,074)	(28)	-	-	-	(4,771)
Transfers	(2,485)	(400)	(1,065)	-	-	302	(3,648)
Balance at end of year	854,539	26,934	1,001	4,739	639	41,366	929,218
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)
	217,945	15,493	762	2,558	191	-	236,949
Balance at the end of the year	636,594	11,441	239	2,181	448	41,366	692,269
Comprising:							
Cost	609,024	11,441	239	2,181	448	41,366	664,699
Valuation	27,570	-	-	-	-	-	27,570

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
2016							
Cost or valuation							
Balance at the beginning of the year	10,243	25,574	19,288	6,712	487,731	21,722	571,270
Increase through acquisition	28,526	-	183,301	-	-	15,567	227,394
Purchases/revaluation	120	801	691	471	31,504	1,382	34,969
Sales	-	-	(3)	-	(6,887)	(358)	(7,248)
Transfers	(15)	-	-	-	-	912	897
Balance at the end of the year	38,874	26,375	203,277	7,183	512,348	39,225	827,282
Accumulated depreciation							
Balance at the beginning of the year	30	-	4,423	3,730	123,596	18,394	150,173
Increase through acquisition	-	-	33,024	-	-	7,366	40,390
Depreciation	-	-	263	174	14,151	1,178	15,766
Impairment	-	-	-	-	-	-	-
Sales	-	-	(3)	-	(6,839)	(348)	(7,190)
Transfers	-	-	-	-	-	(798)	(798)
	30		37,707	3,904	130,908	25,792	198,341
Balance at the end of the year	38,844	26,375	165,570	3,279	381,440	13,433	628,941
Comprising:							
Cost	38,569	-	165,570	3,279	381,440	13,433	602,291
Valuation	275	26,375	-	-	-	-	26,650
	Group	Group	Group	Group	Group	Group	Group
	Sub-Total	Motor	Office	Locomotives	Railway	Work in	Sub-Total
	\$'000	Vehicles	Equipment		Track	Progress	\$'000
		\$'000	\$'000	\$'000	\$'000	\$'000	
2016							
Cost or valuation							
Balance at the beginning of the year	571,270	24,761	1,738	4,311	409	20,848	623,337
Increase through acquisition	227,394	38	231	-	-	-	227,663
Purchases/revaluation	34,969	2,173	20	274	104	5,288	42,828
Sales	(7,248)	(872)	(25)	-	-	-	(8,145)
Transfers	897	1	(982)	-	-	54	(30)
Balance at the end of the year	827,282	26,101	982	4,585	513	26,190	885,653
Accumulated depreciation							
Balance at the beginning of the year	150,173	13,837	1,328	2,102	184	-	167,624
Increase through acquisition	40,390	8	174	-	-	-	40,572
Depreciation	15,766	2,114	47	222	2	-	18,151
Impairment	-	-	-	-	-	-	-
Sales	(7,190)	(661)	(25)	-	-	-	(7,876)
Transfers	(798)	(1)	(775)	-	-	-	(1,574)
	198,341	15,297	749	2,324	186	-	216,897
Balance at the end of the year	628,941	10,804	233	2,261	327	26,190	668,756
Comprising:							
Cost	602,291	10,804	233	2,261	327	26,190	642,106
Valuation	26,650	-	-	-	-	-	26,650

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

26 Forestry assets

	Group 2017 \$'000	Group 2016 \$'000
Balance at the beginning of the year	123,802	113,629
Add costs capitalised in establishing forests during the year	2,083	1,947
Increase in forest from acquisition	3,212	237
Revaluation	9,629	9,524
Less Value of logs harvested	(2,393)	(1,535)
	<u>136,333</u>	<u>123,802</u>
Gains/(losses) arising from changes in fair value less point of sale costs:		
Attributable to physical changes	(6,054)	841
Attributable to price changes	18,585	9,332

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

The valuation methodology used establishes the fair value of the collective forest and land resource and then subtracts the value of the forestry land at \$27,569,800 value. The NZ IFRS valuation rules require that the value is calculated under the assumption that a stand will not be replanted once felled irrespective of the sustainable forest policy of the Directors. The change in the value of the forest from year to year is reflected in the statement of comprehensive income.

Fair value requires calculating the present value of expected net cash flows using a post-tax discount rate. This discount rate used by the company is 6.5% (2016: 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 +\$7.03 mil / -\$6.41 mil. A 10% increase or decrease in assumed log prices would change the valuation by +\$11.59 mil / - \$11.51 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 2017 the company owned stands of trees on 16,795 hectares of a total land holding of 20,850 hectares. During the year the company harvested approx. 277,201 m3 of logs from its forests.

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

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

A peer review of the valuation process and key inputs was conducted by 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.

27 New Zealand Carbon Credits

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

A forest owner with forests established after 31st December 1989, under the Act, may opt to join the Emissions Trading Scheme. Post-89 forests will earn carbon credits (NZU's) from 1st January 2008 and these may be traded within New Zealand or converted into Assigned Amount Units (AAU's) and sold internationally. City Forests Limited completed registration of the Post-89 forests under the Emissions Trading Scheme in January 2010. These forests have been sequestering carbon under the scheme since 1st January 2008. Subsequent to our Post-89 registration, the New Zealand Government has allocated City Forests Limited a total of 2,005,337 Post-89 derived NZU's, being the carbon sequestered by these forests during the 2008 to 2017 calendar years. In 2017, 30,967 ERU's were purchased. There has been no carbon credit sales for the financial year.

As at 30th June 2017, 1,369,304 units were unsold (2016: 965,903). 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 2017 \$'000	Year ending 30 June 2016 \$'000
New Zealand carbon credits	23,413	17,288

28 Other non-current liabilities

	Group 2017 \$'000	Group 2016 \$'000
Other non-current liabilities	1,105	682

29 Term borrowings (secured)

	Group 2017 \$'000	Group 2016 \$'000
Current		
Forestry Loans	1,686	1,686
Other Loans	-	84
	<u>1,686</u>	<u>1,770</u>
Non-current		
Multi-option debt facility	567,378	573,413
Forestry loans	3,492	4,832
Other loans	-	28
Due to subsidiaries	-	-
	<u>570,870</u>	<u>578,273</u>

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 (2016: \$130 million).

The amount of unamortised premium or (discount) on bonds on issue at 30 June 2017 is nil (2016: 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 2017 Dunedin City Treasury Limited had the following bonds on issue and promissory notes:

		Group 2017 \$'000	Group 2016 \$'000
Multi-option debt facility			
	Interest Rate		
Promissory notes		59,702	64,619
Bonds 15/11/16	Coupon rate 6.791%	-	50,000
Floating rate notes 15/02/17	80bp over BKBM	-	20,000
Bonds 15/10/17	Coupon rate 7.81%	60,000	60,000
Floating rate notes 7/10/17	38bp over BKBM	20,000	20,000
Floating rate notes 15/5/18	43bp over BKBM	20,000	20,000
Bonds 17/7/18	Coupon rate 6.57%	50,000	50,000
Bonds 17/12/18	Coupon rate 6.85%	15,000	15,000
Floating rate notes 15/11/19	50bp over BKBM	50,000	-
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	-
Bonds 15/4/26	Coupon rate 3.98%	65,000	65,000
Fair value impact on bonds		<u>2,676</u>	<u>8,794</u>
		567,378	573,413
Forestry Loans	Coupon rate 6.09%	5,178	6,518
Other Loans		-	112
Total term borrowings		<u>572,556</u>	<u>580,043</u>

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

The repayment period on the term borrowings is as follows:

	Group 2017 \$'000	Group 2016 \$'000
Repayable less than one year	101,686	71,770
Repayable between one to five years	328,194	384,479
Repayable later than five years	142,676	123,794
	<u>572,556</u>	<u>580,043</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 2017 \$'000	Group 2016 \$'000
Multi-option note facility	557,561	586,526
Forestry loans	4,671	6,315

30 Shareholder's advance

	Group 2017 \$'000	Group 2016 \$'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 (2016: \$5.9 million) on the advance. The interest rate is struck annually, each July, based on rates paid in the market. In 2016, the gross interest on the debt averaged 5.27% (2016: 5.27%).

31 Contingent liabilities

	Group 2017 \$'000	Group 2016 \$'000
Performance bonds	1,208	950

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, and Lion for the provision of equipment to Dunedin Venues Management Limited. There is no indication that any of the above contingent liabilities will crystallise in the foreseeable future.

32 Derivative financial instruments

	2017 Asset \$'000	2017 Liability \$'000	2016 Asset \$'000	2016 Liability \$'000
<i>Fair value</i>				
Interest rate swaps	16,607	21,730	24,789	32,261
Analysed as:				
Current	426	125	272	203
Non-current	<u>16,181</u>	<u>21,605</u>	<u>24,517</u>	<u>32,058</u>
	<u>16,607</u>	<u>21,730</u>	<u>24,789</u>	<u>32,261</u>

33 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.

33.1 Capital management strategy

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

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

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

33.2 Liquidity risk

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

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

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

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

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

33.3 Interest rate risk

Under the Dunedin City Council Treasury Risk Management Policy approved on 16 September 2016, Dunedin City Treasury Limited will utilise a portfolio approach to manage interest rate risk for the Group.

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

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

	Group 2017 \$'000	Group 2016 \$'000
Maturing in less than one year	32,500	15,000
Maturing between one and five years	350,000	200,000
Maturing in more than five years	407,500	409,000
	<u>790,000</u>	<u>624,000</u>

33.4 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 2017 \$'000	Group 2016 \$'000
Forward foreign exchange contracts		
- fair value	656	(321)
- nominal value (sale of USD and purchase of NZD)	8,800	13,074
Forward foreign exchange contracts		
- fair value	-	(53)
- nominal value (sale of NZD and purchase of USD)	-	(1,719)

33.5 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 2017 %	Group 2016 %
Effectiveness	100	100

33.6 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 2017 \$'000	Group 2016 \$'000
Past due receivables		
Age analysis: 30-60 days	547	892
60-90 days	232	334
90 days plus	781	472

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

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

2016

Cash and cash equivalents	-	17,350	-	17,350
Trade and other receivables	2,513	-	39,875	42,388
Advances due from related parties	215,600	-	1,279	216,879
Mortgage receivables	-	-	-	-
Derivatives	-	24,789	-	24,789
NZ carbon credits	-	-	17,288	17,288
	218,113	42,139	58,442	318,694

33.7 Sensitivity analysis of financial assets and liabilities

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

Proportional foreign exchange rate movement of -10% (depreciation of NZD) and a +10% (appreciation of the NZD) against the USD, from the year end rate of 0.7310 and against the AUD, from the year end rate of 0.9801. A parallel shift of +1%/-1% in the NZD market interest rate from the year end 90 day BBBR of 2.41% (2016: 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
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

	Carrying Amount \$'000	Interest Rate		FX	
		-100bp	+100bp	-10%	10%
2016					
Financial assets					
Derivatives – designated as cash flow hedges (interest rate swap and forward currency deals separately disclosed)	24,789	-	-	1,266	(1,036)
Other financial assets	271,406	-	-	325	(266)
	296,195	-	-	1,591	(1,302)
Financial liabilities					
Derivatives – designated as cash flow hedges (interest rate swaps and forward currency deals separately disclosed)	32,261	-	(10,005)	-	-
Other financial liabilities	718,806	1,120	(1,120)	-	-
	751,067	1,120	(10,005)	-	-
Total increase/(decrease)		1,120	(10,005)	1,591	(1,302)

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.

33.8 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
2017				
Financial assets				
Derivative financial assets	-	16,607	-	16,607
New Zealand carbon credits	23,413	-	-	23,413
	23,413	16,607	-	40,020
Financial liabilities				
Derivative financial liabilities	-	21,730	-	21,730
2016				
Financial assets				
Derivative financial assets	-	24,789	-	24,789
New Zealand carbon credits	17,288	-	-	17,288
	17,288	24,789	-	42,077
Financial liabilities				
Derivative financial liabilities	-	32,261	-	32,261

33.9 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						
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	262,796	302,506	75,601	31,091	194,325	1,489
2016						
Cash and cash equivalents	17,350	17,350	17,350	-	-	-
Trade and other receivables	42,388	42,388	42,388	-	-	-
Derivative financial instruments	24,789	26,266	7,113	6,133	8,865	4,156
Investments	216,887	370,709	36,025	36,235	298,449	-
Total	301,414	456,713	102,876	42,367	307,314	4,156
Financial liabilities						
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	628,701	719,749	228,767	91,153	239,181	160,648
2016						
Trade and other payables	31,905	31,905	31,905	-	-	-
Derivative financial instruments	32,261	40,786	9,626	7,714	18,280	5,166
Borrowings	580,900	654,123	163,065	120,235	223,450	147,373
Total	645,066	726,814	204,596	127,949	241,730	152,539

34 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 23 to the Financial Statements.

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

Amounts receivable from and payable to related parties at balance date are disclosed in notes, 15 and 17.

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 2017 \$'000	Group 2016 \$'000
<i>Sales of services to the Dunedin City Council and its subsidiaries outside the Dunedin City Holdings Limited Group:</i>		
Contracting services	10,391	7,367
Interest income	13,706	21,829
Transport services	157	-
	24,254	29,196
<i>Purchases of goods and services from the Dunedin City Council and its subsidiaries outside the Dunedin City Holdings Limited Group:</i>		
Interest	5,906	5,921
Subventions	-	7,292
Dividends	-	-
Materials/network assets	32	187
Rates and property rentals	1,810	977
Royalties	-	14
Administration and office services	11	5
	7,759	14,396
<i>As at balance date:</i>		
Receivable from the Dunedin City Council and subsidiaries	1,086	739
Payable to the Dunedin City Council and subsidiaries (inclusive of shareholders advance)	112,075	112,014

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

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

During the course of the year:

Taieri Gorge Railway Limited and Dunedin Venues Management Limited paid \$47,000 (2016: \$9,000) for services and provided services of \$13,000 (2016: \$7,450) to Action Engineering Limited, an organisation of which Mr G Crombie is a director. \$1,000 was payable at 30 June (2016: nil);

Dunedin Venues Management Limited received \$19,000 (2016: \$12,171) for services to Gallaway Cook Allan an organisation of which Mrs K Grant is a consultant. No monies were outstanding at 30 June (2016: nil);

Dunedin Venues Management Limited paid \$15,911 (2016: \$1,470) for services and provided services of \$14,694 (2016: \$11,252) to Miller Creative Group Limited, an organisation of which Mr K Cooper is a director. No monies were outstanding at 30 June (2016: nil).

Compensation of key management personnel

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

	Parent 2017 \$'000	Parent 2016 \$'000
Directors fees	320	311

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.

35 Capital expenditure commitments

	Group 2017 \$'000	Group 2016 \$'000
Plant and equipment	11,340	11,609

36 Commitments

	Group 2017 \$'000	Group 2016 \$'000
Minimum operating lease payments		
Payable within one year	2,961	2,416
Payable between one to five years	4,918	5,214
Payable later than five years	535	526
	<u>8,414</u>	<u>8,156</u>

Other commitments

Undrawn Facilities: Level of committed facilities undrawn was \$125,000,000 (2016: \$130,000,000)

37 Events after balance date

Effective from 1 July 2017, Delta Utility Services Limited was contracted to perform network maintenance and asset construction services to Aurora Energy Limited.

Also with effect from 1 July 2017, Aurora Energy Limited directly employed around 100 staff previously employed by Delta Utility Services Limited. Delta Utility Services Limited was previously contracted to manage and operate the Aurora electricity network, however those services will now be self-performed by Aurora Energy Limited.

Statutory information For the year ended 30 June 2017

Information on the Directors of Dunedin City Holdings Limited as at 30 June 2017

Graham William Crombie

Date appointed - 17 July 2012

Responsibilities Chairman, Company Director

Declarations of interests

Chair, Dunedin City Treasury Limited
Chair, Otago Museum Trust
Chair, NZ Genomics Limited
Chair, South Island Information Services Service Level Alliance
Chair, TANZ eCampus Limited
Independent Chair, Action Engineering Limited
Associate Commissioner, Commerce Commission
Deputy Commissioner, Southern District Health Board
Director, Dunedin Stadium Property Limited
Director, Surf Life Saving NZ
Director and Shareholder, Innovatio Limited

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 Treasury Limited
Director, Dunedin Symphony Orchestra

Brian John Wood

Date appointed - 17 October 2013

Responsibilities Company Director

Declarations of interests

Chair, Buller Holdings Limited
Chair, Buller Recreation Limited
Chair, Canterbury Linen Services Limited
Chair, Project Steering Group, Christchurch Learning Centre Build, Christchurch City Council
Chair, Project Steering Group, Christchurch Town Hall Rebuild
Chair, Reinstatement of South Island Transport Corridors Oversight Group – Ministry of Transport
Chair, Westport Harbour Limited
Chair, Westreef Services Limited
Director, Aurora Energy Limited
Director, Delta Utility Services Limited
Director, Dunedin City Treasury Limited
Director, Harrison Grierson Holdings Limited
Director, Lyttelton Port Company Limited
Member, Governance Board for Maintenance Contract, West Coast State Highways, Fulton Hogan

Linda May Robertson

Date appointed - 17 October 2013

Responsibilities Company Director

Declarations of interests

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

Keith Thomas Cooper

Date appointed - 2 February 2015

Responsibilities Company Director

Declarations of interests

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

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

Directors' Interests in Contracts

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

Directors' Interests in Contracts

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

Dunedin City Holdings Limited

Directors' remuneration and benefits

	Remuneration	Company		Remuneration	Company
	\$			\$	
Parent company					
Graham W Crombie	98,928	Dunedin City Holdings Limited	Raewyn J Lovett	25,722	Dunedin Venues Management Limited
Kathleen E Grant	55,372	Dunedin City Holdings Limited	Peter J Hutchison	17,148	Dunedin Venues Management Limited
Linda M Robertson	55,372	Dunedin City Holdings Limited	Glenys J Coughlan	17,148	Dunedin Venues Management Limited
Brian J Wood	55,372	Dunedin City Holdings Limited	Kevin G Winders	17,148	Dunedin Venues Management Limited
Keith T Cooper	55,372	Dunedin City Holdings Limited			
Parent company total	320,416				

Subsidiaries & associated companies

Dr Ian M Parton	18,271	Aurora Energy Limited	Geoffrey R Thomas	22,502	Taieri Gorge Railway Limited
	18,271	Delta Utility Services Limited	Gary M T Williams	15,744	Taieri Gorge Railway Limited
Stuart J McLauchlan	12,354	Aurora Energy Limited	Fred J McCall	7,872	Taieri Gorge Railway Limited
	12,354	Delta Utility Services limited	Richard Roberts	7,872	Taieri Gorge Railway Limited
	31,500	Dunedin International Airport Limited	Hon Stan Rodger	15,744	Taieri Gorge Railway Limited
David J Frow	26,250	Aurora Energy Limited	Graeme M Smart	15,744	Taieri Gorge Railway Limited
	26,250	Delta Utility Services Limited	David W Wood	15,744	Taieri Gorge Railway Limited
Trevor J Kempton	23,763	Aurora Energy Limited	No director of Dunedin City Holdings Limited has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total remuneration received or due, and receivable by the directors as disclosed in the Group financial statements). No directors have received loans from the parent company or the Group.		
	23,763	Delta Utility Services Limited			
Stephen R Thompson	54,030	Aurora Energy Limited			
	54,029	Delta Utility Services Limited			
Brian J Wood	15,182	Aurora Energy Limited	There were no notices from directors of the company requesting to use company information which had been received in their capacity as directors, and which would not otherwise have been available to them		
	15,182	Delta Utility Services Limited			
	nil	Dunedin City Treasury Limited			
John F Gallaher	53,748	City Forests Limited			
Tony D Allison	29,091	City Forests Limited	Events subsequent to balance date		
	21,000	Dunedin International Airport Limited			
Tim J Mephram	29,091	City Forests Limited			
Michael C Horne	29,091	City Forests Limited			
Patricia A Oakley	21,000	Dunedin International Airport Limited	The directors are not aware of any matters or circumstances since the end of the financial year not otherwise dealt with in this report or the Group financial statements that have significantly, or may significantly, affect the operations of Dunedin City Holdings Ltd, the results of those operations or the state of affairs of the parent company or the Group.		
Mark Rogers	21,000	Dunedin International Airport Limited			

			Remuneration range	Parent Company	Subsidiaries
Graham W Crombie	nil	Dunedin City Treasury Limited	\$980,000-989,999	-	1 *
	12,000	Dunedin Stadium Property Limited	\$350,000-359,999	-	1
Kathleen E Grant	nil	Dunedin City Treasury Limited	\$300,000-309,999	-	2
Linda M Robertson	nil	Dunedin City Treasury Limited	\$290,000-299,999	-	1
Keith T Cooper	nil	Dunedin City Treasury Limited	\$220,000-229,999	-	1
			\$210,000-219,999	-	2
William H Cockerill	18,000	Dunedin Stadium Property Limited	\$190,000-199,999	-	2
			\$180,000-189,999	-	1
Joanne M Conroy	12,000	Dunedin Stadium Property Limited	\$170,000-179,999	-	4
			\$160,000-169,999	-	7
			\$150,000-159,999	-	3
			\$140,000-149,999	-	8
			\$130,000-139,999	-	5
			\$120,000-129,999	-	16
			\$110,000-119,999	-	29
			\$100,000-109,999	-	39

* combination of salary and contractual entitlement

Statement of service performance For the year ended 30 June 2017

The performance targets established in the 2016/17 Statement of Intent for Dunedin City Holdings Limited and the results achieved for the year ended 30 June 2017 are as follows:

Performance target

Outcome achieved

Business objectives

- | | |
|--|--|
| 1. Review the Statements of Intent and plans of each of the group companies for consistency with the strategic direction of the DCC | The review of the draft 2017 Statements of Intent were completed by 31 December 2016 |
| 2. Review the operating activities of each of the group companies along with Dunedin City Holdings Limited for compliance with the goals and objectives of the Statement of Intent | Reviews of the operating activities were performed as required by the Board of Dunedin City Holdings Limited |

Financial

- | | |
|--|---|
| 3. Monitor financial performance of each of the group companies | Continual monthly reviews of operating initiatives and financial performance of each of the group companies, excluding Dunedin International Airport Limited which reports on a quarterly basis, have been undertaken |
| 4. Monitor the capital structure of each group company | The Company's Standard and Poor's long term credit rating was reaffirmed at AA in December 2016. The A1+ short term rating remained the same
Ongoing reviews of capital structure within the Group were performed |
| 5. Review the capital expenditure of each of the group of companies for compliance and approval as required by Dunedin City Holdings Limited | Continual monthly reviews of capital expenditure of each of the group companies, excluding Dunedin International Airport Limited which reports on a quarterly basis, have been undertaken |

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) | Consideration was given to the shareholder's expectations in the annual company's Statement of Intent |
| 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 | There were no matters of conflict requiring escalation to the shareholder |
| 8. Keep the shareholders informed of all substantive matters | All substantive matters were reported to the shareholder within 5 days of the Dunedin City Holdings Limited board becoming aware of them |
| 9. Encourage each company within the group to act as a socially and environmentally responsible corporate citizen | 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 |

Parent Financial forecasts

\$'000

1a. EBITDA	9,610
1b. Net profit after tax	3,223
1c. Cash flow from operations	3,251
1d. Capital expenditure	-
1e. Term loans	31,000
2. Interest/dividend distributions to shareholder	5,902
3. Shareholder's funds to total assets	50%

Parent Achievement

\$'000

EBITDA	10,276
Net profit after tax	3,473
Cash flow from operations	4,301
Capital expenditure	-
Term loans	30,000
Interest/dividend distributions to shareholder	5,902
Shareholder's funds to total assets	51%

**Statement of service performance
For the year ended 30 June 2017**

The results achieved for the Dunedin City Holdings Group for the year ended 30 June 2017 are as follows:

Performance target**Group Financial forecasts**

No Group forecasts were prepared in the 2016/2017 Statement of Intent. The Board of Dunedin City Holdings Limited is looking to include Group targets in the future.

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

EBITDA	93,608
Net profit after tax	18,512
Cash flow from operations	35,416
Capital expenditure	47,845
Term loans	572,556
Interest/dividend distributions to shareholder	5,902
Shareholder's funds to total assets	27%

Directory

Directors

Graham W Crombie

Keith T Cooper

Kathleen E Grant

Linda M Robertson

Brian J Wood

Registered Office

50 The Octagon
Dunedin
New Zealand

Bankers

ANZ

Taxation Advisors

Deloitte

Solicitors

Anderson Lloyd

Auditor

Audit New Zealand on behalf of the Controller and Auditor General

Independent Auditor's Report

To the readers of Dunedin City Holdings Limited Group's financial statements and statement of service performance for the year ended 30 June 2017

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 20 to 48, that comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include significant accounting policies and other explanatory information; and
- the statement of service performance of the group on pages 51 and 52.

Qualified Opinion – Our work was limited over the carrying value of stadium assets, the related depreciation expense and the 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 20 to 48:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2017; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with International Financial Reporting Standards (NZ IFRS).
- the statement of service performance of the group on pages 51 and 52 presents fairly, in all material respects, the group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the group's objectives for the year ended 30 June 2017.

Our audit was completed on 14 September 2017. This is the date at which our 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 notes 1 and 2 on page 24, 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 23 on pages 37 and 38, 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 \$185.025 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. 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 2017 and the summary financial information disclosed in the group's statement of service performance on pages 51 and 52.

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 the 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 it 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 are unable to determine whether there are material misstatements because the scope of our work was limited, as we referred to in our opinion.
- 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 information within the group's framework for reporting its service 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 group financial statements and the group 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 19, 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. We have nothing to report in this regard.

Independence

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

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

Other than the audit and these engagements, we have no relationship with, or interests in, the group or any of its subsidiary and associate entities.



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