



DUNEDIN CITY HOLDINGS LIMITED

2020 annual report



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dunedin city holdings ltd

■ WHAT WE DO

Dunedin City Holdings Ltd (DCHL) is a Council Controlled Organisation (CCO) owned by Dunedin City Council. We oversee eight subsidiary and associate companies that own and manage key city infrastructure and provide benefit to the city.

DCHL's purpose is to achieve for Dunedin the best from its investments.

■ OUR PORTFOLIO



2020 in numbers

\$1.46b total assets

\$69.1m capital expenditure invested

\$261m total group operating revenue

\$5.9m interest paid to DCC

91,577 customer connections at Aurora Energy

\$22m operating cash flow

995,000 new trees planted by City Forests Ltd

34 average number of apprentices/trainees at Delta

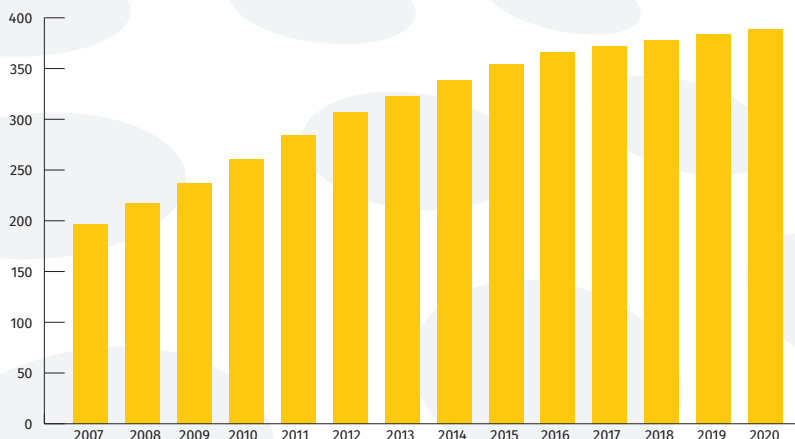
\$1.9m paid off stadium debt

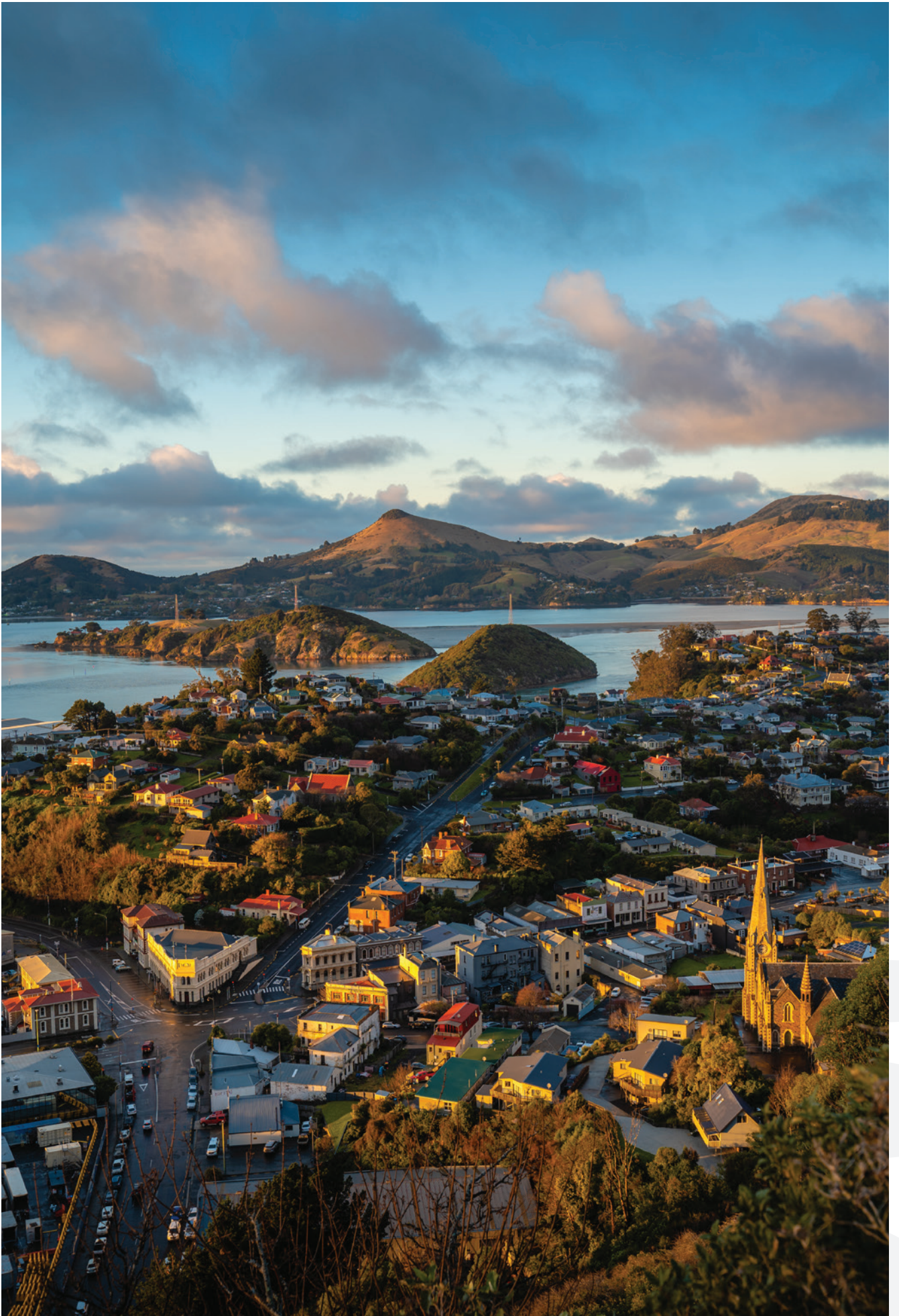
\$6.9m invested in expanding Dunedin Airport's terminal building

\$41.5m economic benefit to Dunedin from major concerts at Forsyth Barr stadium

Cumulative Dividends, Interest and Debt Repayments \$m

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





chair's review

As for many companies, 2019/2020 has been a challenging year for the DCHL group. While the full year financial results for the group are better than forecast, all companies have faced new challenges and difficult decisions.

DCHL's full year results record a loss, although a significantly smaller loss than budgeted. The group loss reflects the expected loss at Aurora Energy and the unexpected transition of Dunedin Railways to hibernation. The loss was offset by surpluses at City Forests and Delta, and by continued reduction in cost of funds across the group.

Results For the year ended 30 June 2020

	Group \$'000
Revenue	284,212
Loss before tax	(6,458)
Income tax	(1,199)
Net loss for the year	(5,259)

Dividends were lower than forecast from City Forests, owing to Covid-19 impacts. Other dividends were in line with forecast.

As provided for in the Statement of Intent, a distribution of \$5.9 million was made to Dunedin City Council from DCHL, representing interest on the shareholder's advance.

The group's overall debt (managed by Dunedin City Treasury Ltd (DCTL)) increased over the year, as forecast in our Statement of Intent. This was principally driven by increased capital expenditure at Aurora Energy and Dunedin City Council. DCHL debt also increased as a result of Dunedin Railways' transition to hibernation. Most other companies' debt remained relatively static. The continued reduction in the cost of the group's funds over the year was welcome in the context of increasing debt.

Full financial statements for the year ended 30 June 2020 are included in this report.

Overview of companies' performance

Aurora Energy's financial performance for the year continued to reflect the investment demands of major infrastructure renewal, the current shortfalls in historical regulated revenue allowances administered by the Commerce Commission and the additional costs of operating as a standalone company. Underlying financial performance measures compared favourably with forecasts for the year aided by strong use of system revenues and customer contributions to growth-related network connections.

Capital expenditure of \$53.6 million was invested in new and replaced network assets across the Dunedin, Central Otago and Queenstown Lakes areas during the year.

The company recorded a net loss of \$4.2 million (FY19: loss \$10.9 million) compared with a forecast loss of \$18.2 million.

City Forests had a satisfactory year delivering an after-tax profit of \$12.7 million. The results were in line with budget, but less than the previous year, mainly a result of deferred harvesting due to Covid-19. City Forests still made a strong financial contribution to the DCHL group through \$4.5 million in dividends (FY19: \$8.0 million).

City Forests continued to manage its forest estate in a long-term sustainable manner to a high environmental management standard as required by Forest Stewardship certification. In addition the Company was able to further its strategy of expanding the forest estate through 1195ha of land acquisition. This new land once planted will increase environmental benefits including carbon storage and increase the company's long-term sustainable harvest, creating additional employment and prosperity for Otago.

Managing workflow challenges in the first half of Financial Year 2020 and global disruption with the outbreak of COVID-19 proved difficult for Delta and impacted the company's ability to meet some targets. Significant action in the second half of the year resulted in an adequate financial performance overall and an improvement on FY19 results.

Delta recorded a net profit before tax of \$2.2 million in FY20, a moderate increase on FY19's \$1.7 million, however significantly below budget for the year of \$3.7 million. Total revenue was \$100.4 million in FY20 (budget \$97.1 million). Operating revenue at \$95.8 million, excluding the New Zealand Government Wage Subsidy due to COVID-19, fell just short of FY19 levels (\$97.5 million) and budget expectations (\$96.7 million).

As noted above, the group's cost of funds, managed by DCTL, has reduced further over the 2019/20 financial year. The DCC Group's cost of funds reduced by approximately 0.57% to 3.36%, which reduced the costs of funds to the group by circa \$4.2 million, based on average term borrowings over the past year.

Dunedin Stadium Property Ltd (DSPL) experienced an operating loss, as budgeted. The loss of \$8.2 million (FY19: \$7.0m) was a little higher this year as DSPL did not receive subvention payments from companies within the Group. Subvention payments are dependent on the ongoing profitability of DCHL group companies. Instead, DSPL has tax losses to carry forward for the current year, which the company intends to transfer to the DCC Group in future years by means of a subvention payment and tax loss offset. DSPL provided temporary rent relief to DVML during the final quarter of the year. DSPL was still able to reduce term debt by \$1.9 million.



Dunedin Venues Management Ltd (DVML) had been enjoying a successful year until the outbreak of COVID-19 on New Zealand's shores. DVML had had a strong concert line-up, with Fleetwood Mac, Elton John, Queen and Adam Lambert and Dunedin's own SIX60. Dunedin City benefited to the tune of \$41.5 million in economic impact from major concerts alone. Conference delegates assisted the city's economy too, contributing \$3.3 million of economic impact. This is represented by 4,040 delegates attending 21 multi-day conferences.

The impact of the Covid-19 pandemic on DVML was instant with income halted overnight resulting in a disappointing final financial quarter. DVML recorded a net loss after tax of \$.05 million for the year, down on their 2019 net profit after tax of \$0.2 million.

Dunedin Railways entered the 2019/2020 year with a focus on developing a sustainable business model. The company was forecasting ongoing losses and had signalled additional equity would be required to ensure the ongoing viability of the business. The Dunedin Railways board were focussed on preparing a business turnaround plan and developing a sustainable business model for discussion with shareholders.

In context of its existing challenges, Dunedin Railways was unable to weather the forecast impacts of Covid-19 on the tourism sector. In April 2020 Dunedin City Council (DCC) agreed that Dunedin Railways be put into hibernation as an alternative to complete closure of the business.

As part of this change, the Otago Excursion Train Trust (OETT) decided to sell its 28% shareholding in Dunedin Railways to DCHL. DCHL has been the sole shareholder of the company since April 2020. The company's full year loss of \$6.6 million (FY19: \$0.1 million loss) reflects the cost of transitioning the company to hibernation mode.

Like the group's other tourism-related companies, Dunedin Airport was also severely impacted by Covid-19 in the final quarter of the financial year. Total passengers through the airport ended 26.4% down over the previous year.

The decrease in passengers has had a significant impact on the Dunedin Airport's FY2020 performance and position. The company's total revenue decreased 12.6% to \$15.0 million. Despite steps taken to reduce cost structure, a relatively fixed cost base resulted in operating expenditure of \$12.7 million, a 5.7% increase over the prior year. This culminated in a pre-tax operating surplus of \$2.3 million, which is \$2.8 million behind the prior year.

As the parent company, DCHL has pursued several initiatives to provide support, leadership and oversight across the Group. This became particularly relevant in the context of Covid-19, as the group was able to co-ordinate and share experiences, resources and responses to rapidly changing circumstances.

DCHL has made progress in its strategy to take a stronger portfolio management focus, through more active monitoring of group entities' financial and non-financial performance. We continue our ongoing evaluation of the relevance of our investment in these entities, based on a longer-term view of the sectors in which they operate and our shareholder's aspirations for the portfolio. We look forward to continuing this work in 2021.

Outlook

Although DCHL group companies operate in the current uncertain economic environment, the outlook for the group is broadly positive.

Aurora Energy forecasts a loss in the coming financial year (ending 30 June 2021); however the company's operating cash flow is forecast to be positive and the investment in the network continues to increase the value of the company's asset base. The company is forecast to return to profitability in the following financial year (ending 30 June 2022).

We see a continued positive outlook for City Forests. Although the company's near term profitability will depend on how commodity log markets and the wider international economy is impacted by Covid-19, the company is optimistic that over the medium term the New Zealand forest industry will continue to generate favourable returns in international and domestic markets. Carbon credit revenues are also expected to remain a significant contributor to City Forests' performance in the medium term.

Delta has improved its underlying performance this year and has a strong forward workload. The company is forecasting increased surpluses in the three coming financial years.

Given ongoing travel restrictions as a result of Covid-19 we envisage a continued negative impact on Dunedin International Airport and Dunedin Venues Management.

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

Group directors

Quentin Hix retired as a director of DCHL this year as he was appointed a District Court Judge. We thank Quentin for his service to DCHL and wish him well for his new role.

We have recently welcomed Richard Thomson to the boards of DCHL, DCTL, DSPL and Dunedin Railways. Richard has broad governance experience and a strong understanding of the local business environment.

Given the hiatus Dunedin Railways was placed in, the directors of DCHL were appointed to the board of Dunedin Railways until such time as the future of the company is decided.

There were several changes in directorships within the group of companies throughout the year. We acknowledge the service of directors we have farewelled: Mike Horne (City Forests), Trish Oakley and Mark Rogers (Dunedin Airport), and Stan Rodger, Kevin Winders, Judy Bevin, Richard Roberts, Graeme Smart and David Wood (Dunedin Railways Ltd).

We welcome to the Group new directors Scott Mason and Alison Posa (City Forests), Adam La Hood and Dylan Rushbrook (DVML), and Darin Cusack and Rachel Brooking (Dunedin Airport).

DCHL oversees a diverse portfolio, with businesses spanning a wide spectrum of industries, markets, and company size. DCHL Group companies are also charged with delivering commercial returns – in Aurora's case in a regulated environment – as well as meeting broader non-financial expectations of their shareholders and communities.

All of this can make for a challenging environment. I would like to acknowledge and thank all those working across the group – staff, management and directors – for their contributions in the 2020 financial year.



Keith Cooper
Chair

health and safety

The health and safety of staff, contractors, visitors and customers is a top priority for all DCHL Group 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.

All companies adjusted their health and safety processes and protocols in response to Covid-19, to ensure companies operated safely at various alert levels.

This year Aurora Energy launched a suite of new health and safety requirements which apply to any service provider contracted to carry out work on the Aurora Energy network. The new standard is a significant step forward on Aurora Energy's safety journey. Its launch was attended by all contractors approved to work on the Aurora Energy network in both Dunedin and Central Otago.

Aurora Energy also implemented governance standards that improve the company's approach to incident management, contractor management, asbestos management, and health and wellbeing. In addition, Aurora Energy's public safety management system was reviewed and audited to ensure it complies with New Zealand standards and to identify opportunities to enhance the company's approach to managing public safety risks.

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

City Forests recorded a Lost Time Injury Frequency (LTIF) of 6.4 lost time injuries per 1 million hours worked (0.0 previous year). One contract forest operation employee had a lost time incident working on the Company estate during the year.

Delta maintained its critical risk auditing programme during the year to 30 June 2020. This focus was well reflected in the reduction in critical risk incidents during the year. A Terms of Reference and Charter was established for Safety Wellness Action Teams (SWATs) during FY20. SWATs are made up of frontline workers across all regions of the business. They provide a valuable voice and first-hand experience – which is key in shaping safety solutions at Delta. The development in documentation has ensured better clarity around roles and responsibilities and has given better guidance on how positive safety change can be achieved.

Delta's total recordable injuries per 200,000 hours worked (TRIFR) was 3.69 compared to 4.90 in FY19, against a target of 3.50. Total lost time injuries per 200,000 hours worked (LTIFR) was 0.57 compared to 1.68 in FY19, against a target of 1.0.



Dunedin Railways continued its focus on health and safety this year. There were three major incidents in the year, two medical treatment injuries and one lost time injury. All these incidents have been fully investigated, return to work managed and new procedures implemented where applicable. Health and safety remains a key focus of the company's operations while in hibernation.

DVML recorded zero lost time injuries and zero recordable incidents for the financial year which is an outstanding result. An external SafePlus audit was conducted which showed improvement from the previous external audit.

Dunedin Airport continues to focus on moving their Safety Culture maturity from being Calculative to Proactive. This includes placing significant emphasis on reporting of close calls and potential hazards. Part of this is working with all the company's stakeholders to make sure that every environment where the company could have an influence, is being managed in a way where safety is the priority.

During the Terminal Expansion Project Dunedin Airport achieved its target of no lost time injuries.

environmental initiatives

Environmental sustainability is an increasing focus for our group of companies. In the 2019/2020 year companies contributed to a wide range of environmental initiatives.

Aurora Energy continued to support switch to electric, emission-free transport initiatives through its partnership with ChargeNet. Aurora Energy opened a new fast charger in Dunedin in September 2019, increasing the number of fast chargers across Central Otago and Dunedin to eight.

City Forests actively manages over 2,000ha of reserves incorporated throughout the 22,544ha forest estate.

City Forests has held uninterrupted international Forest Stewardship Council (FSC) certification for twenty years. Certification assesses the company's management practices for reserve areas and native species as well as its overall environmental and social performance, including sustainable management of forest crop areas. Subsequent to balance date, a full and independent FSC re-certification audit was conducted. City Forests passed the audit and received positive feedback from the audit team commending the company on its high standard of implementation of FSC forest management criteria.

City Forests continues to be a participant in the Emissions Trading Scheme (ETS) and the company's forests store approximately 1.8m tonnes of CO₂ carbon. The company's strategy to expand its forest estate through new land planting will see this carbon storage expanded over time.

City Forests Ltd hosts a number of rare, threatened and endangered species within the commercial forest and reserve areas of the estate. The company actively contributes to research and management programmes to enhance these species and their habitats.

City Forests makes contributions to a number of external environmental organisations, including Orokonui Ecosanctuary (\$30,000), Yellow Eyed Penguin Trust (\$5,000), Otago Peninsula Biodiversity Group (\$5,000) and Otago Wildlife Hospital (\$5,000).

Delta has continued to maintain a strong environmental performance through the management of its EnviroMark Gold accreditation. Business initiatives such as replacing building lights with LED alternatives, continuing the company's sustainable recycling programme, and partnering with Otago Painting Solutions to use recycled paint for all office repairs, have contributed to improving Delta's carbon footprint. Additionally, Delta is in the process of upgrading its ERP system, further supporting Delta's delivery of exceptional services through modern and integrated systems and processes. This shift in technology will also mean that many of the company's new processes will be paperless.

DVML continues to identify and use alternative environmentally friendly products, including food service, packaging, cleaning products and turf management chemicals. Development of a sustainability framework has been completed with future opportunities identified to contribute to the Zero Carbon goals of Dunedin.

Dunedin Airport continues to operate a tenant recycling programme for all recyclables and has achieved a diversion rate of 30% from landfill.

Dunedin Airport also has an army of worms that turn the company's raw sewage solid waste into quality worm cast. They continue to do a great job and the Airport team thank them so much for what they do. The product is spread on all flower beds around the airport. Dunedin Airport also makes use of green waste by stockpiling it, 'chipping' it and also using this on gardens.

Dunedin Airport's environmental focus extends to its dairy farms, where the company is implementing Sustainable Milk and Environmental Plans to ensure they continue to be good farming citizens.

In the 2021 financial year all DCHL group companies will measure their carbon footprint with a view to setting reduction strategies and targets for the future.



community involvement

Our community involvement continues to cover a wide range of civic, charitable, sporting and recreational activities. In 2020, this support comprised a combination of financial sponsorship or assistance, and the provision of staff resources and other forms of non-financial donation, from within the Group's resources.

Aurora Energy actively strive to promote awareness about the importance of electricity particularly targeted at younger generations. This year Aurora Energy continued its sponsorship of the Otago Science & Technology Fair.

In the coming year Aurora Energy will continue its community engagement through several community-based initiatives including the company's sponsorship programme, a school-based education programme, and seeking corporate volunteering opportunities for our teams.

The community continues to benefit from the significant network of walking and cycle tracks, picnic areas and other public amenities maintained by City Forests. Forest areas such as the Ross Creek / Wakari Road walking and cycle trails see extensive public use. The company has excluded key parts of this area from future harvest programmes and contributes to track maintenance as required.

Many organised events such as military exercises, the Rally of Otago and cross-country running events were not held this year due to the Covid 19 pandemic.

City Forests and its directors and staff made contributions to three community foodbanks. In total \$18,600 of cash donations were made: \$6,200 to each foodbank, comprising voluntary director and staff donations of \$9,250 and company donations of \$9,350. In addition, approximately 35m³ of firewood was split and delivered by staff to recipient families as nominated by foodbank organisations. Further non-cash donations of firewood logs have been made to a number of clubs and charities.

Delta are big believers in supporting the communities the company operates in. During FY20, Delta sponsored the Connexis Annual Connection competition and participated in the 2019 Dunedin Special Rigs for Special Kids event.

DVML is tasked with ensuring access for community groups to enjoy the venues it manages through the administration of the Community Access Grant, which provides a fund of \$750,000 for associated venue costs for community events. The full value of the Community Event funding was utilised by the community. In 2019/2020 this resulted in a total of 45 events with 30,125 people attending or participating.

Dunedin Airport strengthened its partnerships with several organisations and events within the region this year. Dunedin



Airport continues to sponsor one of Dunedin's beloved and treasured birds, the Yellow-Eyed Penguin. In the upcoming year the Airport team will also be assisting the Trust with the important work they do in the field. Dunedin International Airport also sponsored the OUSA Beer and Food Festival for the fourth year running.

Graham Crombie Intern Director Programme

DCHL established an Intern Director Programme in late 2017, with the aim of enhancing governance capability in Dunedin and broadening the city's pool of emerging directors.

The programme offers emerging directors the opportunity to gain experience and insight into governance by working alongside an experienced commercial board for 18 months. Intern directors attend all board and committee meetings of their respective companies and participate fully in board activities (without voting rights or decision-making responsibilities).

Intern Directors also receive mentoring from company directors and \$1,000 towards governance education with the Institute of Directors.

In 2020 the programme was named after Graham Crombie, Chair of DCHL 2013-2019. Graham had a passion for people development, and for supporting future leaders within the city of Dunedin. Graham was active in mentoring and supporting emerging directors, including the first intake of DCHL Intern Directors in 2018.

The second intake of six intern directors started working alongside our boards from January 2020.

Intern Directors' feedback has been unanimously positive on the value of the programme so far. Intern Directors have gained valuable insight into the roles of company directors, particularly in context of the Covid-19 pandemic.

Our company boards also appreciate the fresh perspectives and diversity of thought intern directors bring to their operations.

2020/2021 Intern Directors will work alongside boards until 30 June 2021.

2020/2021 Intern Directors

Jon Foote
Aurora Energy

Mark Shirley
City Forests

Laura Warren
Delta

Christine MacNamara
Dunedin Airport

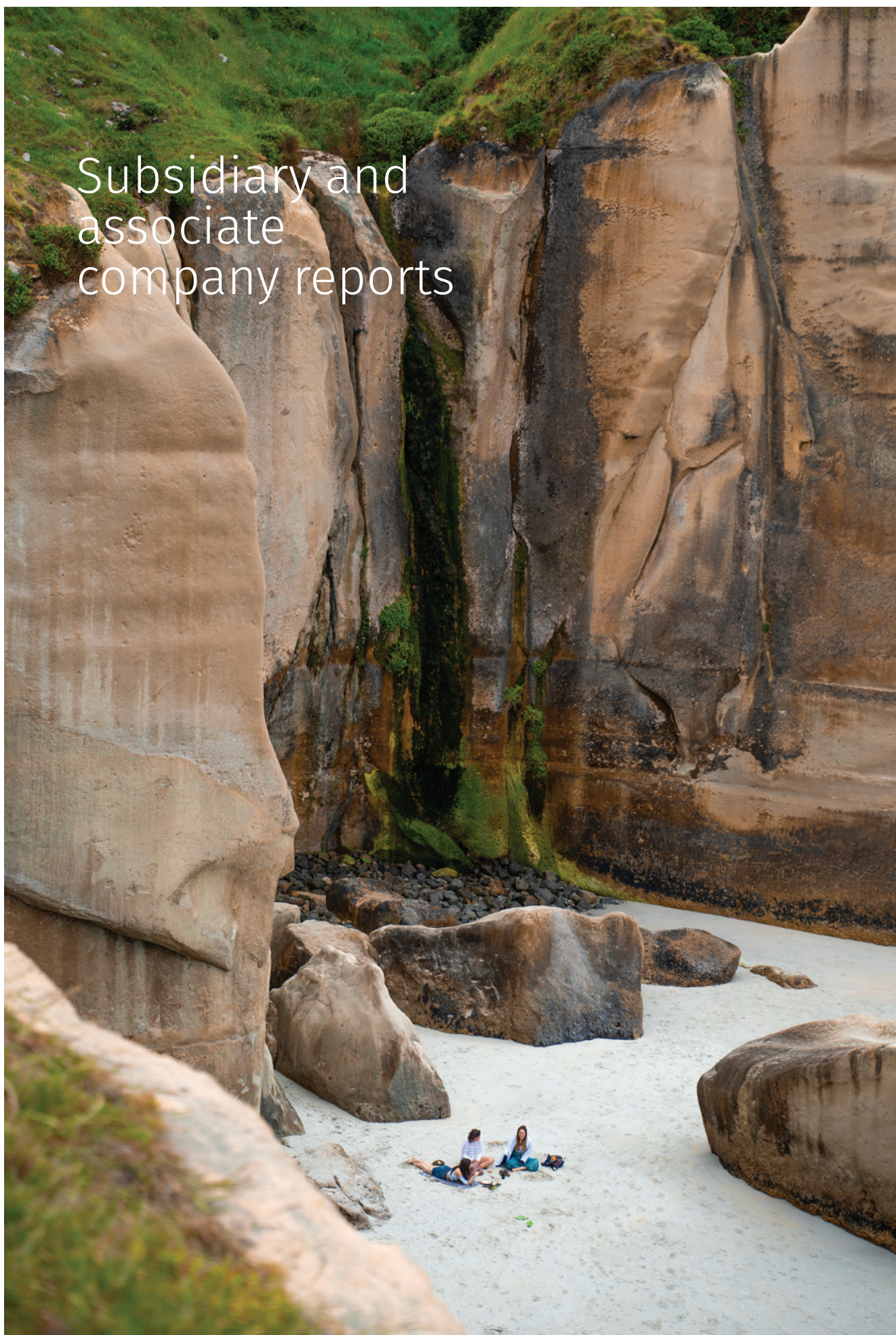
Michael Price
Dunedin Railways

Andrew Douglas
DVML

2020/2021 DCHL Intern Directors: (from left) Andrew Douglas, Laura Warren, Mark Shirley, Michael Price, Christine MacNamara and Jon Foote.



Subsidiary and associate company reports





Aurora Energy Limited

■ WHAT WE DO

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

■ WHAT WE DID THIS YEAR

As a lifeline utility, Aurora Energy took its responsibility to keep the electricity flowing to homes and businesses very seriously. Throughout the lockdown period it kept planned power outages restricted to only essential safety work and fault responses. As a community, we were reminded that electricity is vital to everyday life, from the home-schooling of children, to ensuring our frontline health workers could deliver the critical services that we need. Aurora would like to thank its customers for the support and understanding its team received, especially the support contractors received when they were out in the field working on Aurora's network assets.

Throughout 2019 and early 2020, Aurora Energy has been focused on preparing a Customised Price-quality Path (CPP) application, which was submitted to the Commerce Commission on 12 June. The CPP proposal seeks regulatory approval for a \$383 million, three-year programme of investment to undertake essential maintenance and upgrades needed to keep the network safe, resilient and able to meet expected electricity demand.

The Commerce Commission can set a customised price-quality path to better suit the needs of a regulated electricity business and its customers. As part of the regulatory process, the Commission will review Aurora Energy's application and consult further with interested parties before making its final decisions on Aurora Energy's annual revenue allowance and reliability limits by March 2021.

The purpose of the CPP proposal is to:

- deliver a safe network and address renewal backlogs
- keep pace with the emerging risks of an ageing network
- improve the health and condition of critical network assets

- stabilise reliability at current levels
- continue to support the level of expected growth in demand
- prepare the network in readiness for future technology uptake.

This year the Aurora Energy team continued to deliver a large works programme focusing on upgrading the network and preparing for the future.

In 2020, Aurora Energy focused on improving its internal process for planning work, so it can get better and earlier visibility of outages that impact customers. This process has enabled the company to plan more effectively, look for opportunities to minimise the impact or combine outages to deliver better outcomes for customers. There is still work to do in this space and Aurora Energy is looking at ways to engage with its communities to better communicate with them and identify how it can best reduce the impact of both planned and unplanned outages. Aurora Energy is continuing to refine its approach and is currently consulting with contractors on a full implementation of the new process.

Over the past financial year, Aurora Energy has continued to maintain a focus on stakeholder and customer engagement. It has been particularly pleased with its customer voice panels and customer advisory panel and will look to integrate these into business as usual processes moving forward. The company has also engaged regularly with the key councils in its region to keep them up to date with Aurora Energy's investment plans.



■ THE PEOPLE

Directors	Steve Thompson (Chair)
	Margaret Devlin
	Brenden Hall
	Wendie Harvey
Chief Executive	Richard Fletcher

■ AT A GLANCE

	2020 \$'000	2019 \$'000
Revenue	110,953	103,229
Net Surplus/(Loss) for the Year	(4,197)	(10,943)
Shareholder's Funds	175,965	179,576
Total Assets	617,646	580,376

City Forests Limited



■ WHAT WE DO

City Forests' principal activities are the growing, harvesting and marketing of forest products from plantations it owns. The products are sold both in the domestic and export markets.

■ WHAT WE DID THIS YEAR

City Forests had a satisfactory year, delivering an after-tax profit of \$12.68m. The results, although above plan, were down compared to the previous year due to the impacts of Covid-19. The company still made a significant financial contribution to the DCHL group through payments of \$4.5 million in dividends and \$6.5 million in tax subvention payment distributions.

City Forests' production results this year reflect the requirement to reduce production to match reduced log export demand arising from Covid 19, followed by the New Zealand Level 4 lockdown period when no production occurred for 5 weeks. The overall production from the forest estate was 310,100m³ compared to 337,028m³ planned. The forests continued to grow during Covid 19 disruptions and the volume not harvested remains available for future harvest within sustainable cut allowances. The company intends to catch up production lost when market conditions allow.

City Forests handled a total volume of 337,193m³ for the year. 27,093m³ of outside wood was traded during the year principally to supplement log export operations.

Log prices generally fell throughout the year, particularly during the second half of the financial year, which was dominated by the spread of the Covid 19 virus. As noted above, the virus has impacted both production due to local lockdown restrictions and demand from the company's markets. As a result log prices have been volatile throughout the year in the "price setting" China market, initially falling due to Covid 19 uncertainty and later increasing due to supply concerns only to moderate again to match reduced demand. Changes in the China market were mirrored in South Korea.

City Forests continues to demonstrate its commitment to responsible and sustainable management of its forest estates.

City Forests has held uninterrupted Forest Stewardship Council (FSC) certification since 2000. During the year a surveillance audit of company management practices relative to the Forest Stewardship Council Certification Standard was completed. This certification provides key independent verification that the company's strategy to be a sustainable land manager, good corporate and community citizen and a truly environmentally positive organisation is being successfully implemented. City Forests products are sold as FSC certified.

During the year City Forests purchased 1195 ha of new land (1016.7 ha previous year). The land is situated close to the company's existing Takitoo, Hillend and Glenlidi forests and will be progressively planted during the 2021 and 2022 planting seasons providing an increase in the company's sustainable harvest level and carbon sequestration.

The Board's focus is to ensure City Forests is run on a long term sustainable basis and that operational performance improvement and business growth occurs so long term wealth continues to be built for the shareholder.



■ THE PEOPLE

Directors	John Gallaher (Chair)
	Tim Mephram
	Scott Mason
	Alison Posa
Chief Executive	Grant Dodson

■ AT A GLANCE

	2020 \$'000	2019 \$'000
Revenue	63,704	83,628
Net Surplus for the Year	12,678	25,232
Shareholder's Funds	201,816	184,759
Total Assets	279,834	258,028

Delta Utility Services Limited



■ WHAT WE DO

Delta is an infrastructure specialist providing a range of contracting services to local authority and private sector customers. It constructs, manages and maintains essential energy and environmental infrastructure across the South Island. Its headquarters are in Dunedin, with regional depots in Nelson, Christchurch, Rangiora, Cromwell, Alexandra, Wanaka and Queenstown.

■ WHAT WE DID THIS YEAR

Managing workflow challenges in the first half of Financial Year 2020 and global disruption with the outbreak of COVID-19 proved difficult for Delta and impacted its ability to meet some targets. Significant action in the second half of the year resulted in an adequate financial performance overall and an improvement on FY19 results.

Delta recorded a net profit before tax of \$2.2 million in FY20, a moderate increase on FY19's \$1.7 million, however significantly below budget for the year of \$3.7 million. Total revenue was \$100.4 million in FY20 (budget \$97.1 million). Operating revenue at \$95.8 million, excluding the New Zealand Government Wage Subsidy due to COVID-19, fell just short of FY19 levels (\$97.5 million) and budget expectations (\$96.7 million).

Delta completed a variety of successful first-year deliveries on long-term contracts including the Aurora Energy Field Services Agreement and the Central Otago District Council Open Space Maintenance Contract. Further growth in the customer base during FY20 met one of the company's strategic goals and added diversity to its work portfolio. Delta secured contracts with neighbouring electricity distribution networks and attained extensive project work in the electricity generation sector.

Delta's commitment to quality and safety continued during the year. Significant reductions in incident severity, lost time events and the total recordable injury rate, whilst increasing the number of close call events were reported. Delta consistently met customer KPI requirements and have been strongly commended on the delivery of high-quality services it provides.

Delta's people are the difference at the organisation. It's through their expertise, dedication and commitment to getting the right result for its customers that ensures its quality and performance is maintained to a high standard. Delta had some outstanding staff achievements during FY20, the most notable being Anika Jackson's recognition at the Young Horticulturalist of the Year competition and Ged Kettink's celebration of 50 years' long service with Delta and its predecessors.

Delta are big believers in supporting the communities the company operates in. It is fortunate to be in the business of making communities better for people to live, work and play in, but the company also loves getting involved in community events. During FY20, Delta sponsored the Connexis Annual Connection competition and participated in the 2019 Dunedin Special Rigs for Special Kids event.

Delta has continued to maintain a strong environmental performance through the management of its EnviroMark Gold accreditation. Business initiatives such as replacing building lights with LED alternatives, continuing its sustainable recycling programme, and partnering with Otago Painting Solutions to use recycled paint for all office repairs, have contributed to improving its carbon footprint. Additionally, Delta is in the process of upgrading its ERP system, further supporting Delta's delivery of exceptional services through modern and integrated systems and processes. This shift in technology will also mean that many of its new processes will be paperless.



■ THE PEOPLE

Directors	Brian Wood (Chair)
	Trevor Kempton
	Tony Allison
	Steven Grave
Chief Executive	Mike Costelloe

■ AT A GLANCE

	2020 \$'000	2019 \$'000
Revenue	100,440	98,300
Net Surplus for the Year	1,963	1,922
Shareholder's Funds	23,044	22,581
Total Assets	66,121	61,042

Dunedin City Treasury Limited

■ WHAT WE DO

Dunedin City Treasury Ltd (DCTL) provides treasury and funds management services to Dunedin City Council, DCHL and its subsidiary and associate companies. DCTL's objective is to ensure adequate funds are available to meet ongoing obligations, minimising funding costs and maximising return on surplus funds, within acceptable levels of risk.

■ WHAT WE DID THIS YEAR

The cost of funds has continued to reduce over the 2019/20 financial year. Lowering of the DCC Group's cost of funds by approximately 0.57% to 3.36% saved the DCC Group \$4.2 million, based on average term borrowings over the past year.

The lower funding cost was assisted by the issuance of three new tranches of Medium Term Notes (MTN's) by the company. In November 2019 DCTL issued \$45 and \$55 million of 3 year and 7 year MTN's at coupons of just 1.51% and 2.09%. The new MTN's were used to refinance the \$50 million 15 November 2019 Floating Rate Note. In April 2020 DCTL issued a new tranche of \$75 million of 1 year MTN's at a coupon of 1.25%. The new issue secured necessary funding for the Group at a time of significant uncertainty in financial markets, during the onset of the COVID-19 pandemic.

DCTL reduced its use of short term funding this year taking advantage of historically low longer term benchmark interest rates. The company has \$130 million of Promissory Notes on issue as at 30 June 2020, compared to \$160 million as at the same time last year. The average rate achieved was +0.08% above the 3 month benchmark interest rate. The average bid coverage ratio was 1.9 times the Promissory Notes tendered, illustrating strong investor appetite for DCTL paper. Issue margins widened in March and April 2020 but have since reduced to levels resembling those in the pre COVID-19 period.

DCTL has also continued to ensure that funding facilities are spread over time, to help manage funding risk. From 30 June 2020, the company has less than \$250 million of outstanding funding due to mature in any forward one year period.

In response to the onset of the COVID-19 pandemic the Official Cash Rate (OCR) was lowered in March 2020, to just 0.25%, the lowest OCR since the introduction of the OCR in 1999. The yield curve is significantly lower and has flattened over the period.

The company's activity is governed by the DCC Treasury Risk Management Policy, which is designed to manage risk across a range of areas. The company maintained compliance with the Policy during the 2020 financial year and continues to manage funds in the best interests of the DCC Group.

The Board considers that the company continues to provide significant benefit to the DCHL Group, DCC and Dunedin ratepayers through its provision of cost-effective funding for the DCC Group.

The company is currently undertaking the necessary steps to add the New Zealand Local Government Funding Agency as a source of funding.



■ THE PEOPLE

Directors

Keith Cooper (Chair)
Kathy Grant
Quentin Hix (until 29.02.2020)
Chris Hopkins
Linda Robertson

Treasurer

Richard Davey

■ AT A GLANCE

	2020 \$'000	2019 \$'000
Revenue	27,259	27,338
Net Surplus for the Year	11	3
Shareholder's Funds	(55,846)	(34,374)
Total Assets	805,232	707,490

Dunedin Railways Ltd



■ WHAT WE DO

Until March 2020 Dunedin Railways Ltd (DRL) operated a tourist and excursion train on the Taieri Gorge railway line and on the Seaside line north of Dunedin.

■ WHAT WE DID THIS YEAR

DRL entered the 2019/2020 year with a focus on developing a sustainable business model. The company was forecasting ongoing losses and had signalled additional equity would be required to ensure the ongoing viability of the business. The DRL board were focussed on preparing a business turnaround plan and developing a sustainable business model for discussion with shareholders.

In the context of its existing challenges, DRL was unable to weather the forecast impacts of Covid-19 on the tourism sector. Even with support such as the wage subsidy, the seasonality of the business and its reliance on international travellers meant the business was facing insolvency and required immediate action. The outlook for international travel indicated there was little chance of reprieve on the horizon, and DRL was not in a position to pivot to new products or markets. Even a significant surge in domestic travel would not have been enough to sustain the company as it was structured.

In April 2020 DCC agreed that DRL be put into hibernation. Hibernation was an alternative to complete closure of the business. Hibernating the company allowed its iconic assets to be retained while potential sustainable options for the future were identified and evaluated. DCC agreed to support the ongoing costs of mothballing the company.

As part of this change, the Otago Excursion Train Trust (OETT) decided to sell its 28% shareholding in DRL to DCHL. DCHL has been the sole shareholder of the company since April 2020.

Hibernating the company resulted in the loss of 50 jobs. DRL, DCHL and DCC all acknowledge the impact of this decision on DRL staff and their families. The contribution of DRL staff to the company over many years and their professionalism during the period from March to June 2020 is deeply appreciated.

DRL has been in hibernation mode since 1 July 2020. All assets have been retained and key rolling stock is being actively maintained. Six staff remain employed by DRL to actively maintain key assets during hibernation.

Focus has now turned to identifying and evaluating options for sustainable tourism offerings based on DRL's assets. This work is being led by DVML, a sibling company of DRL with experience and expertise in the tourism and visitor sector. A Reference Group has been established to ensure broad input at an early stage.

We expect to provide an update to Council regarding options for the company's future in late 2020. Decisions will ultimately be for Council to make.

We acknowledge the strong community passion for DRL and the Taieri Gorge train trip, which is foremost in directors' minds.



■ THE PEOPLE

Directors	Kevin Winders (Chair)
<i>Until 30 June 2020</i>	Judith Bevin
	Richard Roberts
	Graeme Smart
	David Wood
	Stanley Rodger (until 30.11.2019)
Chief Executive	Craig Osborne
<i>Until 30 June 2020</i>	

■ AT A GLANCE

	2020 \$'000	2019 \$'000
Revenue	6,475	9,216
Net Surplus/(Loss) for the Year	(6,603)	(122)
Shareholder's Funds	460	1,813
Total Assets	587	5,159

Dunedin Stadium Property Ltd

DUNEDIN STADIUM
PROPERTY LTD

■ WHAT WE DO

Dunedin Stadium Property Ltd's (DSPL's) principal activity is the ownership of Forsyth Barr Stadium. In particular DSPL oversees that the stadium is maintained to a standard that enables it to operate effectively.

■ WHAT WE DID THIS YEAR

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

DSPL recorded a net loss before subventions and income tax of \$(8.2 million) for the year. This is an improvement of \$485,000 over the previous year, resulting from a reduction in depreciation and borrowing costs.

This year no subvention payments were received from companies within the DCHL Group. Subvention payments are dependent on

the ongoing profitability of the underlying group of companies controlled by DCHL. Instead, DSPL has tax losses of \$5.5 million (tax effect \$1.5 million) to carry forward for the current year, which DSPL intends to transfer to the DCC Group in future years by means of a subvention payment and tax loss offset.

DSPL continues to work with DCHL and its subsidiary companies on maintaining the cash funding model that has been established for DSPL through subvention receipts and capital injections.

The Stadium Review in 2015 established the future funding model of DSPL through to the year ending 30 June 2025, ensuring DSPL is able to maintain its operational, capital, and debt financing requirements.

The Directors consider that the state of affairs of DSPL is as anticipated.



■ THE PEOPLE

Directors

William Cockerill (Chair)
Keith Cooper
Kathy Grant
Quentin Hix (until 29.02.2020)
Chris Hopkins
Linda Robertson

■ AT A GLANCE

	2020 \$'000	2019 \$'000
Revenue	2,163	2,163
Net Surplus/(Loss) for the Year	(8,197)	(7,002)
Shareholder's Funds	69,297	74,473
Total Assets	157,919	164,645

Dunedin Venues Management Ltd



■ WHAT WE DO

Dunedin Venues Management Limited (DVML) is Dunedin's premier venue, and event services company. DVML manages the Forsyth Barr Stadium, Dunedin Centre and Town Hall Complex and University of Otago Oval (the latter under its management until 30 June 2020).

■ WHAT WE DID THIS YEAR

2019/2020 will go on record as one of the most challenging experiences for DVML.

Planning for the year began positively with strong bookings across all business, concert, sporting and community events. DVML underwent a brand refresh with a new look bringing more alignment with the city's gothic branding and more representative of its focus.

The business events market went from strength to strength making a significant contribution to the Dunedin economy. This year DVML hosted 4,040 delegates who attended 21 multi-day conferences at the Dunedin Centre.

The major event space provided much variety starting with the return of Fleetwood Mac in September 2019, followed by Norma's Big Bash celebrating the Dunedin Town Hall's famous organ. The big acts continued with Elton John and Queen and Adam Lambert concerts in February 2020. Local band SIX60 rounded off the concert calendar entertaining almost 20,000 fans under the roof.

The Home and Living Show and Dunedin Craft Beer and Food Festival featured on the events calendar along with the Super Rugby and Mitre 10 Cup competitions. The University of Otago Oval played host to the Otago Volts domestic matches and was primed for the White Ferns v South Africa T20 international in February 2020, although the weather didn't play its part.

The impact of COVID-19 was starting to be felt around the globe in late February. DVML experienced an influx of postponements and cancellation of events across all venues in mid to late March and event revenue ceased overnight.

DVML was forced to make some tough decisions, including the decision to reduce the team in order for the business to navigate the challenging times. DVML thanks and acknowledges those staff members who were impacted for their tremendous contribution to the business.

DVML was able to welcome large crowds back to its venues at Level 1. Forsyth Barr Stadium hosted the world's first rugby event with fans in attendance post COVID-19 lockdown when the Highlanders played the Chiefs in the opening match of the new Super Rugby Aotearoa competition.

30,125 people attended 45 community access events held in the 2019/2020 year (unfortunately all community events scheduled for March to June 2020 had to be placed on hold due to Covid-19 restrictions).

Continued Covid-19 border restrictions continue to impact concerts and international sporting matches. The All Blacks v Scotland rugby test scheduled for July 2020 has been postponed to a later date, and international concerts scheduled for November 2020 have been cancelled or rescheduled to 2022.

However, DVML is still positive about the future. In June Dunedin was announced as a host city for FIFA Women's World Cup in 2023. Promoters are also indicating the concert space will be very busy once border restrictions are lifted as numerous artists will be ready to tour again.

DVML would like to thank its Forsyth Barr Stadium Members and commercial partners for their support and loyalty to the organisation during this challenging period. Final thanks go to the DVML staff who have weathered this very difficult time with professionalism, resilience, and strength.



■ THE PEOPLE

Directors	Raewyn Lovett (Chair)
	Joanne Conroy
	Adam La Hood
	Dylan Rushbrook
Chief Executive	Terry Davies

■ AT A GLANCE

	2020 \$'000	2019 \$'000
Revenue	11,954	13,847
Net Surplus for the Year	(49)	160
Shareholder's Funds	1,933	2,445
Total Assets	23,649	5,184

Dunedin International Airport Ltd



■ WHAT WE DO

Dunedin International Airport Ltd (DIAL) 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, as well as Momona Garage.

DIAL is owned 50% by DCHL and 50% by the Crown.

■ WHAT WE DID THIS YEAR

Unsurprisingly, the Covid-19 pandemic materially impacted Dunedin Airport. Despite a strong start to the financial year, total passengers through the airport ended 26.4% down over the previous year at 793,556.

This was a dramatic impact over the final quarter of the financial year – as at February 2020, passenger numbers were only 0.5% behind the prior period. April 2020 had 804 passengers through the Airport. This compares to over 98,300 in April 2019. A dramatic 99.2% decrease.

The decrease in passengers has had a significant impact on the 2020 financial year's performance and position.

DIAL's total revenue, including interest income, dividends, and gains/losses on investments and on sale of property, plant and equipment, decreased by 12.6% to \$15.0 million.

Despite steps taken to reduce our cost structure, including the elimination of all discretionary expenditure, organisational restructuring, salary reductions and reduced working hours, a relatively fixed cost base has resulted in operating expenditure of \$12.7 million, a 5.7% increase over the prior year.

The culmination of the revenue and expenditure movements outlined above is a pre-tax operating surplus of \$2.3 million, which is \$2.8 million (54.8%) behind the prior year.

In FY2020 Dunedin Airport continued its involvement in the Lower South New Zealand strategy. This is an ambitious strategy to bring together the Regional Tourism Operators (RTOs), airlines and neighbouring airports in the lower south to promote a "whole of region" offer. This work will continue to have relevance as the tourism industry adapts to Covid-19.

DIAL's Terminal Expansion Project (TXP) was completed in 2020. \$6.9 million of capital expenditure was invested this year in the project, which has added approximately 1,200m² of floor area to the terminal building. The security screening area has been increased by 157% and the post-screening boarding lounge area has been increased by nearly twice the size of the current space. Stage One opened in August 2019, and Stage Two has been operating since March 2020. DIAL was pleased to meet the target of no lost time injuries on the TXP project.



■ THE PEOPLE

Directors	Tony Allison (Chair)
	Jonathan Cameron
	Patricia Oakley (until 31.10.2019)
	Mark Rogers (until 31.10.2019)
	Darin Cusack (from 01.11.2019)
	Rachel Brooking (from 01.11.2019)
Chief Executive	Richard Roberts

■ AT A GLANCE

	2020 \$'000	2019 \$'000
Revenue	15,031	17,190
Net Surplus for the Year	3,636	3,587
Shareholder's Funds	69,193	63,728
Total Assets	104,749	94,634

statement of responsibility

The Board of DCHL accepts responsibility for the preparation of the annual financial statements and the judgements used in them;

The Board of DCHL accepts responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and

In the opinion of the Board of DCHL, except for any adjustments that may have been required in relation to the carrying value

of DSPL'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 DCHL for the financial year ended 30 June 2020.



Director
27 November 2020



Director
27 November 2020

financial information

- GROUP FINANCIAL STATISTICS
- STATEMENT OF FINANCIAL PERFORMANCE
- STATEMENT OF OTHER COMPREHENSIVE INCOME
- STATEMENT OF MOVEMENTS IN EQUITY
- STATEMENT OF FINANCIAL POSITION
- STATEMENT OF CASH FLOWS
- NOTES TO THE FINANCIAL STATEMENTS

group financial statistics

	2020	2019	2018	2017	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	
Revenue	284,212	299,583	290,757	275,073	270,625	251,067
Profit before tax, impairment and subvention payment from continuing activities	(6,458)	10,379	24,253	28,902	37,452	26,429
Profit/(loss) after tax from continuing operations	(5,259)	4,186	15,493	18,512	20,309	12,755
Tax	(1,199)	6,193	8,760	10,390	9,851	6,382
Surplus/(deficit) after tax	(5,259)	4,186	15,493	18,512	20,309	12,952
Net interest paid to the Council on advance	5,902	5,902	5,902	5,902	5,902	5,902
After tax cost of DSPL subvention payment	-	-	-	-	5,250	5,250
Net surplus before shareholder interest and subvention	643	10,088	21,395	24,414	31,461	24,104
Cash flows from operating activities	22,323	31,606	31,892	34,416	31,634	32,565
Shareholder's funds	321,292	333,138	345,124	320,129	285,615	175,173
Shareholder's advance	112,000	112,000	112,000	112,000	112,000	112,000
Total shareholder's interest	433,292	445,138	457,124	432,129	397,615	287,173
Rate of return (on shareholder funds)	-1.6%	1.3%	4.5%	5.8%	7.1%	7.4%
Dividend paid	-	-	-	-	-	4,548
Net interest paid to the Council on advance	5,902	5,902	5,902	5,902	5,902	5,902
After tax cost of DSPL subvention payment	-	-	-	-	5,250	5,250
Total interest, subvention and dividends paid to the Council	5,902	5,902	5,902	5,902	11,152	15,700
Total assets	1,456,401	1,345,804	1,241,463	1,171,778	1,143,093	1,029,435
Shareholder's funds to total assets	22.1%	24.8%	27.8%	27.3%	25.0%	17.0%

statement of financial performance

For the year ended 30 June 2020

	Note	Group 2020 \$'000	Group 2019 \$'000
Revenue			
Operating revenue	1	261,193	267,753
Financial income	2	11,391	11,497
Gain in fair value of forestry land	12	11,628	20,333
Total operating revenue		284,212	299,583
Expenditure			
Other expenses	3	152,354	161,050
Employee expenses		70,622	66,000
Audit fees	3	785	772
Financial expenses	3	34,430	33,392
Depreciation - right of use assets		3,089	-
Depreciation and amortisation		31,208	29,784
Total operating expenditure		292,488	290,998
Operating surplus		(8,276)	8,585
Share of associate surplus		1,818	1,794
Surplus before taxation		(6,458)	10,379
Less taxation expense	4	(1,199)	6,193
Surplus after taxation		(5,259)	4,186
Attributable to:			
Equity holders of the parent		(5,259)	4,220
Minority Interest		-	(34)
		(5,259)	4,186

The financial statements are to be read in conjunction with the accompanying notes.

statement of comprehensive income

For the year ended 30 June 2020

	Note	Group 2020 \$'000	Group 2019 \$'000
Other comprehensive income			
Gain (loss) on forestry land revaluations		2,874	4,734
Gain (loss) on interest rate swap hedges		(19,858)	(25,691)
Gain (loss) on foreign exchange hedges		(32)	497
Gain (loss) on carbon credit revaluation		8,454	2,846
Other comprehensive income associates		2,101	(116)
Income tax on other comprehensive income		(2,444)	(992)
Net income recognised directly as other comprehensive income		(8,906)	(18,722)
Surplus after taxation		(5,259)	4,186
Total comprehensive income for the year		(14,165)	(14,536)
Attributable to:			
Equity holders of the parent		(14,165)	(14,502)
Minority interest		-	(34)
		(14,165)	(14,536)

The financial statements are to be read in conjunction with the accompanying notes.

statement of changes in equity

For the year ended 30 June 2020

	Note	Group 2020 \$'000	Group 2019 \$'000
Movements in equity			
Opening equity		333,138	345,124
Total comprehensive income for the year		(14,165)	(14,536)
Contributions of Equity		2,550	2,550
Adjustment on transition		(232)	-
Distributions to equity holders of the parent		-	-
Closing equity		<u>321,292</u>	<u>333,138</u>

The financial statements are to be read in conjunction with the accompanying notes.

balance sheet

As at 30 June 2020

	<i>Note</i>	Group 2020 \$'000	Group 2019 \$'000
Current assets			
Cash and cash equivalents	5	50,227	17,374
Other current financial assets	6	902	1,319
Derivative financial instruments	17	1,226	-
Trade and other receivables	7	27,231	29,916
Taxation refund receivable		5,697	5,678
Inventories	8	8,636	10,890
Non current assets held for sale		1,770	-
Prepayments		938	853
Total current assets		96,627	66,030
Non-current assets			
Term receivables	7	10,023	11,041
Other non-current financial assets	6	243,509	218,510
Derivative financial instruments	17	15,973	14,825
Investments in associate companies	9	34,574	31,841
Intangible assets - carbon credits	11	31,970	26,894
Intangible assets - other	11	4,072	951
Forestry assets	12	169,150	164,010
Right of use assets	13	8,308	-
Property, plant and equipment	14	842,195	811,702
Total non current assets		1,359,774	1,279,774
Total assets		1,456,401	1,345,804

The financial statements are to be read in conjunction with the accompanying notes.

balance sheet (continued)

As at 30 June 2020

	Note	Group 2020 \$'000	Group 2019 \$'000
Current liabilities			
Trade and other payables	15	31,391	30,392
Employee entitlements / provisions	16	6,666	6,405
Accrued expenditure		-	5,041
Derivative financial instruments	17	3,011	956
Provision for tax		5,168	6,934
Current portion of lease liability	18	2,613	-
Short term borrowings	19	1,194	620
Current portion of term loans	20	-	-
Total current liabilities		50,043	50,348
Non-current liabilities			
Term loans	20	790,136	690,596
Shareholder's advance - DCC	21	112,000	112,000
Employee entitlements	16	1,038	986
Other non-current liabilities		648	531
Lease liabilities	18	5,817	-
Derivative financial instruments	17	59,767	43,512
Deferred taxation	4	115,660	114,693
Total non-current liabilities		1,085,066	962,318
Equity			
Share capital	25	126,139	123,589
Accumulated funds	26	139,109	142,540
Minority interest in subsidiaries		-	512
Revaluation reserves	27	18,813	16,712
Cash flow hedge reserves	27	(56,217)	(36,077)
Forest revaluation reserves	27	85,429	80,165
Carbon credit reserve	27	8,019	5,697
Total equity		321,292	333,138
Total liabilities and equity		1,456,401	1,345,804

The financial statements are to be read in conjunction with the accompanying notes.

statement of cashflows

For the year ended 30 June 2020

	Note	Group 2020 \$'000	Group 2019 \$'000
Cash flow from operating activities			
<i>Cash was provided from:</i>			
Receipts from customers		263,322	266,786
Effect of exchange		(1,360)	(799)
Interest received		9,461	11,154
Income tax refund		132	486
Dividend received		1,186	704
		<u>272,741</u>	<u>278,331</u>
<i>Cash was applied to:</i>			
Suppliers and employees		215,804	212,612
Finance costs paid		32,439	32,990
Taxation paid		2,436	1,917
Net GST paid/ (received)		(261)	(794)
		<u>250,418</u>	<u>246,725</u>
Net cash flow from operating activities	31	<u>22,323</u>	<u>31,606</u>
Cash flow from investing activities			
<i>Cash was provided from:</i>			
Sale of property, plant and equipment		722	327
Carbon credits sold		8,240	7,215
Receipts from investments		2,836	1,773
		<u>11,798</u>	<u>9,315</u>
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment		69,112	81,475
Increase in investments		25,000	18,500
		<u>94,112</u>	<u>99,975</u>
Net cash flow from investing activities		<u>(82,314)</u>	<u>(90,660)</u>
Cash flow from financing activities			
<i>Cash was provided from:</i>			
Call on Capital		2,550	2,550
Loans raised	32	96,089	71,905
		<u>98,639</u>	<u>74,455</u>
<i>Cash was applied to:</i>			
Loans repaid		-	-
Lease liability repaid	32	5,234	-
Interest paid		561	-
		<u>5,795</u>	<u>-</u>
Net cash flow from financing activities		<u>92,844</u>	<u>74,455</u>
Net increase/(decrease) in cash		32,853	15,401
Opening cash and cash equivalents		17,374	1,973
Closing cash and cash equivalents		<u>50,227</u>	<u>17,374</u>

The financial statements are to be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2020

■ REPORTING ENTITY

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

DCHL is a Council Controlled 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 DCHL Group are for the year ended 30 June 2020.

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

DCHL is a profit orientated entity.

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

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

■ STATEMENT OF COMPLIANCE

The Group 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 27 November 2020.

■ BASIS OF ACCOUNTING

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

The accounting policies have been applied consistently by Group entities.

■ BASIS OF CONSOLIDATION

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

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group, with the exception of the valuation of Dunedin Stadium Property's fixed assets and the related depreciation expense.

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

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

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

■ GOODS AND SERVICES TAX (GST)

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

■ CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

- impairment of investments in associate companies (note 9);
- valuation of forestry assets (note 12);
- valuation and impairment of property, plant and equipment (note 14)
- valuation of derivative financial instruments (note 17);
- carrying value of the deferred tax liability (note 4).

■ DISCONTINUED OPERATIONS

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

■ CHANGES IN ACCOUNTING POLICY

With the exception of NZ IAS 16 Leases, there has been no change in accounting policy. Policies for the current year and comparative year have been applied on a consistent basis.

NZ IAS 16 Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the 2019 comparative information has not been restated and continues to be reported under IAS 17.

Policy applicable from 1 July 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset;

- the Group has the right to obtain substantially all of the economic benefits from use of the asset through the period of use;
- the Group has the right to direct use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

This policy is applied to contracts entered into or changed on or after 1 July 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices. The Group was able to separate out lease and non-lease components for all leases.

Policy applicable before 1 July 2019

For contracts entered into before 1 July 2019, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as leases under IAS 17 and IFRIC 4.

The Group separately discloses its right-to-use assets (note 24) and lease liabilities (note 14) in its statement of financial position.

Short-term leases / low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term property leases that have a term of 12 months or less. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Under IAS 17

In the comparative period, as a lessee the Group classified leases as operating leases as they did not transfer substantially all of the risks and rewards of ownership. The leases were therefore not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in the statement of financial performance on a straight-line basis over the term of the lease.

As a lessor

The accounting policies applicable to the Group as a lessor did not materially change. The Group acts as a lessor and leases out several buildings throughout the lower South Island.

None of these leases transfer substantially all of the risks and rewards incidental to ownership and therefore all of the leases are treated as operating leases.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of other sundry revenue. The leases contain lease and non-lease components and the Group gives consideration to IFRS 15 when allocating the consideration over time.

■ STANDARDS AMENDED OR ISSUED DURING THE YEAR

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

Amendments to NZ IAS 16 Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three interpretations (IFRIC 4 'Determining whether an arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

As noted throughout these statements, the adoption of this new standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new standard has been applied using the modified retrospective approach, which means the Group was not required to restate comparative information.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 July 2019. At this date, the Group also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16. Consideration has however been given at the reporting date as to any impairment.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities was 3.5%.

There were no other standard changes during the year that had a material impact on the financial statements of the Group.

■ STANDARDS ISSUED BUT NOT YET EFFECTIVE

There are no new or revised standards issued, but not yet effective that have a material impact on the financial reporting of the Group.

■ 1 OPERATING REVENUE

Accounting policy

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

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

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

The Group applied IFRS 15 Revenue from Contracts with Customers from the 1 July 2018 and elected to use the modified retrospective approach in that prior year numbers were not restated and any impact to prior year revenue is recognised by an adjustment to opening retained earnings. Other than increased qualitative disclosures regarding revenue, there was no impact on the level of revenue disclosed as a result of adopting this standard and therefore no adjustment to opening retained earnings was required.

The Group earns revenue from the following main sources:

Line charges and pass-through and recoverable cost revenue is recognised at the fair value of services provided.

These revenue streams relate to the provision of distribution services for electricity. Prices are regulated and customers are charged through a mix of fixed charges which are recognised on a straight line basis and variable charges which are recognised based on the volume of distribution services provided. Consistent with NZ IFRS 15 this revenue is recognised during the period in which the service is delivered.

■ 1 OPERATING REVENUE continued

Customer contribution revenue relates to contributions received from customers towards the costs of reticulating electricity to new connections, constructing uneconomic lines and relocating existing network assets. Revenue is generally recognised at the time the new connection is fully constructed and livened. For contracts with multiple performance obligations revenue is recognised at the point in time when each performance obligation is satisfied.

Electrical Services revenue includes both capital and maintenance work for a variety of customers predominantly in the South Island. These works generally create or enhance an existing asset which the customer controls and that customer simultaneously receives / consumes the benefit as Delta performs the work. Work is generally performed based on a quoted price, a schedule of rates or a contract milestone. Revenue is generally recognised as invoiced for services rendered on a monthly basis, Work in progress based on stage of completion or Work in progress based on an approved claim.

Meters and related services works are provided to retailers and the public throughout New Zealand and are generally based on fixed amounts / unit rates for specific services provided. Generally works are completed in a 1-2 hour timeframe and monthly claims are agreed with customers prior to billing. Revenue is generally recognised as invoiced for services rendered during the month.

Greenspace and Tree services works are mainly provided to councils and electricity distribution businesses throughout the South Island. These works generally create or enhance an existing asset which the customer controls and that customer simultaneously receives / consumes the benefit as Delta performs the work. Work is generally performed based on a quoted price or a schedule of rates. Revenue is generally recognised as invoiced for services rendered on a monthly basis.

In respect of export sales, the largest category of forestry sales revenue, the Group has determined that there are two performance obligations. The Group is obligated under the contract to supply the specified goods and also to arrange and pay for shipping and insurance on behalf of the customer. Control of the goods passes, and the service of arranging shipping and insurance is complete, at the point when the goods have been loaded onto a ship at the port of departure, to be delivered to the customer's chosen destination. Revenue is recognised at this point in time. In respect of domestic sales within New Zealand, control is considered to be transferred to the customer on delivery of the goods.

All venues management income is either related to an ongoing contract over a period of time (unused contracts quantified and shown as contract liabilities), or is event based. Memberships, corporate box licenses, signage and sponsorship agreements range from one year to ten years. Payment for these items has been received and recorded as income received in advance. This income is amortised as revenue on a straight-line basis over the term of the agreement.

The Covid-19 wage subsidy was a subsidy applied for through the Ministry of Social Development (MSD) during the Covid-19 lockdown. City Forests, Delta, Dunedin Venues and Dunedin Railways all met the criteria to be eligible for the subsidy. The wage subsidy was accounted for in line with NZ IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. The wage subsidy was physically received during the 2020 financial year and has been recognised in full in the period most significantly impacted by the Covid-19 lockdown.

	Group 2020 \$'000	Group 2019 \$'000
Line charges	66,637	62,562
Pass-through and recoverable cost revenue	36,415	35,321
Customer contributions	5,835	3,533
Electrical services	50,291	47,591
Meters and related services	8,885	8,389
Greenspace services	16,952	18,573
Tree services	2,096	5,777
Forestry sales revenue	46,638	58,810
New Zealand carbon credit sales	4,862	4,247
Venues management income	11,705	13,564
Railway income	6,105	9,216
Covid-19 wage subsidy	4,365	-
Other operating revenue	300	161
Gain on sale of assets	107	9
	261,193	267,753

■ 2 FINANCIAL INCOME

Accounting policy

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

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

	Group 2020 \$'000	Group 2019 \$'000
Interest on advances to related parties	10,441	10,543
Interest on other investments	950	954
Dividends	-	-
Net gain on foreign currency transactions	-	-
	<u>11,391</u>	<u>11,497</u>

■ 3 SEPARATELY DISCLOSED EXPENDITURE

Accounting policy

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

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

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

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

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

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

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

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

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

■ 3 SEPARATELY DISCLOSED EXPENDITURE continued

	Group 2020 \$'000	Group 2019 \$'000
Other expenses		
Bad debts written off	366	88
Impairment of intangible assets	10	18
Impairment of DRL property, plant and equipment, and inventories	4,486	-
Increase/(decrease) in impairment provision for receivables	(94)	317
Donations	37	19
Rental expense on operating leases	1,458	4,369
Research expenditure	170	214
Other expenditure	145,921	156,025
Expenditure of continuing activities	152,354	161,050

	Group 2020 \$'000	Group 2019 \$'000
Audit fees		
Audit New Zealand:		
Financial statements	324	304
Regulatory (information disclosure) reporting	40	35
Price and quality thresholds and other regulatory reporting	25	25
Customised price-quality path application	351	-
Other Providers:		
Other audit fees	45	408
Total audit fees	785	772

Accounting policy

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

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

	Group 2020 \$'000	Group 2019 \$'000
Financial expenses		
Interest - related parties	6,285	5,945
Interest - term loans	26,607	26,648
Interest - leased assets	178	-
Net loss on foreign currency transactions	1,360	799
Total financial expenses	34,430	33,392

■ 4 TAXATION

Accounting policy

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

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

	Group 2020 \$'000	Group 2019 \$'000
Income Tax		
Operating surplus/(loss)	(6,458)	10,379
Tax thereon at 28%	(1,808)	2,906
Plus/(Less) the tax effect of differences		
Revenue not liable for taxation	(144)	(1,156)
Expenditure not deductible for taxation	4,602	3,907
Tax losses to be utilised	(73)	(4)
Under/(over) tax provision in prior years	(1,665)	100
Group recognition of deferred tax in current year	(3,652)	-
Other	1,541	440
Taxation charge	(1,199)	6,193
Effective tax rate	18.6%	59.7%
The taxation charge is represented by:		
Current tax provision	565	707
Deferred tax provision	(93)	5,390
Under/(over) tax provision in prior years	(1,640)	55
Under/(over) deferred tax in prior years	(31)	41
	(1,199)	6,193
Tax expense continuing activity	(1,199)	6,193
Tax expense discontinued activity	-	-
	(1,199)	6,193

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

DCHL, Aurora Energy, Delta, the Dunedin City Council, City Forests and DVML are members of an income tax consolidated Group. The income tax consolidated Group is taxed as a single entity and each member is jointly and severally liable for the Group's income tax liability, except to the extent that members of the group elect to limit this liability.

DCHL, 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, DCHL has direct access to consolidated Group imputation credits that relate to 30 June 2020 and earlier years which will be available for use in subsequent reporting periods totalling \$17,562,341 (2019: \$17,101,000).

■ 4 TAXATION continued

Accounting policy

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

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

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

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

	Group \$'000	Group \$'000	Group \$'000	Group \$'000	Group \$'000	Group \$'000
Deferred tax	Opening Balance Sheet	Charged to Equity	Charged to Income	Closing Balance Sheet Assets	Closing Balance Sheet Liabilities	Closing Balance Sheet Net
2020						
Property, plant and equipment	63,140	78	1,818	(105)	65,204	65,099
Employee benefits	3,654	-	(185)	(2,667)	6,201	3,534
Forest	31,900	-	959	-	32,859	32,859
Forest costs capitalised	9,829	-	327	-	10,156	10,156
Other Investments	7,342	2,664	(582)	(497)	9,106	8,609
Hedge reserve – foreign exchange contracts	(85)	(8)	-	(93)	-	(93)
Hedge reserve – interest rate swaps	(1,087)	234	-	(852)	-	(852)
Group recognition of deferred tax in current year	-	-	(3,652)	(3,652)	-	(3,652)
Balance at the end of the year	114,693	2,968	(1,315)	(7,866)	123,526	115,660
2019						
Property, plant and equipment	59,872	-	3,268	(276)	63,416	63,140
Employee benefits	3,944	-	(290)	(2,135)	5,789	3,654
Forest	28,200	-	3,700	-	31,900	31,900
Forest costs capitalised	9,794	-	35	-	9,829	9,829
Other Investments	7,388	796	(748)	(49)	7,391	7,342
Hedge reserve – foreign exchange contracts	(223)	138	-	(85)	-	(85)
Hedge reserve – interest rate swaps	(1,028)	(59)	-	(1,087)	-	(1,087)
Balance at the end of the year	107,947	875	5,965	(3,632)	118,325	114,693

■ 5 CASH AND CASH EQUIVALENTS

Accounting policy

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

	Group 2020 \$'000	Group 2019 \$'000
Cash and bank	50,227	17,374

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.

■ 6 OTHER FINANCIAL ASSETS

Accounting policy

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

	Group 2020 \$'000	Group 2019 \$'000
Current loan repayments due from Dunedin City Council		
Other current financial assets	902	1,319
Total other current financial assets	902	1,319
Loan repayments due from Dunedin City Council:		
Maturity one to five years	-	-
Maturity over five years	243,500	218,500
	243,500	218,500
Shares and units in other companies and funds	9	10
Total other non current financial assets	243,509	218,510

Advances

The advances (above) due from the Dunedin City Council had a weighted average interest rate of 3.92% (2019: 4.99%).

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.

■ 7 TRADE AND OTHER RECEIVABLES

Accounting policy

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

All past due balances are considered collectable, however in line with NZ IFRS 9 the Group applies a simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure credit losses, trade receivables are grouped based on similar credit risk and aging. The expected loss rates factor in the credit losses experienced over the three year period prior to the period end. The historical loss rates are then adjusted for where necessary based on current and forward-looking macroeconomic factors affecting the Group's customers.

	Group 2020 \$'000	Group 2019 \$'000
Trade receivables	18,022	20,896
Expected credit loss	(849)	(905)
	17,172	19,991
Due from related parties:		
Subsidiaries	-	-
Other related parties	9,077	1,802
Other current receivables	981	8,123
	27,231	29,916
Term receivables	10,023	11,041

The directors consider that the carrying amount of the trade and other receivables approximates their fair value.

The term receivable arose from Delta's supply of infrastructure services on a Christchurch development property and it is secured by a second mortgage over that development property. Interest is payable on this balance and loan repayments commenced in February 2019.

A summary of all receivables impaired or otherwise, is included at Note 22. The estimated doubtful debts provision relates entirely to the general provision for estimated credit loss.

	Group 2020 \$'000	Group 2019 \$'000
Opening doubtful debts provision	(905)	(596)
Additional provisions made during the year	(310)	(443)
Receivables written off during the year	366	88
Provisions reversed during the year	-	46
Doubtful debts on acquisition	-	-
Closing doubtful debts provision	(849)	(905)

8 INVENTORIES

Accounting policy

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

	Group 2020 \$'000	Group 2019 \$'000
Raw materials and stores	6,312	6,442
Work in progress	2,316	4,393
Finished goods	8	55
	<u>8,636</u>	<u>10,890</u>

9 INVESTMENTS IN ASSOCIATE COMPANIES

Accounting policy

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

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

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

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

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

	Group 2020 Percentage Interest Held	Group 2019 Percentage Interest Held
Name of entity (principal activities, place of business)		
Dunedin Airport (Transport, Momona NZ)	<u>50</u>	<u>50</u>

For the purpose of applying the equity method of accounting, the financial statements of Dunedin Airport for the year ended 30 June have been used.

The associate company is not listed and therefore there are no published price quotations to establish the fair value of the investment.

There are no contingent liabilities arising from the group's involvement in the associate company.

■ 9 INVESTMENTS IN ASSOCIATE COMPANIES continued

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

Dunedin Airport	As at 30 June 2020 \$'000	As at 30 June 2019 \$'000
Summarised statement of financial position		
Current assets		
Cash and cash equivalents	975	473
Other current assets	1,175	1,784
Total current assets	2,150	2,257
Non-current assets	102,599	92,377
Total assets	104,749	94,634
Current liabilities	6,676	8,072
Non-current liabilities		
Financial Liabilities	14,750	8,000
Other financial liabilities	14,130	14,834
Total-non current liabilities	28,880	22,834
Total liabilities	35,556	30,906
Net assets	69,193	63,728
Less Impairment	-	-
Other adjustments	(46)	(46)
Net assets after impairment and other adjustments	69,147	63,682
Carrying value of associates 50%	34,574	31,841
Summarised statement of comprehensive income		
Revenue (excl interest received)	15,151	17,571
(Loss)/Gain on investment and sale of PPE	(128)	(396)
Interest and Dividends received	8	15
Total Revenue	15,031	17,190
Less expenses		
Depreciation and amortisation	3,251	3,075
Interest expense	541	472
Other expenses	8,898	8,460
Total expenses	12,690	12,007
Operating surplus/(deficit) before tax	2,341	5,183
Income tax	(1,295)	1,596
Operating surplus/(deficit) after tax	3,636	3,587
Other comprehensive income	4,201	(232)
Total comprehensive income/(deficit)	7,837	3,355
Dividends received from associate	1,186	704

10 INVESTMENTS IN SUBSIDIARY COMPANIES

	2020 Percentage Interest Held	2019 Percentage Interest Held
Parent company		
Name of entity (principal activities)		
City Forests (Forestry)	100	100
DCTL (Finance)	100	100
Aurora Energy (Energy)	100	100
Dunedin Railways Limited (Transport)	100	72
Delta (Contractor and Asset Manager)	100	100
DSPL (Stadium ownership)	100	100
DVML (Events)	100	100

All subsidiary companies have balance dates of 30 June.

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.

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

11 INTANGIBLE ASSETS

New Zealand Carbon Credits

Accounting policy

Carbon Credits held are treated as intangible assets, and initially recorded at fair value.

- Fair value is cost in the case of purchased units
- Fair value is initial market value in the case of government granted units
- Emissions unit fair value is marked to market (revalued) annually at 30 June subsequent to initial recognition and bi-annually thereafter
- Emissions obligations are recognised as a current or future liability depending on the legislated liability period
- The difference between initial fair value or previous annual revaluations and disposal or revaluation value of the units is recognised in other comprehensive income

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. City Forests 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 a total of 2,685,116 Post-89 derived NZU's, being the carbon sequestered by these forests during the 2008 to 2020 calendar years. There has been carbon credit sales during the financial year of 350,000 units.

11 INTANGIBLE ASSETS continued

The carbon credits are assessed as having an indefinite life as they have no expiry date. As the NZUs are an indefinite life intangible asset they are not amortised but are tested for impairment on an annual basis or when indications of impairment exist.

As at 30th June 2020, 996,027 units were unsold (2019: 1,164,312). Under the accrual principle, the unsold credits have been valued based on the current market prices and recognised in the financial statements. The value has been carried in the financial statements as follows:

	Year ending 30 June 2020 \$'000	Year ending 30 June 2019 \$'000
New Zealand carbon credits - non current	31,970	26,894

In future years there will be a carbon credit liability against a proportion of the carbon credit 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 liabilities on harvesting.

Other intangible assets

Accounting policy

Other intangible assets is largely software which is recognised at cost and amortised on a straight-line basis over its estimated useful life which is a maximum period of seven years.

	Group 2020 \$'000	Group 2019 \$'000
Cost		
Opening balance	6,272	6,361
Purchases	2,272	385
Transfers	1,819	718
Disposals	(301)	(1,192)
Total cost	10,062	6,272

Accumulated amortisation

Opening balance	5,321	5,123
Amortisation	969	583
Transfers	-	714
Disposals	(300)	(1,099)
Total amortisation	5,990	5,321
Closing balance	4,072	951

12 FORESTRY ASSETS

Accounting policy

The group capitalises the initial costs for the establishment of the forest and all subsequent costs. These costs include site preparation, establishment, releasing, fertilising, and tending.

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 through a graduated current to five year average price curve 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 statement of comprehensive income via surplus or deficit.

	Group 2020 \$'000	Group 2019 \$'000
Balance at the beginning of the year	164,010	150,172
Add costs capitalised in establishing forests during the year	2,953	2,275
Increase in forest from acquisition	-	90
Revaluation	11,628	20,333
Less Value of logs harvested	(9,441)	(8,860)
Balance at the end of the year	169,150	164,010
Gains/(losses) arising from changes in fair value less point of sale costs:		
Attributable to physical changes	11,511	7,224
Attributable to price changes	117	13,109
	11,628	20,333

The directors of City Forests revalue its forestry assets annually, and the Group adopts that value.

The valuation methodology used establishes the fair value of the collective forest crop and an independent market value has been used to establish the forest land value. 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.

The treatment of carbon in the forest valuation has changed in the 2020 year. Previously the net present value of one carbon sequestration was calculated. From 2020 onwards a value has been assigned to the difference between the units claimed to date and the level of safe or liability free carbon that the company can claim.

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 6.0% (2019: 6.0%).

The forestry valuation is subject to a number of assumptions. The ones with the most significant volatility or impact on the valuation are the discount rate applied and log prices adopted. The discount rate adopted was 6.0%; a +/- 50 basis point movement in the discount rate would change the valuation by +9.82 mil / -\$8.93 mil. A 10% increase or decrease in assumed log prices would change the valuation by +\$15.45 mil / -\$15.43 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 2020 the Company owned stands of trees on 19,050 hectares of a total land holding (including lease, Joint Venture & Forestry Right) of 23,731 hectares. During the year the Company harvested approx. 310,100 m³ of logs from its forests.

City Forests is exposed to financial risks associated with USD log price and the USD and AUD sawn timber prices. This risk is managed through its financial management policy described within note 22, Financial Risk. City Forests 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.

■ 12 FORESTRY ASSETS continued

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.

■ 13 RIGHT-OF-USE ASSETS

Accounting policy

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus, where applicable, any indirect costs incurred and an estimate of costs to dismantle or/and remove the asset or reinstate/restore the asset or the site where it is located.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The estimated useful lives of the assets are determined on the same basis as those of property, plant and equipment. In addition, the asset is periodically reviewed for impairment.

Also see Changes in Accounting Policies and Note 18 Lease liabilities, for more information.

	Group Land & Buildings \$'000	Group Plant & Equipment \$'000	Group Motor Vehicles \$'000	Group Total \$'000
Cost or valuation				
Balance at the beginning of the year	1,913	2,188	4,543	8,644
Purchases	923	-	1,870	2,793
Sales	(147)	-	(82)	(229)
Balance at the end of the year	2,689	2,188	6,331	11,208
Accumulated depreciation				
Balance at the beginning of the year	-	-	-	-
Depreciation	671	386	2,032	3,089
Sales	(147)	-	(42)	(189)
	524	386	1,990	2,900
Balance at the end of the year	2,165	1,802	4,341	8,308

14 PROPERTY, PLANT AND EQUIPMENT

Accounting policy

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

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

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

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

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

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

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

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

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

Assets held under finance leases are depreciated.

The Group has had its forestry land assets independently valued as at 30 June 2020 by Morice & Co using the Fair Value approach. This method is consistent with the previous period and the market values recommended by Morice & Co are incorporated into the financial statements. The land is valued at the component level and the valuation methodology takes into account the key factors impacting land value such as location, productivity, size, ETS status, altitude, contour, local authority zoning and development potential relative to market evidence.

The uncertainty related to the Covid-19 pandemic is impacting the real estate market. The value assessed for the Group's forestry land assets has been reported on the basis of "significant market uncertainty", meaning less certainty and a higher degree of caution should be applied. The opinion of value has been determined at the valuation date based on a certain set of assumptions used by the valuer, however these could change significantly and unexpectedly over a relatively short period of time.

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

	Rate	Method
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 100%	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 are as follows:

	Rate	Method
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

14 PROPERTY, PLANT AND EQUIPMENT continued

Property, plant and equipment 2020	Group Land \$'000	Group Forest Land \$'000	Group Buildings \$'000	Group Roads Bridges \$'000	Group Network \$'000	Group Plant Equipment \$'000	Group Sub-total \$'000
Cost or valuation							
Balance at the beginning of the year	39,613	54,072	153,565	8,140	671,699	91,132	1,018,221
Increase through acquisition	-	-	-	-	-	-	-
Purchases/revaluation	336	11,434	587	627	35,424	3,060	51,468
Sales/impairment	(90)	-	(447)	-	(1,400)	(2,063)	(4,000)
Transfers	(713)	-	(945)	-	-	7	(1,651)
Balance at the end of the year	39,146	65,506	152,760	8,767	705,723	92,136	1,064,039
Accumulated depreciation							
Balance at the beginning of the year	-	2,309	24,383	4,444	178,424	55,151	264,711
Increase through acquisition	-	-	-	-	-	-	-
Depreciation	-	69	3,011	203	18,458	5,669	27,410
Impairment	-	-	(18)	-	-	(717)	(735)
Sales	-	-	(79)	-	(479)	(937)	(1,495)
Transfers	-	-	(32)	-	-	-	(32)
	-	2,378	27,265	4,647	196,403	59,166	289,859
Balance at the end of the year	39,146	63,128	125,495	4,120	509,320	32,970	774,280
Comprising:							
Cost	39,146	-	125,495	4,120	509,320	32,970	711,052
Valuation	-	63,128	-	-	-	-	63,128
Property, plant and equipment 2020	Group Sub-total \$'000	Group Motor Vehicles \$'000	Group Office Equipment \$'000	Group Loco- motives \$'000	Group Railway Track \$'000	Group Work in Progress \$'000	Group Total \$'000
Cost or valuation							
Balance at the beginning of the year	1,018,221	28,589	1,220	5,283	935	42,875	1,097,123
Increase through acquisition	-	-	-	-	-	-	-
Purchases/revaluation	51,469	1,859	216	376	175	14,258	68,453
Sales/impairment	(4,000)	(2,079)	(75)	(5,478)	(1,098)	(289)	(13,019)
Transfers	(1,651)	174	-	-	-	(325)	(1,802)
Balance at end of year	1,064,038	28,543	1,361	181	12	56,519	1,150,755
Accumulated depreciation	-						
Balance at the beginning of the year	264,711	17,557	608	2,551	73	-	285,500
Increase through acquisition	-	-	-	-	-	-	-
Depreciation	27,410	2,392	127	284	19	-	30,232
Impairment	(735)	(259)	-	(2,793)	(92)	-	(3,879)
Sales	(1,495)	(1,655)	(70)	(41)	-	-	(3,261)
Transfers	(32)	-	-	-	-	-	(32)
	289,859	18,035	665	1	-	-	308,560
Balance at the end of the year	774,280	10,508	696	180	12	56,519	842,195
Comprising:							
Cost	711,152	10,508	696	180	12	56,519	779,067
Valuation	63,128	-	-	-	-	-	63,128

14 PROPERTY, PLANT AND EQUIPMENT continued

Property, plant and equipment 2019	Group Land \$'000	Group Forest Land \$'000	Group Buildings \$'000	Group Roads Bridges \$'000	Group Network \$'000	Group Plant Equipment \$'000	Group Sub-total \$'000
Cost or valuation							
Balance at the beginning of the year	38,599	43,322	146,040	7,886	601,654	89,366	926,867
Increase through acquisition	-	-	-	-	-	-	-
Purchases/revaluation	1,132	10,750	7,504	254	71,446	2,599	93,685
Sales	(118)	-	(19)	-	(1,401)	(719)	(2,257)
Transfers	-	-	40	-	-	(17)	23
Balance at the end of the year	39,613	54,072	153,565	8,140	671,699	91,229	1,018,318
Accumulated depreciation							-
Balance at the beginning of the year	-	1,847	21,495	4,252	161,372	49,833	238,799
Increase through acquisition	-	-	-	-	-	-	-
Depreciation	-	-	2,893	192	17,408	5,924	26,417
Impairment	-	462	2	-	-	-	464
Sales	-	-	(7)	-	(356)	(570)	(933)
Transfers	-	-	-	-	-	(17)	(17)
	-	2,309	24,383	4,444	178,424	55,170	264,730
Balance at the end of the year	39,613	51,763	129,182	3,696	493,275	36,059	753,588
Comprising:							
Cost	38,858	-	129,182	3,696	493,275	36,059	701,070
Valuation	755	51,763	-	-	-	-	52,518
Property, plant and equipment 2019	Group Sub-total \$'000	Group Motor Vehicles \$'000	Group Office Equipemnt \$'000	Group Loco- motives \$'000	Group Railway Track \$'000	Group Work in Progress \$'000	Group Total \$'000
Cost or valuation							
Balance at the beginning of the year	926,867	26,718	1,090	4,339	575	58,941	1,018,530
Increase through acquisition	-	-	-	-	-	-	-
Purchases/revaluation	93,685	2,250	227	944	360	(15,252)	82,214
Sales	(2,257)	(447)	(87)	-	-	(705)	(3,496)
Transfers	23	68	(10)	-	-	(108)	(27)
Balance at end of year	1,018,318	28,589	1,220	5,283	935	42,876	1,097,221
Accumulated depreciation							
Balance at the beginning of the year	238,799	15,639	574	2,225	61	-	257,298
Increase through acquisition	-	-	-	-	-	-	-
Depreciation	26,417	2,354	127	301	12	-	29,211
Impairment	464	-	-	25	-	-	489
Sales	(933)	(436)	(83)	-	-	-	(1,452)
Transfers	(17)	-	(10)	-	-	-	(27)
	264,730	17,557	608	2,551	73	-	285,519
Balance at the end of the year	753,588	11,032	612	2,732	862	42,876	811,702
Comprising:							
Cost	701,070	11,032	612	2,732	862	42,876	759,184
Valuation	52,518	-	-	-	-	-	52,518

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

■ 14 PROPERTY, PLANT AND EQUIPMENT continued

The carrying amounts of property, plant and equipment are reviewed at each balance date to determine whether there is any indication of impairment. If such impairment exists, the recoverable amount of assets is estimated to determine the extent of any impairment loss. The recoverable amount is the higher of an asset's net selling price and value in use. An impairment loss is recognised whenever the carrying amount of assets exceeds its recoverable amount. Impairment losses are recognised in the statement of profit and loss.

In assessing the recoverable amount of Aurora Energy's electricity network and fibre assets the directors have relied on the assessment completed by Aurora Energy. The directors of Aurora Energy have reviewed the results of impairment testing undertaken by Aurora Energy's management with assistance from Deloitte as at 30 June 2020. The impairment testing was performed on a "no growth" basis in accordance with NZ IAS 36 Impairment of Assets.

The impairment testing used the discounted cashflow (DCF) methodology to arrive at an estimated valuation range based on Free Cash Flows (FCF) for a 20 year period from 1 July 2020. The key assumptions utilised in the impairment testing were that:

- For the 10 years from 1 July 2020, the estimated network revenues follow the Commerce Commission building blocks allowable revenue approach, but exclude revenue related to expansionary growth.
- For the regulatory period from 1 April 2020, the operating and capital expenditure will equate to the regulatory expenditure allowances approved by the Commerce Commission in its Default Price-Quality Path Determination for the 5 years ended 31 March 2025.
- For the regulatory period from 1 April 2021 to 31 March 2030 the operating and capital expenditure will mirror the 10 year expenditure forecasts in Aurora Energy's 2020-2030 Asset Management Plan, and equate to the regulatory expenditure allowances included in Aurora Energy's Customised Price-Quality Path (CPP) application (which is currently under consideration by the Commerce Commission and if approved will take effect from 1 April 2021) and subsequent Determinations.
- The forecast cash flows assume all expenditure in Aurora Energy's recent CCP application to the Commerce Commission will be approved. The CPP application has not yet been approved. A draft decision was made on 12 November 2020 and the Commerce Commission will issue its final decision on the CPP application by 31 March 2021. Refer to note 34 Events after balance date, for further information about the Commerce Commission's draft determination.
- The valuation cash flows beyond the 10 years from 1 July 2030 are assumed to grow at 2% per annum.
- In applying the DCF methodology Aurora Energy considered a range of discount rates from 4.5% to 5.5%. The discount rate is a matter of professional judgement.
- In applying the balance date impairment testing Aurora Energy noted that at a discount rate of 4.8% the present value of future FCF was approximately equal to the carrying value of the network related assets. It follows that a discount rate of higher than 4.8% could have given rise to an impairment in the absence of any other offsetting factors as at balance date.
- In determining the discount rate for year-end impairment testing, the 10 year Government bond rate at valuation date was used as a basis for the risk-free rate. The risk-free rate was used in conjunction with a view of an appropriate post-tax market risk premium.
- The discount rates used in the impairment testing were based on the same level of asset beta and similar level of leverage as set by the Commerce Commission for the 5 year regulatory period from 1 April 2020.

Sensitivity analysis showed a 0.25% decrease/(increase) in the DCF discount rate used for impairment testing would increase/(decrease) the indicative value range by about \$30 million.

On reviewing the DCF analysis the Directors assessed that there was no impairment to the carrying value of the network assets as at 30 June 2020.

Aurora Energy considered the impact of COVID-19 on its FCF forecasts and after deferring 2-3 growth related projects considered that its forecasts remain reasonable in the context of potential COVID-19 effects. As disclosed under COVID-19 Impact (Note 35), Aurora Energy considers it has not experienced any material impact attributable to COVID-19 on profitability.

The value of the assets is fundamentally linked to Aurora Energy's ability to operate within the future expenditure allowances approved by the Commerce Commission.

Aurora Energy will undertake further impairment testing on receipt of the Commerce Commission's final determination on its CPP application.

In assessing the recoverable amount of Dunedin Railways' assets the directors considered that the potential to earn revenue from the assets was minimal, given the Company's transition to hibernation and wider uncertainty in the tourism sector. The directors then considered the asset's net selling price. Dunedin Railways' assets are relatively specialised and, in some instances, unique; therefore, making it difficult to obtain independent evidence of their fair value less costs to sell.

On balance, and with the benefit of industry and commercial knowledge, the directors considered it appropriate to write-down the Dunedin Railways' property, plant and equipment and inventories to \$297,000, being the best estimate of the fair value less costs to sell. An associated impairment expense of \$4,486,000 has been recorded in the Statement of Financial Performance.

15 TRADE AND OTHER PAYABLES

Accounting policy

Trade and other payables are stated at amortised cost.

	Group 2020 \$'000	Group 2019 \$'000
Trade payables	21,327	22,645
Due to related parties:		
Dunedin City Council and subsidiaries	6	-
	6	-
Other payables:		
Contract liabilities	5,561	4,969
GST payable	861	596
Other current liabilities	3,636	2,182
	10,058	7,747
	31,391	30,392

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

Contract liabilities relate to Aurora Energy's customer prepayments on capital contribution projects that have not been completed, and Dunedin Venues revenue received in advance from its contracts with customers.

16 EMPLOYEE ENTITLEMENTS/PROVISIONS

Accounting policy

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

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

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

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

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

	Group 2020 \$'000	Group 2019 \$'000
Current liabilities		
Long service leave	317	280
Annual leave	5,846	5,088
Gratuities	265	223
Sick leave	57	95
Other provisions	181	719
	6,666	6,405
Non-current liabilities		
Long service leave	695	613
Gratuities	343	373
	1,038	986

■ 17 DERIVATIVE FINANCIAL INSTRUMENTS

Accounting policy

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

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

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

The use of financial derivatives within the Group is governed by the Dunedin City Council's Treasury Risk Management Policy (reviewed and last approved 27 October 2020). 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 statement of financial performance. 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 statement of financial performance.

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

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the statement of financial performance 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.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required.

In accordance with NZ IFRS 9's transitional provisions for hedge accounting, the Group has applied the NZ IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 July 2018. The Group's qualifying hedging relationships in place as at 1 July 2018 also qualify for hedge accounting in accordance with NZ IFRS 9 and were therefore regarded as continuing hedge relationships. No rebalancing of any of the hedging relationships was necessary on 1 July 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under NZ IFRS 9's effectiveness assessment requirements. The Group has also not designated any hedging relationships under NZ IFRS 9 that would not have met the qualifying hedge accounting criteria under NZ IAS 39.

17 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2020 Asset \$'000	2020 Liability \$'000	2019 Asset \$'000	2019 Liability \$'000
<i>Fair value</i>				
Interest rate swaps	17,199	62,778	14,825	44,468
Analysed as:				
Current	1,226	3,011	-	956
Non-current	15,973	59,767	14,825	43,512
	17,199	62,778	14,825	44,468

18 LEASE LIABILITIES

Accounting policy

On adoption of NZ IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17. The Group leases land, buildings, plant and equipment, and motor vehicles with lease terms up to 10 years.

The lease liabilities are initially measured at the present value of the lease payments, discounted using the interest rate inherent in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

The lease liabilities are measured at amortised cost using the effective interest method. They are remeasured when there is a change in future lease payments arising from a change in index or rate.

Also see Changes in Accounting Policies and Note 13 Right-of-use assets, for more information.

	Group 2020 \$'000	Group 2019 \$'000
Current	2,613	-
Non current	5,817	-
Balance at the end of the year	8,430	-
Maturity analysis		
Payable within one year	2,814	-
Payable between one to five years	4,568	-
Payable later than five years	1,524	-
	8,906	-

19 SHORT TERM BORROWINGS

	Group 2020 \$'000	Group 2019 \$'000
Short term borrowing	1,194	620
	1,194	620

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.

■ 20 TERM BORROWINGS (SECURED)

Accounting policy

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

	Group 2020 \$'000	Group 2019 \$'000
Current	-	-
Non-current		
Multi Option Instrument Issuance Agreement	790,136	690,596
	790,136	690,596

The Group has a \$975 million Multi Option Instrument Issuance Agreement 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 \$195 million (2019: \$170 million).

The amount of unamortised premium or (discount) on bonds on issue at 30 June 2020 is nil (2019: nil).

The tender of promissory notes under the Multi Option Instrument Issuance Agreement 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 Instrument Issuance Agreement 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.

DCTL 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 2020 DCTL had the following bonds on issue and promissory notes:

Multi Option Instrument Issuance Agreement	Interest Rate	Group 2020 \$'000	Group 2019 \$'000
Promissory notes		129,875	159,313
Floating rate notes 15/11/19	50bp over BKBM	-	50,000
Floating rate notes 16/10/20	43bp over BKBM	45,000	45,000
Bonds 16/11/20	Coupon rate 5.56%	50,000	50,000
Bonds 15/4/21	Coupon rate 3.15%	30,000	30,000
Bonds 15/4/21	Coupon rate 1.25%	75,000	-
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
Bonds 15/11/22	Coupon rate 1.51%	45,000	-
Floating rate notes 15/02/24	65bp over BKBM	25,000	25,000
Bonds 16/10/24	Coupon rate 3.79%	35,000	35,000
Bonds 17/7/25	Coupon rate 3.61%	50,000	50,000
Bonds 15/4/26	Coupon rate 3.98%	65,000	65,000
Bonds 15/3/26	Coupon rate 2.90%	50,000	50,000
Bonds 15/11/26	Coupon rate 2.09%	55,000	-
Fair value impact on bonds		15,261	11,283
Total term borrowings		790,136	690,596

■ 20 TERM BORROWINGS (SECURED) continued

The repayment period on the term borrowings is as follows:

	Group 2020 \$'000	Group 2019 \$'000
Repayable less than one year	330,399	209,313
Repayable between one to five years	230,057	275,623
Repayable later than five years	229,680	205,660
	<u>790,136</u>	<u>690,596</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 2020 \$'000	Group 2019 \$'000
Multi Option Instrument Issuance Agreement	809,163	703,578
Forestry loans	-	-

■ 21 SHAREHOLDER'S ADVANCE

	Group 2020 \$'000	Group 2019 \$'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 (2019: \$5.9 million) on the advance. In 2020, the gross interest on the debt was set at 5.27% (2019: 5.27%).

■ 22 FINANCIAL RISK

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

22.1 Capital management strategy

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

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

DCHL's forecast distributions for each three year period are disclosed in its annual Statement of Intent.

22.2 Liquidity risk

Liquidity risk is the risk that the Group 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 Group aims to maintain flexibility in funding by keeping committed credit lines available.

The Group evaluates its liquidity requirements on an ongoing basis and DCTL 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 20. The maturity profiles of the Group's financial assets and liabilities, with the exception of equity investments are explained in note 22.9.

22.3 Interest rate risk

Under the Dunedin City Council Treasury Risk Management Policy approved on 27 October 2020, DCTL 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 Instrument Issuance Agreement 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 2020 \$'000	Group 2019 \$'000
Maturing in less than one year	160,000	30,000
Maturing between one and five years	495,000	530,000
Maturing in more than five years	360,000	365,000
	<u>1,015,000</u>	<u>925,000</u>

22 FINANCIAL RISK continued

22.4 Currency market risk

City Forests is the one company within the DCHL Group that consistently generates cash flows in foreign currency. NZD is the functional currency of both City Forests and the DCHL Group. City Forests 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 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 is committed are as follows:

	Group 2020 \$'000	Group 2019 \$'000
Forward foreign exchange contracts		
- fair value	(334)	(302)
- nominal value (sale of USD and purchase of NZD)	22,625	23,129
Forward foreign exchange contracts		
- fair value	-	-
- nominal value (sale of NZD and purchase of USD)	-	-

22.5 Effectiveness of cash flow hedges

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

	Group 2020 %	Group 2019 %
Effectiveness	100	100

22.6 Credit risk

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

The Group 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 2020 \$'000	Group 2019 \$'000
Past due receivables		
Age analysis: 30-60 days	165	219
60-90 days	275	657
90 days plus	487	909

■ 22 FINANCIAL RISK continued

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

2020	AA	AA-	No Rating	Group
Cash and cash equivalents	-	50,227	-	50,227
Trade and other receivables	1,440	-	25,791	27,231
Advances due from related parties	243,500	-	911	244,411
Derivatives	-	17,199	-	17,199
NZ carbon credits	-	-	31,970	31,970
	244,940	67,426	58,672	371,038
2019				
Cash and cash equivalents	-	17,374	-	17,374
Trade and other receivables	1,265	-	28,651	29,916
Advances due from related parties	218,500	-	1,329	219,829
Derivatives	-	14,825	-	14,825
NZ carbon credits	-	-	26,894	26,894
	219,765	32,199	56,874	308,838

22.7 Categories of financial assets and liabilities

Accounting policy

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

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.

Under NZ IFRS 9, all the financial assets and liabilities are measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income on the basis of the Group's business model for managing the financial instrument and the contractual cash flow characteristics of the financial instrument.

The Group enters into derivative financial instruments to manage its exposure to interest rate risks. There was no change of classification in relation to derivatives, these continue to be measured at fair value through profit or loss.

The Group's advances to DCC are measured at amortised cost in accordance with IFRS 9.

The Group's other financial assets and liabilities including cash and cash equivalents, trade and other receivables, term receivables, trade and other payables, accrued expenditure, short term borrowings, term loans, and shareholder's advance to DCC are measured at amortised cost as they meet the conditions under IFRS 9.

Under NZ IFRS 9, the impairment model requires the recognition of impairment provisions based on expected credit losses. It applies to financial assets classified at amortised cost. The introduction of the impairment model has had no impact on the Group's financial assets classified at amortised cost. For trade and other receivables, the Company applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing component.

The category and carrying amount of financial assets and liabilities in each of the NZ IFRS 9 categories is as follows:

	Group 2020 \$'000	Group 2019 \$'000
Financial assets measured at amortised cost:		
Cash and cash equivalents (note 5)	50,227	17,374
Trade and other receivables (note 7)	27,231	29,916
Other financial assets (note 6)	244,411	219,829
Term receivables (note 7)	10,023	11,041
Financial assets measured at amortised cost	321,869	267,119
Financial assets at fair value through profit and loss:		
Derivative financial instruments assets (note 17)	17,199	14,825
Financial liabilities measured at amortised cost:		
Trade and other payables (note 15)	25,830	25,423
Accrued expenditure	-	5,041
Short term borrowings (note 19)	1,194	620
Term loans (note 20)	790,136	690,596
Shareholder's advance - DCC (note 21)	112,000	112,000
Total financial liabilities measure at amortised cost	934,721	838,649
Financial liabilities at fair value through profit and loss:		
Derivative financial instrument liabilities (note 17)	62,778	44,468

22.8 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 0.6425. A parallel shift of +1%/-1% in the NZD market interest rate from the year end 90 day BBBR of 0.30% (2019: 1.647%).

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%
2020		Profit	Equity	Profit	Equity	Profit	Profit
Financial assets							
Derivatives – designated as cash flow hedges (interest rate swap and forward currency deals separately disclosed)	17,199					(2,878)	1,747
Other financial assets	311,811	(132)		132		-	-
	329,340	(132)	-	132	-	(2,878)	1,747
Financial liabilities							
Derivatives – designated as cash flow hedges (interest rate swaps and forward currency deals separately disclosed)	62,778		(91,075)		(40,926)		
Other financial liabilities	930,349	(8,593)		8,593			
	993,887	(8,593)	(91,075)	8,593	(40,926)	-	-
Total increase/(decrease)		(8,725)	(91,075)	8,725	(40,926)	(2,878)	1,747

22 FINANCIAL RISK continued

	Carrying Amount \$'000	Interest Rate				FX	
		-100bp		+100bp		-10%	10%
2019		Profit	Equity	Profit	Equity	Profit	Profit
Financial assets							
Derivatives – designated as cash flow hedges (interest rate swap and forward currency deals separately disclosed)	14,825	-	-	-	-	(2,877)	1,797
Other financial assets	257,194	-	-	-	-	289	(237)
	272,019	-	-	-	-	(2,588)	1,560
Financial liabilities							
Derivatives – designated as cash flow hedges (interest rate swaps and forward currency deals separately disclosed)	44,468	-	70,617	-	(23,853)	-	-
Other financial liabilities	830,830	(8,420)	-	2,252	-	-	-
	875,298	(8,420)	70,617	2,252	(23,853)	-	-
Total increase/(decrease)		(8,420)	70,617	2,252	(23,853)	(2,588)	1,560

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 DCHL is variable rate debt that is not hedged.

22 FINANCIAL RISK continued

22.9 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
2020				
Financial assets				
Derivative financial assets	-	17,199	-	17,199
New Zealand carbon credits	31,970	-	-	31,970
	31,970	17,199	-	49,169
Financial liabilities				
Derivative financial liabilities	-	62,778	-	62,778
2019				
Financial assets				
Derivative financial assets	-	14,825	-	14,825
New Zealand carbon credits	26,894	-	-	26,894
	26,894	14,825	-	41,719
Financial liabilities				
Derivative financial liabilities	-	44,468	-	44,468

■ 22 FINANCIAL RISK continued

22.10 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	Contractual Cash Flows	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	No maturity
Financial assets	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
2020							
Cash and cash equivalents	50,227	50,227	50,227	-	-	-	-
Trade and other receivables	27,231	27,231	27,231	-	-	-	-
Derivative financial instruments	17,199	24,911	8,942	5,427	8,348	2,194	-
Investments	244,411	245,895	21,586	777	10,032	-	213,500
Total	339,068	348,264	107,986	6,204	18,380	2,194	213,500

2019							
Cash and cash equivalents	17,374	17,374	17,374	-	-	-	-
Trade and other receivables	29,916	29,916	29,916	-	-	-	-
Derivative financial instruments	14,825	32,549	10,212	7,904	9,813	4,620	-
Investments	219,829	224,970	24,042	31,620	10,808	-	158,500
Total	281,944	304,809	81,544	39,524	20,621	4,620	158,500

Financial liabilities

2020							
Trade and other payables	25,830	25,830	25,830	-	-	-	-
Derivative financial instruments	62,778	99,102	20,608	15,873	36,193	26,428	-
Borrowings	791,330	855,616	364,729	82,936	181,287	226,664	-
Total	879,938	980,548	411,167	98,809	217,480	253,092	-

2019							
Trade and other payables	25,423	25,423	25,423	-	-	-	-
Derivative financial instruments	44,468	108,822	17,118	15,715	39,286	36,703	-
Borrowings	691,216	761,153	230,203	141,749	179,515	209,686	-
Total	761,107	895,398	272,744	157,464	218,801	246,389	-

23 CONTINGENT LIABILITIES

	Group 2020 \$'000	Group 2019 \$'000
Performance bonds	1,243	1,119

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

24 CAPITAL EXPENDITURE COMMITMENTS

	Group 2020 \$'000	Group 2019 \$'000
Plant and equipment	12,405	41,841
Land	-	-

Other commitments

Undrawn Facilities: Level of committed facilities undrawn was \$195,000,000 (2019: \$170,000,000)

Field Service Agreement Contracts: The Group is party to two field service agreement contracts. The value of total committed expenditure under these contracts is presently \$6,000,000 per regulatory year.

25 EQUITY – SHARE CAPITAL

	Group 2020 \$'000	Group 2019 \$'000
Issued capital		
1,101,139,000 ordinary shares	126,139	123,589

On incorporation, DCHL issued 100,000,000 ordinary shares in favour of the Dunedin City Council. Only \$100,000 was called. During the year ended 30 June 2020 a further 2,550,000 ordinary shares were issued and called and a further 125,100,100 ordinary shares were issued but remain uncalled.

Since incorporation DCHL has issued additional shares of \$1 each in favour of the Dunedin City Council. The shares carry equal voting rights and 975,000,000 are uncalled. The amounts and dates of issue are:

• May 1996	75,000,000 ordinary shares
• March 1999	100,000,000 ordinary shares
• June 2002	75,000,000 ordinary shares
• September 2008	250,000,000 ordinary shares
• April 2011	250,000,000 ordinary shares
• June 2016	115,839,000 ordinary shares
• June 2017	2,550,000 ordinary shares
• June 2018	2,550,000 ordinary shares
• June 2019	2,550,000 ordinary shares
• April 2020	125,100,000 ordinary shares
• June 2020	2,550,000 ordinary shares

■ 26 ACCUMULATED FUNDS

	Group 2020 \$'000	Group 2019 \$'000
Balance at the beginning of the year		
Group companies	126,707	129,033
Associate companies	15,833	14,039
	142,540	143,072
Net profit for the year	(5,259)	4,186
Dividend distributions	-	-
Minority share of (surplus) / deficit	-	33
Transitional adjustments	531	-
Transfer to reserves – forest	(2,468)	(9,513)
Transfer to reserves – carbon credit	3,766	4,763
Balance at the end of the year	139,109	142,540

	Group 2020 \$'000	Group 2019 \$'000
<i>Represented by</i>		
Group companies	121,458	126,707
Associate companies	17,651	15,833
Balance at the end of the year	139,109	142,540

27 RESERVES

	Group 2020 \$'000	Group 2019 \$'000
Associate company asset revaluation reserve		
Balance at beginning of the year	16,712	16,828
Gain/(loss) recognised on cash flow hedges/assets	2,101	(116)
Balance at the end of the year	18,813	16,712
The reserve relates to assets of Dunedin Airport.		
Hedging reserve		
Balance at beginning of the year	(36,077)	(10,686)
Gain/(loss) recognised on cash flow hedges:	(19,907)	(26,011)
Interest rate swaps/fx forwards	(7)	699
Deferred tax arising on hedges (note 20)	(226)	(79)
Balance at the end of the year	(56,217)	(36,077)
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	80,165	65,917
Net revaluations of forest	2,468	9,513
Net revaluation of forest land	2,796	4,735
Balance at the end of the year	85,429	80,165
Carbon credit reserve		
Balance at beginning of the year	5,697	8,411
Transfer from retained earning	(5,014)	(4,704)
Gain in carbon credits above initial recognition value	7,336	1,990
Balance at the end of the year	8,019	5,697

28 EARNINGS PER SHARE

	Group 2020	Group 2019
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	1,101,139,000	973,489,000
Weighted average number of ordinary shares	850,000,000	850,000,000
Basic earnings per share – continuing operations	-\$0.0062	\$0.0049
Earnings per paid up share from continuing operations	-\$0.04	\$0.03

Diluted earnings per share

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

■ 29 DIVIDENDS

No dividends were paid during the financial year (2019: nil).

■ 30 RELATED PARTY TRANSACTIONS

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

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 10 to the Financial Statements.

Details of the percentage of ordinary shares held in associates are disclosed in note 9 to the Financial Statements.

Amounts receivable from and payable to related parties at balance date are disclosed in notes 7 and 15.

Transactions with Dunedin City Council and its subsidiaries outside the DCHL Group

DCHL 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 2020 \$'000	Group 2019 \$'000
<i>Sales of services to the Dunedin City Council and its subsidiaries outside the DCHL Group:</i>		
Contracting services	8,537	9,913
Interest income	10,187	10,321
Transport services	-	164
	<u>18,724</u>	<u>20,398</u>
<i>Purchases of goods and services from the Dunedin City Council and its subsidiaries outside the DCHL Group:</i>		
Interest	5,902	5,902
Materials/network assets	138	151
Rates and property rentals	1,614	1,591
Administration and office services	100	363
	<u>7,754</u>	<u>8,007</u>
<i>As at balance date:</i>		
Receivable from the Dunedin City Council and subsidiaries	632	1,320
Payable to the Dunedin City Council and subsidiaries (inclusive of shareholders advance)	112,088	112,084

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.

■ 30 RELATED PARTY TRANSACTIONS continued

During the course of the year:

The DCHL Group paid \$1,535 (2019: \$nil) for services and provided services of \$3,849 (2019: \$nil) to AWS Legal, an organisation of which LM Robertson was a board member;

The DCHL Group paid \$60,384 (2019: \$nil) for services and provided services of \$53,240 (2019: \$nil) to Alpine Energy Limited, an organisation of which SR Thompson was the Chair. \$6,135 was payable and \$6,136 was receivable at 30 June (2019: \$nil);

The DCHL Group paid \$3,217 (2019: \$nil) for services to CAANZ Tax Advisory Group, an organisation of which SA Mason was a director;

The DCHL Group paid \$56,611 (2019: \$7,300) and received \$1,871,495 (2019: \$248,000) for services with Central Otago District Council an organisation of which LM Robertson was Chair of the Audit and Risk Committee. \$324,004 was receivable at 30 June (2019: \$27,000 receivable);

The DCHL Group paid \$638 (2019: \$nil) for services and provided services of \$18,626 (2019: \$nil) to Cook Brothers Construction Limited, an organisation of which AJ La Hood was the Chief Financial Officer. \$nil was payable and \$64,197 was receivable at 30 June (2019: \$nil);

The DCHL Group paid \$290,365 (2019: \$nil) for services and provided services of \$115,319 (2019: \$nil) to Deloitte Limited, an organisation of which SR Thompson was a consultant and MC Horne was a director. \$3,202 was payable and \$2,669 was receivable at 30 June (2019: \$nil);

The DCHL Group received \$49,572 (2019: \$nil) for services with Dunedin Casino Charitable Trust an organisation of which SJ Rodger was the Chair. \$1,038 was receivable at 30 June (2019: \$nil receivable);

The DCHL Group received \$44,741 (2019: \$nil) for services with Dunedin (New Zealand) Masters Games Trust an organisation of which JA Bevin was a trustee;

The DCHL Group received \$26,764 (2019: \$nil) for services with Dunedin Symphony Orchestra an organisation of which KE Grant was a director. \$5,923 was receivable at 30 June (2019: \$nil receivable);

The DCHL Group paid \$12,500 (2019: \$nil) for services to E-Spatial Limited, an organisation of which MP Devlin and BJ Wood are directors. \$2,875 was payable at 30 June (2019: \$nil);

The DCHL Group paid \$1,297,734 (2019: \$nil) for services to ETEL NZ Limited, an organisation of which BJ Hall was a director. \$245,447 was payable at 30 June (2019: \$nil);

The DCHL Group paid \$11,650 (2019: \$nil) for services and provided services of \$7,533 (2019: \$nil) to Findex Otago, an organisation of which SA Mason was a Managing Partner;

The DCHL Group received \$363,445 (2019: \$nil) for services with Forsyth Barr Limited an organisation of which JF Gallaher was a director and TA Oakley was an employee and shareholder;

The DCHL Group paid \$41,661 (2019: \$nil) for services and provided services of \$25,612 (2019: \$nil) to Fulton Hogan Limited, an organisation of which SW Grave was a shareholder. \$1,279 was payable and a credit of \$3,494 was receivable at 30 June (2019: \$nil);

The DCHL Group paid \$855,708 (2019: \$670,784) for services and received \$15,595 (2019: \$35,137) for services with Gallaway Cook Allan an organisation of which Mrs K Grant was a consultant during the year. \$52,917 was payable and \$nil was receivable at 30 June (2019: \$36,000 payable);

The DCHL Group paid \$8,295 (2019: \$nil) and received \$773 (2019: \$nil) for services with Icon Logistics Limited an organisation of which KG Winders was a director. \$52 was payable at 30 June (2019: \$nil payable);

The DCHL Group paid \$3,389 (2019: \$nil) for services with the Institute of Directors Otago Branch an organisation of which TD Allison was a committee member;

The DCHL Group received \$5,026 (2019: \$nil) for services with J Bevin Limited an organisation of which JA Bevin was a director and business advisor;

The DCHL Group paid \$1,400 (2019: \$nil) for services with Mackenzie Architects Limited an organisation of which SR Thompson was a shareholder;

The DCHL Group paid \$9,277 (2019: \$nil) for services with Mainpower New Zealand an organisation of which BJ Wood was a director. \$1,165 was payable at 30 June (2019: \$nil payable);

The DCHL Group received \$1,018 (2019: \$nil) for services with Mercy Hospital Dunedin Limited an organisation of which JF Gallaher was the Chair;

The DCHL Group paid \$4,306 (2019: \$nil) for services with Meteorological Service of New Zealand Limited an organisation of which MP Devlin was a director;

The DCHL Group paid \$12,642 (2019: \$4,851) for services and provided services of \$nil (2019: \$10,328) to Miller Creative Group Limited, an organisation of which KT Cooper was a director. No monies were payable or receivable at 30 June (2019: nil payable and \$8,002 receivable).

The DCHL Group paid \$133,159 (2019: \$nil) and received \$123,358 (2019: \$nil) for services with Naylor Love Enterprise Group an organisation of which TJ Kempton was the Chair and a shareholder. \$874 was receivable at 30 June (2019: \$nil receivable);

The DCHL Group received \$576 (2019: \$nil) for services with NETcon Limited an organisation of which SR Thompson was a director;

The DCHL Group received \$3,849 (2019: \$nil) for services with Night 'n Day Foodstores Limited an organisation of which TD Allison was the Chair of the Advisory Board;

The DCHL Group paid \$12,209 (2019: \$nil) for services with NomosOne an organisation of which SA Mason was the Chair. \$1,379 was payable at 30 June (2019: \$nil payable);

The DCHL Group paid \$89,094 (2019: \$nil) and received \$1,618 (2019: \$nil) for services with Oakwood Group Limited an organisation of which CC Hopkins was a director;

The DCHL Group paid \$798,211 (2019: \$nil) for services with OCTA Associates Limited an organisation of which WH Cockerill was a director and shareholder;

The DCHL Group paid \$552 (2019: \$nil) and received \$4,217 (2019: \$nil) for services with Otago Medical Research Foundation an organisation of which JA Bevin was a Council member;

The DCHL Group paid \$36,717 (2019: \$9,745) and received \$257,292 (2019: \$252,166) for services with Otago Polytechnic an organisation of which Mrs KE Grant was Chair of the Council, TD Allison was Chair, and AJ La Hood was a director at various stages during the year. \$5,739 was receivable at 30 June (2019: \$10,638 receivable);

The DCHL Group paid \$267,736 (2019: \$nil) and received \$24,816 (2019: \$nil) for services with Otago Regional Council an organisation of which TJ Kempton was a Councillor during the year. \$2,823 was payable and \$7,493 was receivable at 30 June (2019: \$nil payable or receivable);

The DCHL Group paid \$16,376 (2019: \$nil) and received \$1,127 (2019: \$nil) for services with Otago Southland Employers Association an organisation of which JM Conroy was a director. \$4,922 was payable at 30 June (2019: \$nil payable);

The DCHL Group paid \$100 (2019: \$nil) and received \$538 (2019: \$nil) for services with Pacific Radiology Group Limited an organisation of which LM Robertson was the Chair;

The DCHL Group paid \$1,146 (2019: \$nil) for services with Palmer Mechanical Limited an organisation of which MC Horne was a director;

The DCHL Group paid \$1,560,735 (2019: \$nil) and received \$136,622 (2019: \$nil) for services with Port Otago Limited an organisation of which KG Winders was Chief Executive Officer. \$184,996 was payable and a credit of \$4,871 was receivable at 30 June (2019: \$nil payable or receivable);

The DCHL Group paid \$600 (2019: \$nil) and received \$13,107 (2019: \$nil) for services with Presbyterian Support Otago an organisation of which TJ Mephram was the Chair. \$15,073 was receivable at 30 June (2019: \$nil receivable);

The DCHL Group paid \$1,661 (2019: \$1,000) and received \$1,894 (2019: \$1,000) for services with Scott Technology Limited Group an organisation of which CC Hopkins was a director during the year. \$2,178 was receivable at 30 June (2019: \$nil receivable);

The DCHL Group received \$272,120 (2019: \$nil) for services with Southern District Health Board an organisation of which KE Grant was the Commissioner of during the year. \$34,644 was receivable at 30 June (2019: \$nil receivable);

The DCHL Group paid \$41,288 (2019: \$nil) and received \$982 (2019: \$nil) for services with South Island Trust Board of St John an organisation of which JM Conroy was a trustee. \$1,578 was payable at 30 June (2019: \$nil payable);

The DCHL Group paid \$2,200 (2019: \$nil) and received \$75,625 (2019: \$nil) for services with Southern Demonstration and Research Farm Limited an organisation of which JA Bevin was the Chair;

The DCHL Group received \$2,000 (2019: \$nil) for services with Tourism Central Otago an organisation of which D Rushbrook was the General Manager;

The DCHL Group paid \$285 (2019: \$nil) for services with TracPlus Global Limited an organisation of which JF Gallaher was the Chair. \$27 was payable at 30 June (2019: \$nil payable);

The DCHL Group paid \$320 (2019: \$nil) for services with University Bookshop (Otago) Limited an organisation of which RJ Brooking was a director;

The DCHL Group paid \$42,520 (2019: \$nil) and received \$361,183 (2019: \$nil) for services with University of Otago an organisation of which TA Oakley was a Council member. \$1,278 was payable and \$13,225 was receivable at 30 June (2019: \$nil payable or receivable)

The DCHL Group paid \$500 (2019: \$nil) for services with Viblock Limited an organisation of which HC Horne was a director;

The DCHL Group paid \$35,054 (2019: \$nil) for services with Visionali Limited an organisation of which TD Allison was a director;

The DCHL Group received \$680 (2019: \$nil) for services with Whitestone Contracting Limited an organisation of which SR Thompson and SW Grave were directors;

The DCHL Group paid \$10,00 (2019: \$nil) for services with Yellow Eyed Penguin Trust an organisation of which TJ Mephram was the treasurer.

Compensation of key management personnel

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

	Group 2020 \$'000	Group 2019 \$'000
Key management personnel remuneration	8,227	7,869

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 each board having regard to the performance of individuals and market trends.

■ 31 RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Group 2020 \$'000	Group 2019 \$'000
Operating surplus/(deficit)	(5,259)	4,186
Share of net surplus/(deficit) in associated companies	(1,818)	(1,794)
<i>Items not involving cash flows</i>		
Depreciation	31,208	29,784
Depletion of forest	9,441	8,860
Deferred tax	2,175	5,857
Asset impairment	5,372	-
Forest revaluation	(11,628)	(20,333)
Carbon credit revaluation	(4,862)	-
(Increase)/Decrease in cash flow hedge valuation	(827)	436
Other non-cash items	(5,428)	5,889
Impact of changes in working capital items		
(Increase)/Decrease in trade and other receivables	89	(2,596)
(Increase)/Decrease in other current assets	-	-
(Increase)/Decrease in inventories	1,014	(1,240)
(Increase)/Decrease in prepayments	240	325
(Increase) /Decrease in tax refund due	(4,756)	(4,737)
Increase /(Decrease) in trade and other payables	(2,551)	(3,550)
Increase /(Decrease) in provision for tax	2,299	4,065
Increase /(Decrease) in other current liabilities	873	5,653
Items classified as investing or financing activities		
Gain on sale of property, plant and equipment	(83)	(134)
Loss on sale of property, plant and equipment	1,521	1,492
Interest paid	303	-
Investment in financial instrument	(2,836)	(1,773)
Movement in capital creditors	(3,020)	1,216
Net cash inflows from operating activities	22,323	31,606

■ 32 RECONCILIATION OF CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Long term borrowings	Short term borrowings	Lease liabilities	Total liabilities
	\$000's	\$000's	\$000's	\$000's
2020				
Opening balance sheet	690,596	620	-	691,216
Cash flows	95,515	574	(5,234)	90,855
Non-cash movements	4,025	-	13,664	17,689
Closing balance sheet	790,136	1,194	8,430	799,760
2019				
Opening balance sheet	609,570	3,638	-	613,208
Cash flows	74,923	(3,018)	-	71,905
Non-cash movements	6,103	-	-	6,103
Closing balance sheet	690,596	620	-	691,216

■ 33 RECLASSIFICATION OF COMPARATIVE YEAR FIGURES

The Group has made some reclassification adjustments to prior year comparative figures in the note disclosures. This is to better reflect the financial position at year end and to comply with NZ IFRS 15 Revenue from Contracts with Customers. As a result, \$4,969,000 of contract liabilities that were previously classified and reported within trade payables are now reclassified and separately disclosed as contract liabilities, within note 15 Trade and Other Payables.

■ 34 EVENTS AFTER BALANCE DATE

As discussed in note 14 Property, Plant and Equipment, Aurora Energy has recently made a Customised Price-Quality Path (CPP) application to the Commerce Commission. On 12 November 2020 the Commerce Commission released their draft determination for consultation. The draft determination proposes Aurora Energy be allowed to recover a maximum capital and operational spend of \$523 million over five years; a reduction of \$86 million (14%) of the spend Aurora Energy applied for. The draft determination is subject to further consultation, submissions and cross submissions. The Commerce Commission will issue its final decision on the CPP application by 31 March 2021.

■ 35 COVID-19 IMPACT

On 11 March 2020 the World Health Organisation declared the outbreak of COVID-19, a pandemic. Travel restrictions were introduced on 14 March. On 26 March, New Zealand increased its COVID-19 alert to level 4 and a nationwide lockdown commenced. The country moved to level 3 on 27 April, level 2 on 13 May, and eventually returned to level 1 on 8 June 2020.

The pandemic had a varying effect on individual members of the DCHL Group but overall the Group was not significantly effected by the pandemic. As discussed in note 1, some entities within the Group met the criteria to receive the COVID-19 wage subsidy.

As an "essential service" provider, the Group's most largest entity, Aurora Energy Limited, continued to operate during lockdown restrictions and COVID-19 did not have a material impact on the entity. The Group's banker, Dunedin City Treasury Limited, also continued to operate as normal, maintained compliance with all Treasury Risk Management Policy requirements, and ensured funding was made available to the Group.

Lockdown restrictions impacted the results of most other Group entities. Key Group entities, City Forests Limited and Delta Utility Services Limited's financial results were reduced due to not being able to operate at full potential during the last quarter of the year.

International travel restrictions significantly affected the performance of the Group's aviation and tourism related businesses. Unfortunately, the effect on Dunedin Railways was so significant that the company has been put into hibernation from 1 July 2020 and its assets impaired (refer to note 3 and 14), to allow time for alternative operating models to be considered. A final report on the future options is planned to be provided to Dunedin City Council in early 2021.

During November 2020 it was announced that limited rail services will operate using the assets of Dunedin Railways: the Trains Not Planes promotion, from 20 December 2020 to 31 March 2021.

statutory information

For the year ended 30 June 2020

■ INFORMATION ON THE DIRECTORS OF DCHL

Keith T Cooper

Date appointed 2.02.15 - present (Chair 26.02.19 - present)

Responsibilities Non-Executive Director / Chair

Declarations of interests

Director & Chair, DCHL

Director & Chair, DCTL

Director, DSPL

Director, Miller Creative Group Limited

Director and Shareholder, Littlebrook Farm Limited

Linda M Robertson

Date appointed: 17.10.13 - present

Responsibilities Non-Executive Director / Chair Audit Committee

Declarations of interests

Chair, Audit and Risk Committee, Central Otago District Council

Chair, Pacific Radiology Group Limited - ceased November 2019

Chair, Central Lakes Trust

Chair, Crown Irrigation Investments Limited

Director, DCHL

Director, DCTL

Director, DSPL

Director, NZ Local Government Funding Agency

Director, Central Lakes Direct Limited

Director and Shareholder, RML Consulting Limited

Board Member, AWS Legal - appointed March 2020

Member, Risk and Audit Committee, The Treasury

Member, Capital Markets Advisory Committee, The Treasury

Kathleen E Grant

Date appointed 17.07.12 - present

Responsibilities Non-Executive Director

Declarations of interests

Chair of Council, Otago Polytechnic - ceased April 2020

Commissioner, Southern District Health Board - ceased December 2019

Consultant, Gallaway Cook Allan - ceased November 2019

Director, DCHL

Director, DCTL

Director, DSPL

Director, NMIT Limited - appointed April 2020

Director, Weltec Limited - appointed April 2020

Director, Whitireia Limited - appointed April 2020

Council Member, NZ Institute of Skills and Technology - appointed April 2020

Director, Dunedin Symphony Orchestra - ceased December 2019

Trustee of various client trusts

Christopher C Hopkins

Date appointed 25.06.19 - present

Responsibilities Non-Executive Director

Declarations of interests

Chair, Robotic Technologies Limited - ceased May 2020

Chair, Engineering Dunedin Incorporated

Director, Scott Technology Limited including all subsidiaries - ceased December 2019

Director, Scott Technology Euro Limited - ceased June 2020

Director, NS Innovations Pty Limited - ceased June 2020

Director, Rocklabs Automation Canada Limited - ceased June 2020

Director, Oakwood Group Limited

Director, Our Planit Limited

Director, Spade Work Limited

Director, GW Batts Trustee Limited

Director, City Forests - ceased July 2019

Director, DCHL

Director, DCTL

Director, DSPL

Director and Shareholder, Southmed Limited - appointed April 2020

Quentin C S Hix

Date appointed 1.01.18 - 29.02.20
 Responsibilities Non-Executive Director

Declarations of Interests

Director, Aoraki Investments Limited
 Director, Aoraki Management Services Limited *
 Director, Aoraki Trust Management Limited *
 Director, DCHL *
 Director, DCTL *
 Director, DSPL *
 Director, Institute of Environmental Science and Research Limited *
 Director, Ngāi Tahu Holdings Corporation Limited - ceased October 2019
 Director, One To One Corporate Trustees Limited *
 Director, One To One Corporate Trustees 2011 Limited *
 Director, Presbyterian Support South Canterbury Limited *
 Director, Ngāi Tahu Capital Limited - ceased October 2019
 Director and Shareholder, Property Planit Limited *
 Director and Shareholder, Quentin Hix Legal Limited *
 Board member, Presbyterian Support South Canterbury Inc *
 Trustee, Hunter Downs Irrigation Trust
 Trustee of various client trusts *

* = ceased February 2020

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.

DCHL 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.

All positions for the year have been listed. There were some changes to these during the year.

Directors' Remuneration and Benefits

	Remuneration \$000	Company
Parent company		
Keith T Cooper	106	DCHL
Kathleen E Grant	59	DCHL
Linda M Robertson	59	DCHL
Quentin C S Hix	40	DCHL
Christopher C Hopkins	59	DCHL
Parent company total	323	
Subsidiaries & associated companies		
Keith T Cooper	nil	DCTL
	nil	DSPL
Kathleen E Grant	nil	DCTL
	nil	DSPL
Linda M Robertson	nil	DCTL
	nil	DSPL
Quentin C S Hix	nil	DCTL
	nil	DSPL
Christopher C Hopkins	nil	DCTL
	nil	DSPL
William H Cockerill	19	DSPL
Stephen R Thompson	111	Aurora Energy
Margaret P Devlin	63	Aurora Energy
Brendon J Hall	63	Aurora Energy
Wendy N Harvey	63	Aurora Energy
Brian J Wood	80	Delta
Steve W Grave	44	Delta
Trevor J Kempton	44	Delta
Tony D Allison	44	Delta
	30	Dunedin Airport
Patricia A Oakley	8	Dunedin Airport
Mark Rogers	8	Dunedin Airport
Jonathan Cameron	21	Dunedin Airport
Darin Cusack	14	Dunedin Airport
Rachel Brooking	14	Dunedin Airport

	Remuneration 000\$	Company	Employee Remuneration		
			Remuneration Range	Parent Company	Subsidiaries
John F Gallaher	57	City Forests	\$530,000-539,999	-	1
Tim J Mepham	32	City Forests	\$510,000-519,999	-	-
Michael C Horne	8	City Forests	\$420,000-429,999	-	1
Kathleen A Posa	24	City Forests	\$410,000-419,999	-	1
Scott A Mason	24	City Forests	\$380,000-389,999	-	-
Raewyn J Lovett	27	DVML	\$360,000-369,999	-	1
Joanne M Conroy	17	DVML	\$330,000-339,999	-	1
Adam La Hood	14	DVML	\$310,000-319,999	-	1
Dylan Rushbrook	14	DVML	\$300,000-309,999	-	1
Kevin G Winders	3	DVML	\$290,000-299,999	-	-
	23	Dunedin Railways	\$280,000-289,999	-	1
Richard Roberts	15	Dunedin Railways	\$260,000-269,999	-	2
Hon Stan Rodger	8	Dunedin Railways	\$250,000-259,999	-	1
Graeme M Smart	15	Dunedin Railways	\$240,000-249,999	-	-
David W Wood	15	Dunedin Railways	\$230,000-239,999	-	1
Judith A Bevin	15	Dunedin Railways	\$200,000-209,999	-	2
No director of the Group 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.			\$190,000-199,999	-	3
			\$180,000-189,999	-	4
			\$170,000-179,999	-	1
			\$160,000-169,999	-	5
			\$150,000-159,999	-	13
There were no notices from directors of the Group requesting to use Group information which had been received in their capacity as directors, and which would not otherwise have been available to them.			\$140,000-149,999	-	7
			\$130,000-139,999	-	21
			\$120,000-129,999	-	27
			\$110,000-119,999	-	51
			\$100,000-109,999	-	57
Events subsequent to balance date					
The directors are not aware of any matters or circumstances since the end of the financial year not otherwise dealt with in this report or the Group financial statements that have significantly, or may significantly, affect the operations, the results of those operations or the state of affairs of the parent Company or the Group.					

statement of service performance

For the year ended 30 June 2020

The performance targets established in the 2019/20 Statement of Intent for DCHL and the results achieved for the year ended 30 June 2020 are as follows:

Performance target

1. DCHL Board perform a monthly review of DCHL Group companies' operating activities, including financial performance against budget (Dunedin Airport quarterly).
2. DCHL Board monitor DCHL Group companies' progress against their Sol targets quarterly.
3. Synergies have been made across the DCHL Group.
4. DCHL Board perform a monthly review of the consolidated DCHL Group financial performance against budget.
5. DCHL Board to perform a quarterly review of DCHL Group companies' rates of return.
6. DCHL Board provide a quarterly update to Council on the DCHL Group's performance (financial and other).
7. DCHL Board annually review the ownership and capital structures of the DCHL Group companies.
8. Consider capital expenditure proposals and business cases in accordance with company constitutions and Sols.
9. DCHL Board engage with each DCHL Group company at least once annually on strategy.
10. DCHL Board meet with full group of Chairs twice annually.
11. Review draft Sols by 1 March 2020.
12. Approve Sols by 30 June 2020.

Outcome achieved

Each month the DCHL Board reviewed each of the DCHL Group companies' operating activities, including financial performance against budget, with Dunedin Airport reviewed on a quarterly basis.

Each quarter the DCHL Board monitored each of the DCHL Group companies' progress against their Sol targets. Progress against Sol targets is also monitored monthly on an exception basis.

Throughout the year DCHL has continued to support group-wide projects or initiatives, and initiated them where it made sense. This years projects have included: co-ordinated transition to IFRS-16, facilitating sharing of Covid-19 resources and expertise, and carbon emissions measurement.

Each month the DCHL Board reviewed the consolidated DCHL Group financial performance against budget.

On a quarterly basis, the DCHL Board reviewed each of the DCHL Group companies' rates of return.

On a quarterly basis, the DCHL Chair updates the Council on the DCHL Group's performance. Comprehensive information is provided on the Group's performance for the previous quarter.

The DCHL Board specifically considered the ownership and capital structures of the DCHL Group companies at the board meeting in April 2020.

Capital expenditure proposals and business cases have been considered in accordance with individual company constitutions and Sols.

At least once annually each DCHL Group company presents their strategy to the DCHL Board.

Once this year the full group of DCHL Group Chairs meet with the DCHL Board. The second meeting was cancelled due to COVID-19

The DCHL Board reviewed each of the DCHL Group companies draft SOIs on 27 February 2020.

Dunedin City Council agreed to extend the timeframes for the FY2021 Sols for DCHL Group companies by one month, as permitted by s4 of Schedule 8 of the Local Government Act 2002, due to the impacts of Covid-19. The DCHL Board reviewed each of the DCHL Group companies final SOIs on 23 July 2020.

Performance target

13. Send Letters of Expectation to subsidiary and associate companies by 1 December 2019.
14. Appointments and re-appointments are all completed on time, and in compliance with DCHL and Council policy.
15. Ensure DCHL Group companies have appropriate policies and procedures in place.
16. DCHL Board perform an annual review of subsidiary and associate companies' activities to reduce their carbon footprint.
17. Report the proportion of the Company's workforce receiving the living wage (as calculated by the New Zealand Family Centre Social Policy Unit).
18. Strategic or operational matters which could compromise the Council's community outcomes, are escalated to the shareholder in a timely manner.
19. Any substantive matter, including any matter likely to generate media coverage, are reported to the shareholder within 24 hours.

Outcome achieved

The DCHL Board sent each of the DCHL Group companies a Letter of Expectation on 11 December 2019.

All appointments and re-appointments made during the 2020 financial year were completed on time, and in compliance with DCHL and Council policy.

Confirmed that all group companies have appropriate policies and procedures in place and they are reviewed on a regular basis.

A review of CO² footprint was completed during the year. The DCHL Group of companies are currently developing systems to measure their carbon footprint. Once a baseline is established, each of the companies will then develop plans to reduce their carbon footprint.

The Company does not employ any staff directly. Employees of Dunedin City Council involved in the operation of the Company under a Service Level Agreement, are paid the living wage.

All strategic or operational matters which could compromise the Council's community outcomes, were reported to the shareholder in a timely manner.

All substantive matters were reported to the shareholder within 24 hours of the DCHL Board becoming aware of them.

Parent Financial forecasts

a	Shareholder's funds to total assets
b	Interest paid to shareholder
	Dividend distributions
c	Net profit after tax
	Cash flow from operations
	Capital expenditure
	Contributions of equity
	Term Loans parent
	group

\$'000

23%
5,902
-
(14,570)
17,415
110,920
2,550
20,980
791,474

Parent Achievement

Shareholder's funds to total assets
Interest paid to shareholder
Dividend distributions
Net profit after tax
Cash flow from operations
Capital expenditure
Contributions of equity
Term Loans parent
group

\$'000

22%
5,902
.
(8,608)
22,323
69,112
2,550
24,495
790,136

directory

Directors

Keith T Cooper	appointed 2 February 2015
Kathleen E Grant	appointed 17 July 2012
Quentin Hix	appointed 1 January 2018 – 29 February 2020
Christopher C Hopkins	appointed 25 June 2019
Linda M Robertson	appointed 17 October 2013
Richard Thomson	appointed 1 July 2020

Registered office

50 The Octagon
Dunedin
New Zealand

Bankers

Westpac

Taxation Advisers

Deloitte

Solicitors

Anderson Lloyd

Auditor

Audit New Zealand, on behalf of the
Controller and Auditor General

independent auditor's report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of Dunedin City Holdings Limited Group's financial statements and statement of service performance for the year ended 30 June 2020

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 23 to 70, that comprise the statement of financial position as at 30 June 2020, the statement of financial performance, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the Group on pages 74 to 75.

Qualified opinion on the financial statements and statement of service performance

In our opinion, except for the effects of the matters described in the *Basis for our qualified opinion* section of our report:

- the financial statements of the Group on pages 23 to 70:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2020; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS); and
- the statement of service performance of the Group on pages 74 to 75 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 2020.

Our audit was completed on 27 November 2020. This is the date at which our qualified opinion on the financial statements and the statement of service performance are expressed.

The basis for our qualified opinion is explained below, and we draw your attention to other matters. 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 on the financial statements and the statement of service performance

Financial statements

Impairment of stadium assets

As disclosed in the notes to the financial statements in the statement of compliance section on page 29, 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 10 on page 42, 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. 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.

independent auditor's report (continued)

There are indicators that a commercial valuation approach for the stadium assets would result in a materially lower carrying value in the Group's statement of financial position. The carrying value of stadium assets at 30 June 2020 is \$157.9 million (2019: \$164.1 million). However, the Group has not carried out an assessment of the value of the 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 2020.

Carrying value of Dunedin Railways Limited's property, plant and equipment and inventories

As outlined in Note 14 on page 49 and note 35 on page 70, Dunedin Railways Limited (DRL) was put into hibernation from 1 July 2020. DRL's property, plant and equipment and inventory were written down to nil as at 30 June 2020, except for the property, plant and equipment and inventories that it will continue to use and maintain, which have been written-down to \$236,000 and \$61,000 respectively. The Group has recognised an associated impairment expense of \$4,486,000.

We have been unable to obtain sufficient appropriate audit evidence to support the written-down values of these assets and the associated impairment expense. We could not confirm the written-down values by alternative means. As a consequence, we were unable to determine whether any adjustments to the values of DRL's property, plant and equipment and inventories, were necessary.

Statement of service performance

Financial related performance measures in the statement of service performance

The statement of service performance contains certain financial related performance measures derived from the financial statements. As a consequence of the matters above on the financial statements, we were also unable to obtain sufficient appropriate evidence to support the Group's "Shareholder's funds to total assets" and "Net profit after tax" performance measures presented on page 75.

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.

Emphasis of matters

Without further modifying our opinion, we draw your attention to the following disclosures.

Key assumptions used in the impairment assessment for the electricity network

Note 14 on page 49 of the financial statements describes the key assumptions applied by Aurora Energy Limited (Aurora Energy) in performing the impairment test of the electricity network assets at 30 June 2020. This includes the very high sensitivity of Aurora Energy's impairment model to changes in the discount rate and that the value of the network assets is fundamentally linked to Aurora Energy's ability to operate within the future expenditure allowances, with final approval yet to be made by the Commerce Commission.

Impact of Covid-19

Note 35 on page 70 of the financial statements explains the impact of Covid-19 on the Group.

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

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

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

independent auditor's report (continued)

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

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

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

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements and the statement of service performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported statement of service performance within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of service performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the statement of service performance, including the disclosures, and whether the financial statements and the statement of service performance represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the statement of service performance of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated statement of service performance. We are responsible solely for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

independent auditor's report (continued)

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 20, 71 to 73 and 76, but does not include the financial statements and the statement of service performance, and our auditor's report thereon.

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

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

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: International Code of Ethics for Assurance Practitioners, issued by New Zealand Auditing and Assurance Standards Board.

In addition to the audit, we have reported on statutory and regulatory engagements for the Group's subsidiaries and associate. 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 subsidiaries and associate.



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