



DUNEDIN CITY HOLDINGS LIMITED

ANNUAL REPORT 2013





Cover - Centrally located in the Dunedin Botanic Garden is the restored Winter Garden Glasshouse which, when opened in 1908, was reported as Australasia's first conservatory.

Established in 1863, the Dunedin Botanic Garden is New Zealand's first botanic garden and holds the status of Garden of International Significance. It celebrates its 150th anniversary this year, 2013.

The Garden contains hill views from sunny lawns, more than 6,800 plant species and the song of wild native bell-birds, wood pigeons and tui. It occupies 28 hectares in North Dunedin.



dunedin city holdings limited

ANNUAL REPORT 2013

WHAT WE DO

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

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

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

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OUR STRATEGY

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

In recent years, the high level of distributions to support the capital expenditure of the Dunedin City Council has meant that shareholder's funds could not grow. However, with lower levels of distribution now agreed, the board will seek to avoid debt-funded dividend payments and shareholder's funds should increase once more.

OUR CHALLENGE

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

dunedin city holdings limited

our mission

Dunedin City Holdings Limited will monitor and support the performance of its subsidiary and associated companies to ensure each company provides maximum advantages in all respects to the ultimate shareholder, the Dunedin City Council.

our highlights 2012-2013

- > We have returned the group strongly to a profit of \$20.5m after tax.
- > We have generated substantially improved cash flows from operations, up 83% to \$35.7m.
- > We have paid cash to the Dunedin City Council and Dunedin Venues Limited of \$15.7m.
- > We have reduced debt across the Dunedin City Holdings Limited group by \$10m.
- > We have made significant progress in restructuring governance.
- > City Forests Limited produce a very strong performance which included carbon credit sales of \$5.9m.
- > Aurora Energy Limited started a \$20m cable upgrade programme of the Dunedin network.
- > Delta Utility Services Limited refocused on its core activity and commenced the exit of non-profitable businesses.
- > Taieri Gorge Railway Limited maintained the numbers of tourists carried.
- > Dunedin International Airport Limited produced another commendable performance.

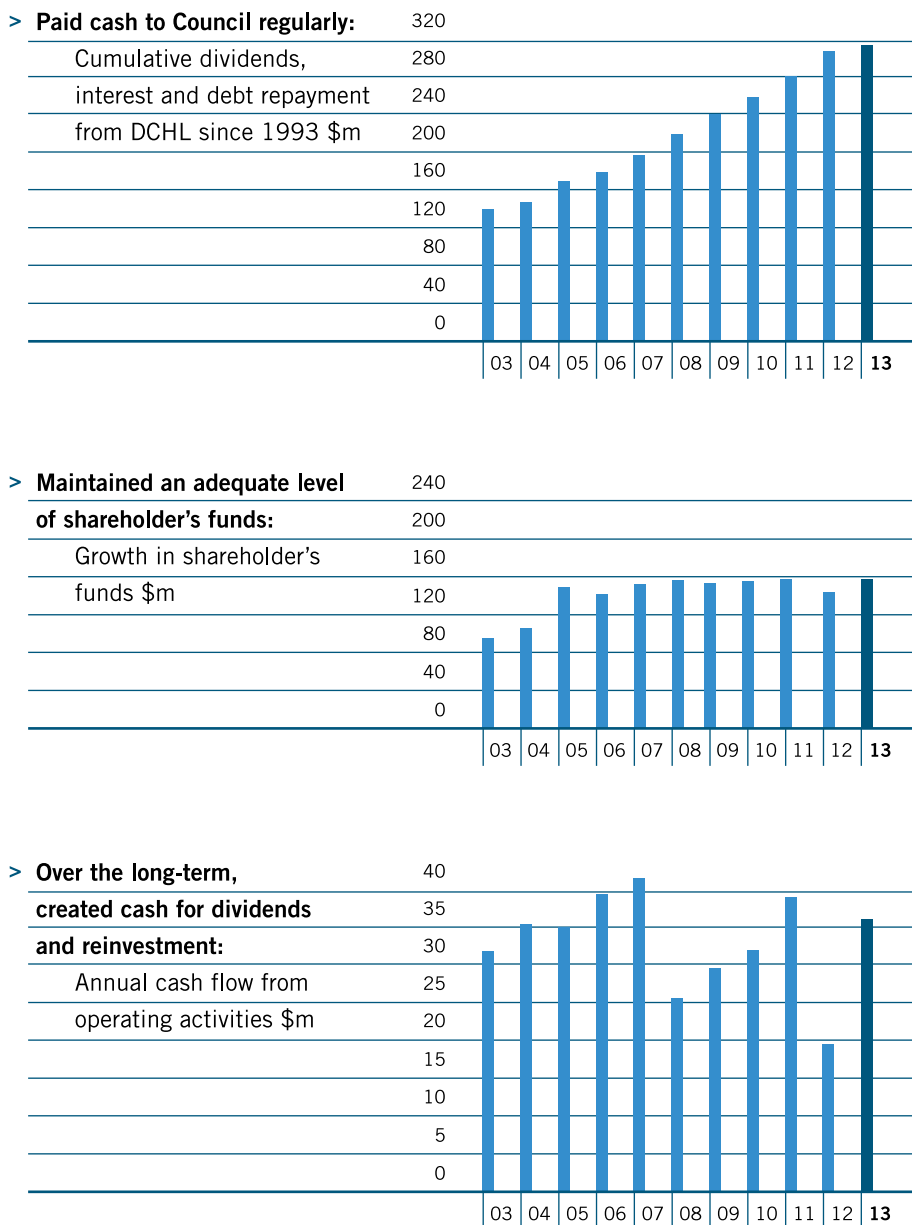
dunedin city holdings limited

our performance

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

- > Pay cash to the Council regularly in the form of dividends and interest;
- > Maintain an adequate level of shareholder's funds; and
- > Generate cash for reinvestment.

WE HAVE:



chairman's review

I am delighted to report on a very positive 2013 financial year for Dunedin City Holdings Limited and its group of companies. This year has produced results that are significantly improved on last year. This improvement reflects the hard work and focus of the staff and directors of the Dunedin City Holdings Limited group.

At a headline level our profit for the group has improved from a loss of \$5.1m last year to a profit of \$20.5m this year. Equally important is the cash generated from our operations. This has improved from \$19.5m last year to \$35.7m this year. This result has been achieved in a challenging trading environment and during a period where our group companies have been addressing historical issues. We have also delivered to the Dunedin City Council \$15.7m in line with their expectations and reduced debt across the Dunedin City Holdings Limited group by \$10m.

Group revenue improved marginally to \$256m. However, operating margins within the forestry business improved and the cash flow generation from operations across the group recovered to historical levels.

The table included with the following Directors' Report identifies a number of material items included in the profit to identify underlying operational earnings. The improvement in operating pre-tax earnings of over 50% is largely due to the improvement in the performance of City Forests Limited.

The accounting profit was improved this year by forestry carbon credit sales and another material increase in the value of the forest estate. This result is after the payment by the Dunedin City Holdings Limited group of a subvention payment directly to Dunedin Venues Limited.

The Aurora Energy Limited electricity distribution business operated well contributing with an improved profit before tax and subvention payments. The stability of the earnings provided by this subsidiary make it very valuable to the group.

The business of Delta Utility Services Limited has attracted media comment this year. The board of Delta Utility Services Limited made the strategic decision to reduce the financial risk profile of the operation. The Civil Contracting



Graham W Crombie
Chairman

business had unfortunately not been able to win a sufficient base of stable long-term contracts to underpin the regular profitability of that activity. Consequently, the company restructured to concentrate on its Electrical Contracting, Environmental Services and Greenspace businesses, and to exit from its Civil Contracting business. Provision for this change has been made in this current year. The company had already indicated its intention to exit any development property holdings and significant progress was made in that area during the year.

The reason for our existence is to produce cash benefits to the Dunedin City Council in both the short and the long terms. The cash that is paid to the Council is made up of dividends, interest paid on the shareholder's advance and subvention payments made to Council subsidiaries outside the Dunedin City Holdings Limited group. The combined total paid this year was \$15.7m and this meets the Council's budget expectation.

The board of Dunedin City Holdings Limited has followed its policy that borrowing should be avoided for the paying of dividends. After the payment of the dividends and the interest on the shareholder advance, the term debt of the parent company dropped by \$0.3m. Cash is critically important for the group. This year, the cash generated from the operations of the business improved markedly, from \$19.5m to \$35.7m.



City Forests enjoyed its best ever year in its 107 year history with a record after-tax profit and cash generation. It paid a dividend of \$4.4m to the group.

This was after having paid Dunedin Venues Limited \$9.5m in cash through a subvention payment. The Group Financial Statistics chart on page 30 shows that the highest level of cash generation achieved by the group over the last five years was \$39.2m in the 2011 year. This did not include a subvention payment. This means that our 2013 cash generated is the highest for the last five years. The total in cash returned to the Council or its nominated subsidiaries outside the Dunedin City Holdings Limited group over the past 10 years is now more than \$317m.

Careful control over capital expenditure has been a focus for the group. This control within the companies along with the refocus in Delta Utility Services Limited meant that capital expenditure was contained below expected levels this year.

This control combined with the improvement in cash flow generation, allow us to report that, after paying the full expected distribution to the Dunedin City Council, the net debt position of the Dunedin City Holdings Limited group with Dunedin City Treasury Limited reduced by \$10.0m this year.

We have continued to focus on the effective governance of Dunedin City Holdings Limited and our group companies.

Subsequent to the end of the financial year Denham Shale stepped down as chair of the board. Denham, along with Bill Baylis had been appointed to the board to assist in implementing a range of recommendations from the 'Larsen Report'. The positive developments this year can in a large part be attributed to these changes. We are currently in the process of adding new directors to the company. Denham and Bill will then step down at the appropriate time. I thank them for their valuable contribution to the company.

I would also like to thank management and staff of our companies in the group for their invaluable contributions and energy shown during the 2013 financial year and I look forward to a successful 2014.

Graham W Crombie
Chairman
18 September 2013

directors' report

RESULTS FOR THE YEAR ENDED 30 JUNE 2013

	Group \$'000	Parent \$'000
Revenue	255,986	15,797
Profit before tax	26,289	16,884
Income tax	5,791	–
Net profit for the year	20,512	16,884

STATE OF AFFAIRS

Overall, the results for the group have improved markedly from that of last year and there are two elements to this improvement. One flows from the better economic settings for the forestry business from which we have benefited. This largely explains the improvement in the net profit for the year before forest valuation, carbon credit revenue, asset impairments and subvention payments shown in the table below from \$7.0m to \$11.5m.

The other is the considerable effort that has gone into progressing the new strategic direction set for Delta Utility Services Limited. Not only has the company made considerable progress towards exiting from past real estate investments but it has moved decisively to quit a difficult civil contracting business that historically has been quite volatile and showed no signs of reduced volatility.

The table below isolates a number of material factors that have an effect on profit as it is now reported under the NZ IFRS rules.

Last year, the profit of Delta Utility Services Limited suffered significant impairment to the valuation of a number of real estate assets which affected the group profit. This year, there has been no further impairment but a tax adjustment in respect of that earlier impairment of \$1.4m has increased after tax profit. The sale of a total of 13 developed sections at Jacks Point was settled during the financial year. The same party has unconditionally purchased another 12 developed sections at Jacks Point for settlement in November 2013. All interests of the company at Luggate have been sold with settlement having occurred on 6 August after the end of the financial year. A number of undeveloped sections at Jacks Point remain with the current valuation being in excess of book value.

This year, the revenues received by City Forests Limited from the contracted forward sales of carbon credits were significant. The sales, brought to account in this financial year, were negotiated earlier at prices well in excess of current levels. No further forward sale of carbon credits remain and at the

	Group 2013 \$'000	Group 2012 \$'000
Net profit for the year before forest revaluation, carbon credit revenue, asset impairments and subvention payments	11,479	7,037
Effect of material changes net of tax:		
City Forests Limited:		
Carbon trading receipts	5,756	1,667
Forest revaluation	7,046	3,503
Mill asset impairment	-	(3,000)
Delta Utility Services Limited:		
Asset and goodwill impairment	1,481	(9,044)
Aurora Energy Limited:		
Net subvention payment	(5,250)	(5,250)
Profit/(Loss) for the year	20,512	(5,087)



Aurora Energy Limited invested \$9.4m in its Central Otago-Southern Lakes electricity network, supported by a resurgence of growth and business confidence in the region.

current market price, the existing stock of credits available are unlikely to have any similar effect in the short to medium term.

In lieu of an additional dividend to the Council, we continue to support Dunedin Venues Limited and Dunedin Venues Management Limited, which are Dunedin City Council subsidiaries outside the Dunedin City Holdings Limited group. The subvention payments, made by Aurora Energy Limited and other tax payers within the group, in respect of tax losses in Dunedin Venues Limited and Dunedin Venues Management Limited have reduced the cash flow from operations as shown in the group Cash Flow Statement by \$9.5m and reduced the reported profit after tax by \$5.2m.

After deducting the effect of material items, commented on and listed above, the figures for net profit for the year before forest revaluation, carbon credit revenue, asset impairments and subvention payments provide a more refined measure of the improved trading performance.

The statement of cash flows records improved levels of cash generation from operating activities. This reflects the increased margins from the forestry businesses, the increased carbon credit sales and the effect of the cash subventions to Dunedin Venues Limited and Dunedin Venues Management Limited. The cash generated from operations at \$35.7m is a substantial increase on the \$19.5m achieved last year.

The term debt showing in the balance sheet has increased marginally from \$557.4m to \$558.8 and the current portion of debt has remained at \$61m. Dunedin City Holdings Limited group debt fell by \$10m. The increase in the debt of the Dunedin City Council group (this includes Dunedin Venues Limited and Dunedin Venues Management Limited) was slightly higher than the reduction in the debt of the Dunedin City Holdings Limited group.

The key electricity distribution business of Aurora Energy Limited has operated well. The after tax profit of the company, before the effect of the subvention payment to Dunedin Venues Limited, improved and cash flow generated from operations has been stable. Directors are mindful that there are elements of the network that are old and that replacement capital expenditure over the next few years will be above average.

It is our expectation that the overall business of Delta Utility Services Limited will in the future be more predictable and will yield higher margins than has historically been the case.

As has been said, the forestry business has performed particularly well. Reduced log flows from Russia into northern Asia and an improvement in building activity in North America has altered the global supply/demand balance which, in turn, has increased prices for New Zealand logs. This, in concert with relatively stable freight rates, enabled the forestry



Dunedin International Airport resealed its runway with Echelon paving during non-operational hours. The project took 23 nights with minimal disruption to services.

business to increase its operating margins and provide a meaningful increase to the cash flows generated by the group. This year, this business produced an outstanding after tax return of 17.8% on opening shareholder's funds employed. This included the benefit of carbon credits.

The tourism business of Taieri Gorge Railway Limited has adapted well to a zero growth environment. Tourist numbers travelling to the South Island have remained restricted due to the lack of tourism infrastructure in Christchurch, but the new business initiative of leasing a Silver Fern railcar allowed the company to marginally increase the number of passengers carried.

Overall, the directors are of the view that the affairs of the group and the parent company are satisfactory.

PARENT COMPANY

Dunedin City Holdings Limited, as the parent company of the group, made an after tax profit of \$16.88m compared to an after tax loss of \$10.56m last year.

The substantial change in results has been due to valuation movements in the carrying value of City Forests Limited. Last year, despite our view of the business, but due to NZ IFRS rules, the company was obliged to write down the value of the investment in its subsidiary by \$15.2m. This

year, the board has written back \$9.78m of the previous year's impairment. The value in the parent company books matches the shareholder's funds value held in the books of City Forests Limited.

Distributions were made to Dunedin City Council without increase in term debt.

DCHL GROUP PAYMENTS TO THE DUNEDIN CITY COUNCIL

The distribution of cash to the shareholder, the Dunedin City Council, has been maintained at a high level. In total, cash payments made to the Council in respect of this last financial year were:

	\$'000
Dividends from DCHL	4,547
Interest payments from DCHL on shareholder's advance	5,903
Net tax subvention payment from Aurora Energy to Dunedin Venues Limited	5,250
Total cash distribution to the Council and Council CCTOs outside the DCHL group from DCHL and subsidiaries	15,700

REVIEW OF OPERATIONS

PARENT COMPANY

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

SUBSIDIARY COMPANIES

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

DUNEDIN INTERNATIONAL AIRPORT LIMITED (ASSOCIATE)

Aeronautical income at Dunedin International Airport Limited was below budget for the year due to a reduction in the number of domestic jet services. However, non-aeronautical income was above budget with the main contributors being terminal rent, car parking and taxi revenues. The year's result was also improved by the writing up of the value of the Fonterra shares held as part of its dairying operation.

The major capital project completed by the company during the year was the complete resealing of the runway, completed with minimal disruption to services through the summer months.

OUTLOOK

The effects of the Global Financial Crisis persist. One step forward for the world economy is usually followed by one step back and it appears that we may need to get used to an extended period of slow growth. By comparison, we in New Zealand are fortunate as many parts of the world are in recession or under an austerity programme.

Commodity markets are, as always, volatile but the current outlook for export logs remains good against a historical perspective. If housing starts in North America continue to improve and demand for radiata logs in northern Asia remains stable, we can remain optimistic, at least in the short term. Certainly the forestry business has commenced the new financial year with the same momentum that it showed in 2012/2013.

Tourism in the South Island continues to be flat but gradually as more accommodation becomes available in Christchurch, the main gateway to the south, the numbers of overseas tourists should slowly start to recover. Our reading of the cruise ship market is that the strong period of growth that we have experienced over the last few years has now peaked as cruises out of Australia to Asia increase in popularity.

Our stable electricity businesses will continue to receive investment. They provide the core of the group's earnings and the predictable returns that we are able to make by careful management of these operations are crucial to the stability of the distributions to Dunedin City Council and its dependent subsidiaries.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2013 are attached to this report.

AUDITORS

The principal auditor is Audit New Zealand, on behalf of the Controller and Auditor-General. Fees were paid to other audit service providers. The total of the audit fees for the group's continuing businesses for the year was \$241,000.



On behalf of the Board of Directors

Graham W Crombie

Chairman

18 September 2013

subsidiary company reports

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principal activities of the group

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

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

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

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

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



WHAT WE DO

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

- > The Ward Street zone sub-station in Dunedin's industrial waterfront precinct.
- >> The Roxburgh zone sub-station was upgraded to future-proof Teviot Valley consumers and, in particular, orchardists' irrigation and frost-fighting systems. The works, undertaken by Delta, included a new transformer, switchgear house and environmental protection system.



Aurora

ACCOUNTS AT A GLANCE

	2013	2012
	\$'000	\$'000
Revenue	90,560	85,922
Net surplus for the year	8,624	7,928
Shareholder's funds	178,005	177,345
Total assets	383,272	373,653

WHAT WE DID THIS YEAR

Aurora Energy Limited is a highly consistent well-performing company. Revenue, at \$90.5m, was up on the \$85.9m achieved last year. The surplus after tax, at \$8.6m, was up on last year's \$7.9m. The company paid a \$7.29m cash subvention payment to Dunedin Venues Limited that effectively dropped the tax paid profit by \$5.25m.

The cash generation performance of the company continues to be very strong and provides a high level of dividend to the parent company.

Economic growth in the Otago area has been slow and the quantity of new development requiring connection to the network has been down, but the reinvestment in the network continues at a steady pace.

The company commenced a \$20m programme to lay approximately 12 kilometres of high voltage cable. Six sets of new 33 kilovolt underground cables will take electricity from the national grid to substations on the network, replacing outdated cable technology originally installed in Dunedin in the early 1960s. Initially, work started in the Andersons Bay area and, when complete, this sector alone will upgrade and future-proof supply to 4,700 consumers in South Dunedin and the Otago Peninsula.

Within the Central Otago network substantial work has been undertaken including the Roxburgh substation, poles at Omakau, switchgear for the Queenstown substation and undergrounding at Cardrona.

Growth can be reflected in the additional number of consumer connections to the network. The pattern over the years has been consistent. In Central Otago, we achieved 2.0% growth (last year 1.0%) and in Dunedin, there was 0.2% growth (last year 0.2%). At year end, the total number of connections in Dunedin was 54,059 and in Central Otago 29,779.

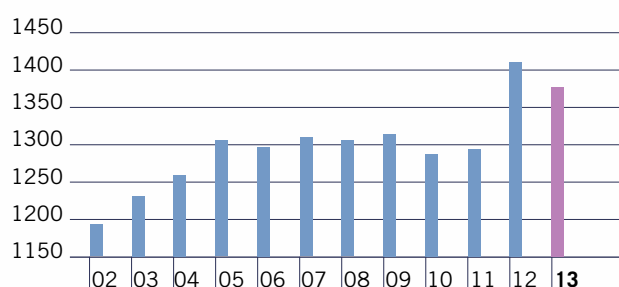
Looking forward, unresolved issues with the industry regulator remain which have potential to affect pricing. They are not unique to Aurora Energy Limited. The company will continue to take a keen interest in these issues as it seeks, along with the entire electricity distribution industry, to ensure that shareholder interests are protected.

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

THE PEOPLE

Directors	R S Polson (Chairman)
	M O Coburn (ceased 31 October 2012)
	N G Evans (ceased 31 October 2012)
	D J Frow (appointed 25 October 2012)
	R D Liddell (ceased 31 October 2012)
	S J McLauchlan
	I M Parton (appointed 25 October 2012)
Chief Executive	G Cameron

Electricity conveyed by
Aurora Energy Limited
gigawatt hours (GWh)



WHAT WE DO

City Forests Limited is a forest owner that actively harvests and markets the products from the 16,114 hectares of forests that it owns. Products are sold in both the export and domestic markets.

- > City Forests' forest estate is reaching maturation increasing the value of its trees during a period of strong export log prices.
- >> A record total of 302,000 cubic metres of timber was harvested during the 2012-13 year.

**ACCOUNTS AT A GLANCE**

	2013	2012
	\$'000	\$'000
Revenue	47,321	48,043
Net surplus for the year	14,614	1,877
Shareholder's funds	91,725	81,938
Total assets	148,199	146,051

WHAT WE DID THIS YEAR

With respect to both after tax profit and cash generation, this has been the best year in the history of the company and there are three reasons for this.

Firstly, the returns from normal forest operations improved steadily throughout the year. Export log sales to our South Korean market have been steady. The key factors of market price, freight rates and exchange rates, when considered together, have been favourable. Reduced log exports from Russia into China and increased building activity in North America have progressively shifted the supply/demand balance in our favour and prices led by the Chinese market have increased.

As the company operates in a global market, the improvement in Chinese prices has a positive flow-on effect to improve log prices into local mills and to offer the company increased options to sell not only direct into South Korea but also to sell product at 'wharf gate' to others who export to China.

Secondly, the company completed the last tranche of pre-contracted sales of carbon at favourable prices. A total of \$5.9m revenue was achieved through these sales. More credits have been received from the government, but it is likely to be several years before the price of carbon returns to levels achieved to date.

Thirdly, under NZ IFRS accounting rules, the value of the forest growth is brought directly into the annual income. This year, the adjustment was a positive \$5.1m after tax (\$3.5m last year) and the value of the company's forests increased from \$103.5m to \$108.6m. The reasons for this increase have been the recent market price increases that improve the long term pricing curve used in the valuation model, and positive growth in the forest.

Trading conditions in the forestry market have always been volatile and the only conclusion that one can reach is that this volatility will continue. However, through the first quarter of the 2013/14 year, prices have held up reasonably well and the movements in the exchange rate have in general been favourable. We look forward to continued improvement in housing markets in North America and New Zealand to underpin price movements through the remainder of the year.

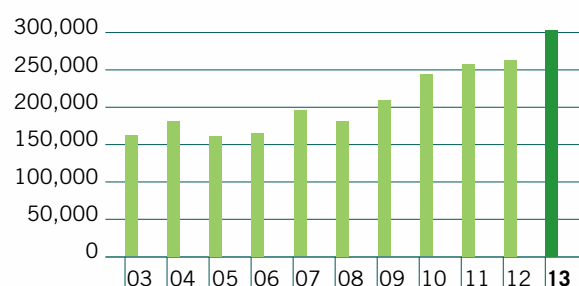
The company is fortunate that this period of relatively positive economic conditions coincides with the company reaching its long-term sustainable harvest yield of approx. 270,000 m³. Therefore it is now capable of maximising the advantage provided by the current economy.

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

THE PEOPLE

Directors	R D Liddell (Chairman)
	M O Coburn
	N G Evans (ceased 31 October 2012)
	S J McLauchlan (ceased 31 October 2012)
	T D Allison (appointed 26 October 2012)
	J F Gallaher (appointed 26 October 2012)
Chief Executive	G A A Dodson

City Forests Limited
forest harvested
cubic metres



WHAT WE DO

Delta Utility Services Limited is a multi-utility service contractor providing a range of electrical and other services to local authority and private sector clients. It is based in Dunedin, with service depots throughout the South Island.

- 
- > Delta at work on a high voltage filter bank at Benmore for Transpower Limited, part of a \$672 million project to upgrade the HVDC link between South and North islands.
 - >> Vegetation control is a key safety requirement on the roading network. Delta mows road verges for city and district councils throughout the South Island, and controls or removes overgrown trees that can cause hazards for motorists.



DELTA

THINK.INFRASTRUCTURE

ACCOUNTS AT A GLANCE (Consolidated)

	2013 \$'000	2012 \$'000
Revenue	104,233	108,633
Net surplus for the year	4,606	(5,880)
Shareholder's funds	11,675	8,773
Total assets	77,104	75,725

WHAT WE DID THIS YEAR

Last year, we highlighted that the company was reviewing its current and potential future workloads and matching these factors against its overall strategy. The outcome of that review was the conclusion that the core business in infrastructure services was solid, with on-going demand for asset management and energy sector services. However, the civil and water business sector did not hold a sufficient base load of long term maintenance contracts to ensure a consistent workflow for staff or a consistent contribution to the margins and overheads of the company.

Consequently, the decision was made to quit the civil and water sector of the Christchurch market and to downsize operations in Dunedin and Central Otago. These decisions have resulted in a contraction in sales, short-term reorganisation costs and difficult times for staff, but are decisions that will hold the company in good stead for future years.

In financial terms, the effect of the decisions was a reduction in annual sales to \$104.2m from \$108.6m last year. However, with no further asset impairments, and with the assistance of tax savings in respect of the impairments taken in the earlier period, the profit after tax recovered well to \$4.7m following the loss last year of \$5.9m. The company also improved the amount of cash generated from operations by increasing to \$7m from \$0.8m the year before.

In electrical contracting, the company successfully completed its second full year of network operations and maintenance services to the Tasman region. Increasingly, the company is winning contracts to complete electrical capital projects both for Network Tasman and Nelson Electricity. In the metering sector of the business the company continues its contracts to read meters across the South Island and is now actively installing advanced meters for Mercury Energy and Powershop.

The solid waste business progressed well with the company having completed the first full year of managing an integrated waste solution for Clutha District Council. Major contracts for the Dunedin City Council and the Waitaki District Council remain under management.

The safety of all Delta's employees is a very high priority. The underlying goal is to achieve a situation whereby there has been no harm to anyone at any time. This year the number of lost time incidents was two, the same as last year. However, as the numbers of hours worked reduced a little, the company achieved an accident rate of 0.19 per 100,000 man hours worked against last year's figure of 0.12.

Delta Investments Limited is now in the process of realising a number of real estate investments and significant progress has been achieved.

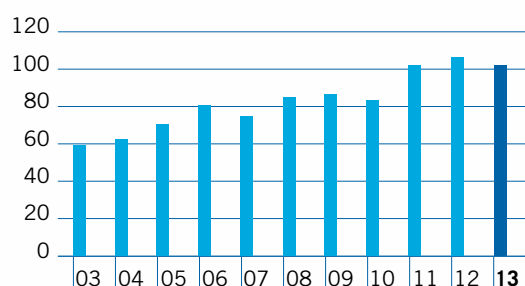
For more information, visit www.thinkdelta.co.nz

THE PEOPLE

Directors	R S Polson (Chairman)
	M O Coburn (ceased 31 October 2012)
	N G Evans (ceased 31 October 2012)
	D J Frow (appointed 25 October 2012)
	R D Liddell (ceased 31 October 2012)
	S J McLauchlan
	I M Parton (appointed 25 October 2012)
Chief Executive	G W Cameron

Delta Utility Services Limited annual sales

\$ million



WHAT WE DO

Dunedin City Treasury Limited provides funding and financial services to other entities in the group.

The principal role of the company is to fund the group, including the Dunedin City Council, and to identify and manage financial risks. The use of a single, centralised treasury function has maximised financial efficiency and effectiveness. Through the accumulation of group funds, interest rates are being achieved which might not have been otherwise possible.

- > The former National Bank Building at 193 Princes Street, Dunedin, is constructed in a neo-Baroque style, using Tasmanian sandstone and trachyte as a major feature in its façade. It was completed in 1913 and has a Category One protection status with the New Zealand Historic Places Trust.
- >> Dunedin's CBD looking down George Street to The Octagon and Dunedin City Council's Civic Centre building (centre right).



Dunedin City Treasury Ltd

ACCOUNTS AT A GLANCE

	2013 \$'000	2012 \$'000
Revenue	40,367	39,635
Net surplus for the year	16	10
Shareholder's funds	233	217
Total assets	654,446	653,982

WHAT WE DID THIS YEAR

We have operated in this volatile environment for several years and now consider it normal. The DCHL group, however, has never been short of cash or reliant on emergency funding lines. It has continued to operate as 'best in class' in the short-term money markets and has also again been active in the bond market.

The debt of the DCC group, after several years of increase, has peaked. Dunedin City Treasury Limited is no longer seeking to borrow new debt from fresh bond issues and it is able to concentrate on the replacement of debt as and when it falls due.

The company has not joined the Local Government Funding Agency and, consistent with its expectation, has found that investors find the debt of Dunedin city and its companies increasingly attractive. As a result, it continues to expect to be able to minimise interest costs by continuing business separate from this funding group.

Each year, Standard & Poor's reviews the combined financial plans of the Dunedin City Council and Dunedin City Treasury Limited. The outcome of the August 2012 review was to reaffirm our AA (long term)/A1+ (short term) rating although

they did place the group on a negative outlook. This will be subject to review in the last quarter of the 2013 calendar year.

An historic benchmark for the company is the relative price at which the company can access funds from the promissory note market on its 90-day borrowing programme. During the year, the company secured borrowings at an average of nine percentage points above the 90 day Inter-Bank Bid Rate. This was higher compared to the five points achieved last year but still is an outstanding result and better than other organisations of equal credit standing. Tenders were well oversubscribed.

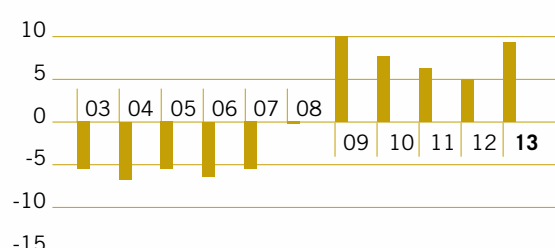
The company also manages the investment of the Dunedin City Council's Waipori Fund. This year, a positive return of \$7.6m was achieved compared to a profit of \$0.9m last year. After a \$1.0m payment (\$1.0m last year) into the Council's general funds, the value of the Waipori portfolio increased to \$78.4m from \$69.7m. This represented a 10.86% return on the opening value of the portfolio.

THE PEOPLE

Directors	R D Liddell (Chairman)
	G W Cameron
	G A A Dodson
	B R N Dodds
	A J Stephens (ceased 29 March 2013)
Chief Executive	M J Knight

Dunedin City Treasury Limited
Margin above/below Inter-Bank Bid Rate at which debt is raised

Points



WHAT WE DO

Taieri Gorge Railway Limited operates a tourist train on the Taieri Gorge and Pacific Coastal railway lines and provides other train services, principally for charters and excursions. Year after year, the train trip through the Taieri Gorge remains a key attraction for visiting cruise ship passengers.

- > Taieri Gorge Railway expanded its cruise ship market by leasing a 'Silver Fern' railcar to operate short trip excursions on the Pacific Coastal line north of Dunedin. It was also used for novel weekend commuting on the former Mosgiel-Dunedin suburban line.
- >> Dunedin Railway Station, home of Taieri Gorge Railway, is regarded as New Zealand's most photographed building.



ACCOUNTS AT A GLANCE

	2013 \$'000	2012 \$'000
Revenue	5,768	5,522
Net surplus for the year	38	22
Shareholder's funds	1,764	1,726
Total assets	3,595	3,376

WHAT WE DID THIS YEAR

There are two distinct markets for the trains and they are driven by quite separate factors.

There are the free and independent travellers from New Zealand and overseas who have arrived by car or by bus.

The second market is the cruise ship market and this is driven by global factors. An increasing proportion of the people who arrive on these cruise ships are Australian in origin and many of these are the customers who used to fly the Tasman and travel by bus or car. We have seen that as the proportion of cruise passengers from Australia increases, the proportion who opt for cruise ship organised train trips decreases and the challenge has become to offer train trip alternatives that fit within the period of time that the ships are in port. The lease of one of the Silver Fern railcars from KiwiRail was directed specifically at this market.

Reflecting the ups and downs in the marketplace, the number of passengers carried on the daily scheduled trains decreased 4.9% from 50,471 to 47,986. However, cruise ship excursion passengers were up 2.7% from 16,709 to 17,171 and the total number of customers carried across all market sectors was 80,488, an increase on last year's overall total figure of 79,958. An important feature in the increase in total

passenger numbers was the 6,499 people travelling on the leased Silver Fern railcar.

As well as investing in the maintenance of the fleet and the track, the company continues to invest in the improvement of the assets. Prior to the next tourism season, the company will have completed another carriage refurbishment and this will be required to handle the summer trade.

The after tax surplus of \$38,000 was up on \$16,000 last year. This was achieved after operational expenditure of \$1.2m on workshop, carriages and track. In addition, capital expenditure of \$0.6m on the conversion of a carriage to a catering car, a replacement carriage and numerous smaller improvements, was made.

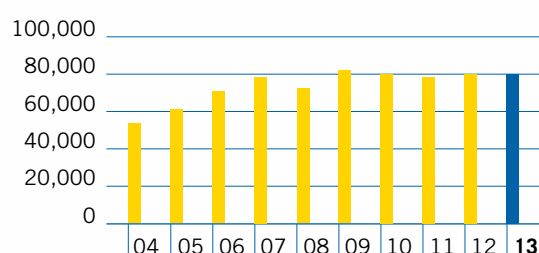
Particular recognition should go to the volunteer staff who take care of the market sector now showing the greatest growth. They work long and hard to look after our cruise ship trains and take great pride in their work as ambassadors for the city.

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

THE PEOPLE

Directors	J E Farry (Chairman)
	J M Chapman
	B R N Dodds
	F J McCall
	Hon S Rodger
	G M T Williams
Chief Executive	M J Bond

Taieri Gorge Railway Limited's
total passenger numbers





- > Aurora Energy's refurbished zone sub-station at Roxburgh includes a new oil containment system to prevent transformer oil from entering the environment, specifically the adjacent Teviot River (pictured) and Clutha River a short distance downstream. The system includes a oil/water separator bund and 3.5 metre deep interceptor tank. It is capable of containing a total spill in the unlikely event of an incident.

environmental, social and economic performance, and corporate governance

25 Environmental, Social and Economic
Performance

27 Corporate Governance

All companies in the Dunedin City Holdings Group have policies that require them to be profitable and to act as socially responsible and environmentally aware citizens.

- > The 16,114 hectares of plantation forests owned and managed by City Forests continues to sequester a substantial volume of carbon dioxide, helping to offset the Group's vehicle and plant emissions.
- >> Super Rugby Highlander prop Bronson Murray helps team mates and Delta staff paint the new retaining wall on the Caversham motorway as a community project.



environmental, social and economic performance

For the year ended 30 June 2013

SUMMARY

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

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

GROUP HIGHLIGHTS

HEALTH AND SAFETY

The health and safety of staff is a top priority for all the companies. Sound health and safety policies, subject to annual review, are in place. Our end goal is clear: no accidents and no harm to people. Although safety performance has not met the end goal over the medium term, it has improved.

In the three subsidiaries employing staff and contractors, the accident record deteriorated marginally on that of last year although we did see improved performance from our forestry contractors. The number of lost time incidents across the group remained the same at eight, but the number of hours worked dropped slightly. Lost time accident numbers remained at 0.4 incidents per 100,000 hours worked.

A full review is underway of the health and safety processes of the group in the light of the recent release by the Institute of Directors and the Ministry of Business, Innovation and Employment of guidelines for good governance practices in managing health and safety risks.

GROUP HIGHLIGHTS

ENVIRONMENTAL

The group is aware of the effect of electricity poles and wires in certain environments. The cost of placing sections of the electricity network underground is very high but Aurora Energy Limited is committed, over time, to increasing its underground network in highly scenic areas. This year, the company spent \$538,000 eliminating the negative visual effect of power lines in Kaikorai Valley, Dunedin, and another \$195,000 in Brownston Street, Queenstown.

City Forests Limited was the first major forest owner in the South Island to achieve Forest Stewardship Council certification. Following the 12th annual audit, this certification continues and, as part of the effort, the company continues to improve its knowledge and management of environmental and cultural issues within the forest.

In addition, City Forests Limited continues to maintain a significant network of walking tracks, picnic areas and other public amenities.

The group has committed to recording its electricity and liquid fuels energy usage in terms of the carbon dioxide emitted to the environment. We have looked carefully at the diesel and electricity usage of our subsidiaries and have also tracked the CO₂ emitted by our forestry contractors and the log export ships that we have used.

In total, group activity added 2,287 tonnes of carbon dioxide from our environment after eliminating 3,192 tonnes last year. Across the group, lower amounts of carbon dioxide were emitted from the use of motor vehicles and locomotives. However, the slightly increased harvest from our forest caused a shift in the net position from carbon elimination to emission. Over a period of many years, the group has absorbed many times more carbon in its forests than it emits from its own operations.



Delta continued its sponsorship of the ASB Otago Sports Awards' 'Innovation in Sport', this year won by the Upper Clutha Tracks Trust. The Trust is a non-profit organisation dedicated to developing a high quality network of public trails around Wanaka and the Upper Clutha Basin. Pictured is the new Gladstone Track on the shores of Lake Hawea.

ENVIRONMENTAL COMMITMENT

We will act as an environmentally aware business.

The forestry business will be operated in a sustainable manner.

We will include environmental considerations in our operational and planning decisions.

We will assist third party projects promoting environmental protection.

SOCIAL COMMITMENT

We will consult with stakeholders through our six monthly reports and through the website notice boards of the larger DCHL companies.

We will operate personnel policies which promote a non-discriminatory, culturally sensitive, equal employment opportunity (EEO) workplace.

We will maintain a safe workplace for our staff.

ECONOMIC COMMITMENT

We will undertake continual performance monitoring of the operating activities of the group.

We will achieve financial projections.

An international credit rating will be maintained at the highest level consistent with the strategic plans of the shareholder and company boards.

GROUP HIGHLIGHTS

COMMUNITY INVOLVEMENT

Our community involvement continues to cover a wide range of civic, charitable, sporting and recreational activities. In 2013, this support comprised a combination of financial sponsorship or assistance, the provision of staff resources and other forms of non-financial donation, such as loads of firewood for charities to sell, from within the group's resources.

The promotion of sport and culture receives assistance from all companies across the group. The sponsorship of Sport Otago, Otago Cricket and Highlanders rugby by Delta Utility Services Limited heads that list. The Aurora Otago Science and Technology Fair, Fortune Theatre, Festival of Colour, Taieri Lakes Golf, Port Chalmers Golf Club, Tamaha Sea Scout Group, Dunedin Community Salmon Trust and others have also benefited from contributions during the year.

Finally, there has been focus on assisting at risk people in the community through support to Child Cancer Foundation, Salvation Army, St John in Dunedin and Wakatipu, Friends of Dunstan Hospital, United Way and KidsCan Charitable Trust.

The total value of these contributions is difficult to calculate as many of the costs are not directly measured in cash but overall, across the group, the cash value this year approached \$200,000.



Aurora Energy is a major sponsor of the annual Festival of Colour held in the Southern Lakes region. The 2013 season featured the Black Grace dancers performing in Wanaka and Queenstown.

corporate governance



> Dunedin City Holdings Limited Board of Directors. From left: Warren Larsen (Consultant), Kathy Grant (Director), Graham Crombie (Chairman), Denham Shale (Director) and Bill Baylis (Director).

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

THE ROLE OF DUNEDIN CITY HOLDINGS LIMITED

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

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

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

SUBSIDIARY COMPANIES

To enhance efficiency, Dunedin City Holdings Limited has the various group businesses carried on by its subsidiary companies each of which is governed by its own board and senior management. Each of the subsidiaries is also a CCTO and is required to present a Statement of Intent to Dunedin City Holdings Limited as its shareholder. The delegated powers

and capacity for the individual subsidiaries to acquire assets and/or shares in a third party company are contained within the Statement of Intent.

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

BOARD MEMBERSHIP

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

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

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

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

REVIEW OF BOARD MEMBERSHIP

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

Directors are appointed following approval by the Dunedin City Council in the case of Dunedin City Holdings Limited, and notification to Dunedin City Council in the case of appointments to the other companies' boards, using procedures set out by the Council. These procedures require Dunedin City Holdings Limited to maintain a list of suitable applicants from which its evaluation and recommendation to the Council is made.

The Constitution provides that one third of directors (to the nearest whole number) must retire from office each year and they may offer themselves for re-election at the Annual General Meeting.

BOARD MEETINGS

The Dunedin City Holdings Limited board and subsidiary boards typically meet formally 11 times each year. All directors have access to executive and senior management to discuss issues or obtain information on specific areas in relation to items to be considered at the meeting, or other areas as they consider appropriate. Further, directors have unlimited access to company records. A number of the boards have separate audit and remuneration committees and these also meet regularly to carry out their functions.

THE WORK OF THE BOARDS

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

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

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

- Group strategy, including vision and values;
- The achievement of financial objectives;
- The identification and control of areas of business risk;
- A quality system of internal control appropriately maintained;
- The employment of quality people;
- Supervision and development of staff; and
- Regulatory compliance.

financial information

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group financial statistics

For the years ended 30 June

	2013 \$'000	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000
Revenue	255,986	254,922	245,784	224,598	214,434
Profit before tax, impairment and subvention payment from continuing operations	33,656	15,543	26,554	24,422	13,914
Profit/(Loss) before tax from continuing operations	26,289	(2,249)	26,554	24,422	13,914
Tax	5,791	2,838	7,704	5,918	5,210
Surplus/(Deficit) after tax	20,512	(5,087)	16,244	18,110	8,704
Net interest paid to Council on advance	5,903	7,213	7,616	8,223	10,333
After tax cost of Dunedin Venues Limited subvention payment	5,250	5,250	–	–	–
Net surplus before shareholder interest and subvention	31,665	7,376	23,860	26,333	19,037
Cash flows from operating activities	35,745	19,549	39,206	32,136	29,261
Shareholder's funds	159,197	142,289	153,175	152,238	151,743
Shareholder's advance	112,000	112,000	112,000	112,000	113,060
Total shareholder's interest	271,197	254,289	265,175	264,238	264,238
Rate of return (on shareholder's fund)	12.9%	(3.5)%	10.6%	11.9%	5.7%
Dividend paid	4,547	10,737	15,584	14,877	9,468
Net interest paid to Council on advance	5,903	7,213	7,616	8,223	10,333
After tax cost of Dunedin Venues Limited subvention payment	5,250	5,250	–	–	–
Total interest, subvention and dividends paid to Council	15,700	23,200	23,200	23,100	19,801
Total assets	1,036,228	1,022,319	965,829	889,710	753,146
Shareholder's funds to total assets	15.3%	13.9%	15.8%	17.1%	20.2%

statement of comprehensive income

For the year ended 30 June	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
Continuing operations					
Revenue	3	220,945	223,510	316	306
Forest revaluation	32, 3	7,046	3,503	-	-
Financial income	4	27,132	27,341	15,481	14,015
Share of profit of associates		863	568	-	-
Total revenue		255,986	254,922	15,797	14,321
Less expenses					
Audit fees	5	241	194	24	18
Contractors		21,948	30,943	-	-
Depreciation and amortisation		18,785	19,249	-	1
Directors' fees		696	641	210	113
Employees' expenses		47,143	50,078	241	225
Financial expenses	6	45,560	46,101	7,987	9,176
Raw materials and consumables used		51,824	58,860	-	-
Other expenses	5	36,133	33,313	237	137
Profit before tax, impairment and subvention		33,656	15,543	7,098	4,651
Less					
Subvention payments to DVL and DVML		7,367	7,292	-	-
Impairment in value of assets in subsidiary companies		-	10,500	(9,786)	15,219
Profit/(Loss) before tax		26,289	(2,249)	16,884	(10,568)
Income tax expense	9	5,791	2,838	-	-
Net profit/(loss) for the year from continuing operations		20,498	(5,087)	16,884	(10,568)
Discontinued operations					
Gain for the year from discontinued operation net of tax		14	-	-	-
Profit/(Loss) for the year		20,512	(5,087)	16,884	(10,568)
Other comprehensive income					
Forest land revaluation		-	(505)	-	-
Interest rate swap hedge gains/(losses) during period		2,078	(1,047)	72	(447)
Foreign exchange hedge gains/(losses) during period		(1,091)	(894)	-	-
Share of other comprehensive income of associates		236	6,842	-	-
Income tax on other comprehensive income		(280)	542	(20)	125
Other comprehensive income		943	4,938	52	(322)
Total comprehensive income/(loss) for the year, net of tax		21,455	(149)	16,936	(10,890)
Profit attributable to:					
Equity holders of the parent		20,501	(5,093)	16,884	(10,568)
Minority interest		11	6	-	-
Net profit for the year		20,512	(5,087)	16,884	(10,568)
Total comprehensive income attributable to:					
Equity holders of the parent		21,444	(155)		
Minority interest		11	6		
Total comprehensive income		21,455	(149)		
Shares issued	10	850,000,000	850,000,000		
Earnings per share from continuing and discontinued operations		2.41 cents	(0.59) cents		
Earnings per share from continuing operations		2.41 cents	(0.59) cents		
Earnings per paid up share from continuing operations		\$205.12	(\$50.87)		

The accompanying notes and accounting policies form an integral part of these audited financial statements.

statement of changes in equity

For the year ended 30 June	Note	Share capital \$'000	Reserves \$'000	Retained earnings \$'000	Minority interest \$'000	Total equity \$'000
GROUP						
Balance at 1 July 2012		100	32,648	109,058	483	142,289
Comprehensive income						
Profit for the year		-	5,073	15,428	11	20,512
Other comprehensive income						
Forest land revaluation		-	-	-	-	-
Interest rate swap hedge gains/(losses) during period		-	1,492	-	-	1,492
Foreign exchange hedge gains/(losses) during period		-	(785)	-	-	(785)
Share of other comprehensive income of associates		-	236	-	-	236
Total comprehensive income for the year		-	6,016	15,428	11	21,455
Less distribution to owners	8	-	-	(4,547)	-	(4,547)
Equity at 30 June 2013		100	38,664	119,939	494	159,197
GROUP						
Balance at 1 July 2011		100	25,188	127,410	477	153,175
Comprehensive income						
Profit for the year		-	2,522	(7,615)	6	(5,087)
Other comprehensive income						
Forest land revaluation		-	(505)	-	-	(505)
Interest rate swap hedge gains/(losses) during period		-	(755)	-	-	(755)
Foreign exchange hedge gains/(losses) during period		-	(644)	-	-	(644)
Share of other comprehensive income of associates		-	6,842	-	-	6,842
Total comprehensive income for the year		-	7,460	(7,615)	6	(149)
Less distribution to owners	8	-	-	(10,737)	-	(10,737)
Equity at 30 June 2012		100	32,648	109,058	483	142,289

The accompanying notes and accounting policies form an integral part of these audited financial statements.

For the year ended 30 June	Note	Share capital \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
PARENT					
Balance at 1 July 2012		100	(517)	11,531	11,114
Comprehensive income					
Profit for the year		-	-	16,884	16,884
Other comprehensive income					
Interest rate swap hedge gains/(losses) during period		-	52	-	52
Total comprehensive income		-	52	16,884	16,936
Dividends	8	-	-	(4,547)	(4,547)
Equity at 30 June 2013		100	(465)	23,868	23,503
PARENT					
Balance at 1 July 2011		100	(195)	32,836	32,741
Comprehensive income					
Profit for the year		-	-	(10,568)	(10,568)
Other comprehensive income					
Interest rate swap hedge gains/(losses) during period		-	(322)	-	(322)
Total comprehensive income		-	(322)	(10,568)	(10,890)
Dividends	8	-	-	(10,737)	(10,737)
Equity at 30 June 2012		100	(517)	11,531	11,114

The accompanying notes and accounting policies form an integral part of these audited financial statements.

balance sheet

As at 30 June	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
Equity					
Share capital	10	100	100	100	100
Associate company asset revaluation reserve	11	10,340	10,104	-	-
Forest revaluation reserve	11	28,823	23,750	-	-
Cash flow hedge reserve	11	(499)	(1,206)	(465)	(517)
Retained earnings	12	119,939	109,058	23,868	11,531
Total equity attributable to Dunedin City Council		158,703	141,806	23,503	11,114
Minority interest in subsidiary company		494	483	-	-
Total equity		159,197	142,289	23,503	11,114
Current liabilities					
Short-term borrowings	13	5,100	3,737	-	15
Trade and other payables	14	20,340	20,742	323	323
Derivative financial instruments	15	27,852	36,649	646	718
Other current liabilities	16	2,991	3,642	8	(9)
Provisions	17	5,096	5,346	9	3
Provisions for tax		2,768	936	-	-
Current portion of term borrowings		61,765	61,161	-	-
Total current liabilities		125,912	132,213	986	1,050
Non-current liabilities					
Shareholders advance – Dunedin City Council	18	112,000	112,000	112,000	112,000
Term borrowings	19	558,872	557,399	37,401	37,766
Other liabilities	16	320	320	-	-
Provisions	17	389	418	-	-
Deferred tax liability	20	79,538	77,680	(181)	(201)
Total non-current liabilities		751,119	747,817	149,220	149,565
Total liabilities		877,031	880,030	150,206	150,615
TOTAL EQUITY AND LIABILITIES		1,036,228	1,022,319	173,709	161,729

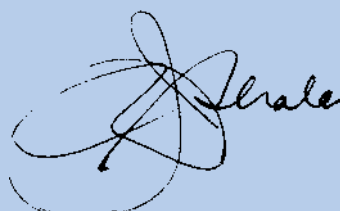
The accompanying notes and accounting policies form an integral part of these audited financial statements.

As at 30 June	Note	Group 2013	Group 2012	Parent 2013	Parent 2012
		\$'000	\$'000	\$'000	\$'000
Current assets					
Cash and cash equivalents	23	14,469	4,453	2,057	-
Trade and other receivables	24	37,974	38,732	226	89
Derivative financial instruments	15	27,165	34,841	-	-
Inventories	25	5,447	5,634	-	-
Prepayments		2,038	700	-	-
Tax refund due		-	533	-	-
Investments		20,662	19,128	-	-
Investments in jointly controlled operations	30	133	288	-	-
Current assets held for sale	26	7,970	9,665	-	-
Total current assets		115,858	113,974	2,283	89
Non-current assets					
Investments in subsidiary company shares	27	-	-	167,026	157,240
Investments in associate companies	28,29	22,449	21,681	4,400	4,400
Other investments	31	351,952	347,989	-	-
Forestry assets	32	108,589	103,528	-	-
Property, plant and equipment	33	436,998	435,068	-	-
Intangible asset		382	79	-	-
Total non-current assets		920,370	908,345	171,426	161,640
TOTAL ASSETS		1,036,228	1,022,319	173,709	161,729

For and on behalf of the Board of Directors



Director
Graham W Crombie
18 September 2013



Director
J Denham Shale

The accompanying notes and accounting policies form an integral part of these audited financial statements.

statement of cash flows

As at 30 June	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
Cash flows from operating activities					
<i>Cash was provided from</i>					
Receipts from customers		234,799	232,593	315	355
Interest received		351	1,019	2	17
Dividends from other equity investments		-	-	15,480	14,011
Subvention payments		-	-	-	136
		235,150	233,612	15,797	14,519
<i>Cash was disbursed to</i>					
Payments to suppliers and employees		149,063	163,185	879	582
Interest paid		39,654	38,863	7,982	9,173
Income tax paid		839	2,905	-	-
Net GST paid		274	1,036	(48)	18
Subvention to DVL/DVML		9,575	8,074	-	-
		199,405	214,063	8,813	9,773
Net cash inflows/(outflows) from operating activities	34	35,745	19,549	6,984	4,746
Cash flows from investing activities					
<i>Cash was provided from</i>					
Sale of property, plant and equipment		2,410	815	-	-
Investments realised		2,583	2,121	-	2,216
		4,993	2,936	-	2,216
<i>Cash was disbursed to</i>					
Purchase of property, plant and equipment		22,939	28,836	-	-
Purchase of investments		5,969	40,719	-	-
		28,908	69,555	-	-
Net cash inflows/(outflows) from investing activities		(23,915)	(66,619)	-	2,216

The accompanying notes and accounting policies form an integral part of these audited financial statements.

As at 30 June	Note	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
Cash flows from operating activities					
<i>Cash was provided from</i>					
Proceeds from borrowings		5,552	51,223	-	3,735
		5,552	51,223	-	3,735
<i>Cash was disbursed to</i>					
Repayment of borrowings		2,804	892	365	-
Dividends paid		4,547	10,737	4,547	10,737
		7,351	11,629	4,912	10,737
Net cash inflows/(outflows) from financing activities		(1,799)	39,595	(4,912)	(7,002)
Net increase/(decrease) in cash, cash equivalents and bank overdraft		10,031	(7,475)	2,072	(40)
Cash and cash equivalents at the beginning of the year		4,438	11,913	(15)	25
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		14,469	4,438	2,057	(15)
Composition of cash					
Cash and cash equivalents		14,469	4,453	2,057	-
Bank overdraft		-	(15)	-	(15)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		14,469	4,438	2,057	(15)

The accompanying notes and accounting policies form an integral part of these audited financial statements.

notes to the financial statements

For the year ended 30 June 2013

1. REPORTING ENTITY

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

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

The financial statements of Dunedin City Holdings Limited are for the year ended 30 June 2013.

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

Dunedin City Holdings Limited is a profit orientated entity.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The annual financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand Equivalents to IFRSs, and other applicable Financial Reporting Standards, as appropriate for profit orientated entities.

The financial statements were authorised for issue by the directors on 18 September 2013.

Basis of accounting

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

The accounting policies have been applied consistently by group entities.

Basis of consolidation

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

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

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

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

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

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

Associate entities

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the consolidated

balance sheet at cost as adjusted by post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the group's interest in those associates are not recognised.

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

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

Investment in associates

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

Joint ventures

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

Delta Investments had a 50% interest in Luggate Park Developments joint venture. The financial statements have been prepared using the proportionate method of construction.

Non-current assets held for sale

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

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

Goodwill

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

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

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

Goodwill arising on acquisitions before the date of transition to NZ IFRS has been retained at the previous NZGAAP amounts and was tested for impairment at that date. Goodwill written off to reserves under NZ GAAP has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

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

Revenue recognition

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

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

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate

applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Construction contracts

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

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

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

Leasing

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

The group as lessor

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

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

The group as lessee

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

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

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

Foreign currencies

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

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

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

Borrowing costs

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

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

Government loans

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

Employee entitlements

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

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

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

Good and Service Tax (GST)

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

Taxation

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

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

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

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

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

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

Property, plant and equipment

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

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

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

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

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

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

Assets held under finance leases are depreciated.

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

	Rate	Method
Buildings	1% to 5%	Straight line
Metering equipment	10% to 20%	Straight line
Electricity network assets	1 % to 20%	Straight line
Plant and equipment	5% to 50%	Straight line
Motor vehicles	5% to 25%	Straight line
Railway assets	1% to 20%	Straight line
Office equipment and fittings	5% to 48%	Straight line
Construction in progress	no depreciation charged	
Software	20% to 100%	Straight line

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

Buildings	2% to 3%	Straight line
Roads	5% to 24%	Diminishing value
Bridges	2% to 2.4%	Diminishing value
Plant and equipment	6% to 80.4%	Diminishing value
Fences	10% to 13%	Diminishing value
Motor vehicles	9.6% to 36%	Diminishing value
Office equipment	10% to 60%	Diminishing value

Forests

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

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

Derecognition

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

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

Investment property

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

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

Intangible assets

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

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

Research and development expenditure

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

Patents and trademarks

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

Impairment of assets excluding goodwill

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Inventories

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

Cash and cash equivalents

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

Financial instruments

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

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

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

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

Trade and other payables are stated at cost.

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

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

Derivative financial instruments and hedge accounting

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

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

The use of financial derivatives in each entity within the group is governed by that entity's policy approved by its board of directors. The policies provide 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 remeasured to their fair value. The fair value on initial recognition is the transaction price. Subsequently fair values are based on independent bid prices quoted in active markets as provided for us by our banking counterparties.

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

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

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

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

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

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

Carbon credits

Emissions units held are treated as intangible assets, and initially recorded at 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 annually thereafter.

The difference between initial fair value or previous annual revaluation and disposal or revaluation value of the units is treated as revenue if positive or expense if negative.

Emissions obligations are recognised as a current or future liability depending on the legislated liability period.

Emissions liability is recorded at the market value of emissions units at the end of the period.

Increases in emissions liabilities at 30 June are treated as expenses and reductions are treated as revenue.

Provisions

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

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

Critical accounting estimates and assumptions

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

- > impairment of investments in subsidiaries, associate companies and jointly controlled operations (notes 27, 28, 29 and 30);
- > valuation of forestry assets (note 32);
- > valuation of derivative financial instruments (note 15) and;
- > carrying value of the deferred tax liability (note 20).

Changes in accounting policy

There has been no change in accounting policy. Policies for the current year and comparative year have been applied on a consistent basis.

	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
3. OPERATING REVENUE				
Sales revenue	219,273	223,495	316	306
Gain on sale of assets	1,672	15	-	-
Forest revaluation	7,046	3,503	-	-
	227,991	227,013	316	306
4. FINANCIAL INCOME				
Subvention income	-	-	-	4
Interest on advances to related parties	24,820	24,005	1	9
Interest on other investments	555	1,110	-	-
Dividends	-	-	15,480	14,002
Net gain on foreign currency transactions	1,757	2,226	-	-
	27,132	27,341	15,481	14,015
No interest was earned on impaired or restructured assets.				
5. OTHER EXPENSES				
Audit fees – for audit of financial statements	187	183	24	18
– for other audit services	54	11	-	-
Total audit fees	241	194	24	18
Bad debts written off	32	78	-	-
Impairment of intangible assets	12	1,560	-	-
Increase/(Decrease) in impairment provision for receivables	424	64	-	-
Donations	51	46	-	-
Rental expense on operating leases	1,418	1,467	6	6
Research expenditure	118	87	-	-
Transmission costs, Aurora Energy Limited	30,007	26,079	-	-
Other expenses	4,071	3,932	216	131
Total other expenses	36,133	33,313	222	137
6. FINANCIAL EXPENSES				
Interest – related parties	5,902	7,213	7,987	9,176
Interest – term loans	39,658	38,888	-	-
Total financial expenses	45,560	46,101	7,987	9,176

7. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net surplus attributable to the shareholder of the group by the weighted average number of ordinary shares on issue during the year.

	Group 2013	Group 2012
Number of shares		
Shares at year end	850,000,000	850,000,000
Weighted average number of ordinary shares	850,000,000	850,000,000
Basic earnings per share		
Continuing and discontinued operations	2.41 cents	(0.59) cents
Earnings per paid up share from continuing operations	\$205.12	(\$50.87)

Diluted earnings per share

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

	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
8. DIVIDENDS				
Interim dividend December 0.17cents /share	1,500	1,500	1,500	1,500
Final dividend June 0.36 cents/share	3,047	9,237	3,047	9,237
	4,547	10,737	4,547	10,737
9. INCOME TAX				
Operating surplus/(loss) – continuing operations	26,289	(2,249)	16,884	(10,568)
– discontinued operations	14	-	-	-
Operating surplus/(loss) before income tax	26,303	(2,249)	16,884	(10,568)
Tax thereon at 28%	7,365	(630)	4,727	(2,959)
<i>Plus/(Less) the tax effect of differences</i>				
Revenue not liable for taxation	(3,182)	-	(4,727)	2,959
Expenditure not deductible for taxation	3,251	3,496	-	-
Under/(Over) tax provision in prior years	(1,643)	(225)	-	-
Other	-	197	-	-
Tax effect of differences	(1,574)	3,468	(4,727)	2,959
Tax expense	5,791	2,838	-	-
Effective tax rate	27.6%	126%	0%	0%
Tax expense continuing activity	5,786	2,838	-	-
Tax expense discontinued activity	5	-	-	-
<i>Represented by</i>				
Current tax provision	5,576	1,810	-	-
Deferred tax provision	1,858	1,253	-	-
Under/(Over) tax provision in prior years	(1,643)	(225)	-	-
Income tax	5,791	2,838	-	-

Group	Group	Parent	Parent
2013	2012	2013	2012
\$'000	\$'000	\$'000	\$'000

9. INCOME TAX – continued**Imputation Credit Account**

Balance at the end of the year	8,341	8,504	-	-
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Dunedin City Holdings Limited, Aurora Energy Limited, Delta Utility Services Limited, Delta Investments Limited and the Dunedin City Council have formed an income tax consolidated group. This means that the Council and the other companies within the group are taxed as a single entity and each are jointly and severally liable for the group's income tax liability.

Dunedin City Holdings Limited as a member of the income tax consolidated group has access to the group's imputation credit account. As at 30 June 2013, Dunedin City Holdings Limited had direct access to consolidated group imputation credits totalling \$8,340,914 (2012: \$8,504,562). After taking into account imputation credits attached to accrued dividends and known income tax payments/refunds, Dunedin City Holdings Limited has direct access to consolidated group imputation credits that relate to 30 June 2013 and earlier years which will be available to for use in subsequent reporting periods totalling \$8,065,535 (2012: \$7,589,470).

10. EQUITY – share capital**Issued capital**

850,000,000 ordinary shares	100	100	100	100
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On incorporation, Dunedin City Holdings Limited issued 100,000,000 ordinary shares in favour of the Dunedin City Council. Only \$100,000 was called. Since incorporation Dunedin City Holdings Ltd has issued additional shares of \$1 each in favour of the Dunedin City Council. The shares carry equal voting rights and 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

11. RESERVES**Forest revaluation reserve**

Balance at beginning of the year	23,750	21,733
Net revaluations of forest	5,073	2,522
Net revaluation of forest land	-	(505)
Balance at the end of the year	28,823	23,750

Hedging reserve

Balance at beginning of the year	(1,206)	193	(517)	(195)
Gain/(Loss) recognised on cash flow hedges:				
Interest rate swaps/fx forwards	1,000	(1,691)	72	(447)
Deferred tax arising on hedges (note 20)	(165)	536	(20)	125
Gain on settlement of interest rate swaps to equity	(128)	(244)	-	-
Balance at the end of the year	(499)	(1,206)	(465)	(517)

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.

	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
11. RESERVES – continued				
Associate company asset revaluation reserve				
Balance at beginning of the year	10,104	3,262		
Gain/(Loss) recognised on cash flow hedges/assets	236	6,842		
Balance at end of year	10,340	10,104		
The reserve comprises assets within Dunedin International Airport Limited.				
12. RETAINED EARNINGS				
Balance at the beginning of the year				
Group companies	101,882	120,549	11,531	32,836
Associate companies	7,176	6,861	-	-
	109,058	127,410	11,531	32,836
Net profit for the year	20,512	(5,087)	16,884	(10,568)
Dividend distributions	(4,547)	(10,737)	(4,547)	(10,737)
Minority share of surplus	(11)	(6)	-	-
Transfer to reserves – forest (note 11)	(5,073)	(2,522)	-	-
Balance at the end of the year	119,939	109,058	23,868	11,531
<i>Represented by</i>				
Group companies	112,763	101,882	23,868	11,531
Associate companies	7,176	7,176	-	-
Balance at the end of the year	119,939	109,058	23,868	11,531
13. SHORT TERM BORROWINGS				
Consolidated group				
Bank loans repayable within one year	5,100	3,737	-	15
The group's bank loans are unsecured, short term, and are arranged at floating interest rates thus exposing the group to cash flow interest rate risk. The weighted average interest rate was 5.6% (2012: 4.6%).				
14. TRADE AND OTHER PAYABLES				
Trade payables	18,656	18,323	63	90
Due to related parties – DCHL subsidiaries	-	-	260	233
– Dunedin City Council and subsidiaries	44	131	-	-
Accruals	1,640	2,288	-	-
	20,340	20,742	323	323

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

	Group 2013 Asset \$'000	Group 2013 Liability \$'000	Group 2012 Asset \$'000	Group 2012 Liability \$'000
15. DERIVATIVE FINANCIAL INSTRUMENTS				
GROUP				
<i>Fair value</i>				
Forward foreign exchange contracts	601	323	1,372	-
Interest rate swaps	26,564	27,529	33,469	36,649
	27,165	27,852	34,841	36,649
Analysed as:				
Current	27,165	27,852	34,841	36,649
	27,165	27,852	34,841	36,649
	Parent 2013 Asset \$'000	Parent 2013 Liability \$'000	Parent 2012 Asset \$'000	Parent 2012 Liability \$'000
PARENT				
<i>Fair value</i>				
Interest rate swaps	-	646	-	718
Analysed as:				
Current	-	646	-	718
	-	646	-	718
	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
16. OTHER LIABILITIES				
Current liabilities				
GST payable	969	1,173	8	(9)
Other current liabilities	2,022	2,469	-	-
	2,991	3,642	8	(9)
Non-current liabilities				
Other non-current liabilities	320	320	-	-
	320	320	-	-
17. PROVISION				
Current liabilities				
Long service leave	230	242	-	-
Annual leave	4,208	4,369	9	3
Gratuities	175	274	-	-
Sick leave	103	108	-	-
Other provisions	380	353	-	-
	5,096	5,346	9	3
Non-current liabilities				
Long service leave	270	280	-	-
Gratuities	119	138	-	-
	389	418	-	-

	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
18. SHAREHOLDER'S ADVANCE				
Consolidated group and parent company				
Balance at the end of the year	112,000	112,000	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 \$5.9m (2012: \$7.2m) on the advance. The interest rate is struck annually, each July, based on rates paid in the market. In 2013, the gross interest on the debt averaged 5.27% (2012: 6.44%).

19. TERM BORROWINGS (secured)

Multi-option note facility	550,507	546,336	-	-
Forestry loans	8,365	11,063	-	-
Due to subsidiaries	-	-	37,401	37,766
	558,872	557,399	37,401	37,766

The term borrowings, which allow Dunedin City Treasury Limited to lend to the Dunedin City Council and its subsidiaries in addition to the Dunedin City Holdings Limited group, are secured against certain assets and undertakings of the group. The Dunedin City Treasury Limited multi-option note facility was increased by \$250 million to \$850 million in April 2011. Three independent banks have underwritten the facility to the amount of \$90 million. (2012: \$65m)

The amount of unamortised premium or (discount) on bonds on issue at 30 June 2013 is \$79,098 (2012: \$267,413)

Under the multi-option facility, cash is raised using two methods - promissory notes and bonds.

The tender of promissory notes under the multi-option note facility generally raises debt for a term of 90 days before being re-tendered. This type of borrowing is executed at the floating rate at the date of borrowing and exposes the group to cash flow interest rate risk. Interest rate derivatives are taken out to manage that risk. The credit risk from each derivative is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The second method involves the issuance of bonds at fixed interest rates that exposes the group to fair value interest rate risk. Several issues of bonds have been made, or agreed, as follows:

- a) \$50m issued for 8 years, maturing 15/11/13 at a coupon rate of 7.07%
- b) \$10m issued for 1.5 years, maturing 15/05/14 at a margin of 65bp over BKBM
- c) \$40m issued for 15 months, maturing 15/09/14 at a margin of 28bp over BKBM
- d) \$25m issued for 2 years, maturing 07/10/14 at a margin of 65bp over BKBM
- e) \$75m issued for 5 years, maturing 25/11/14 at a coupon rate of 6.40%
- f) \$50m floating rate notes, maturing 15/10/15 at a margin of 90bp over BKBM
- g) \$90m floating rate notes, maturing 15/04/16 at a margin of 107bp over BKBM
- h) \$50m issued for 10 years, maturing 15/11/16 at a coupon rate of 6.79%
- i) \$20m issued for 4 years, maturing 15/02/17 at a margin of 80bp over BKBM
- j) \$60m issued for 10 years, maturing 15/10/17 at a coupon rate of 7.81%
- k) \$50m issued for 7.5 years, maturing 15/07/18 at a coupon rate of 6.57%
- l) \$15m issued for 10 years, maturing 17/12/18 at a coupon rate of 6.85%

The forestry loans are from the Ministry of Forestry. They are fixed rate loans secured by registered first mortgage over certain land assets and are covered by repayment insurance. The amount is repayable in equal quarterly instalments through to 31 December 2021 and the interest applicable is 6.2%.

	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
19. TERM BORROWINGS (secured) – continued				
The repayment period on the term borrowings is as follows:				
Repayable between one to two years	217,797	51,101	-	-
Repayable between two to five years	274,450	375,152	37,401	37,766
Repayable later than five years	66,621	131,146	-	-
	558,872	557,399	37,401	37,766

The weighted average interest rate for the multi-option note facility at year end, inclusive of any current portion, was 4.99 % (2012: 5.19%).

The weighted average interest rate for the forestry loans is 6.09%, (2012: 6.217%).

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.

Multi-option note facility	642,344	639,936	-	-
Forestry loans	8,365	10,475	-	-

20. DEFERRED TAX

	Opening balance sheet	Charged to equity	Charged to income	Closing balance sheet assets	Closing balance sheet liabilities	Closing balance sheet net
Group 2013, \$'000						
Property, plant and equipment	52,364	-	884	-	53,248	53,248
Employee benefits	(1,590)	-	123	(1,467)	-	(1,467)
Forest	15,916	-	1,973	-	17,889	17,889
Forest costs capitalised	8,924	-	339	-	9,263	9,263
Other Investments	2,570	(32)	(1,741)	(1,743)	2,540	797
Hedge reserve – foreign exchange contracts	384	(306)	-	-	78	78
Hedge reserve – interest rate swaps	(888)	618	-	(616)	346	(270)
Balance at the end of the year	77,680	280	1,578	(3,826)	83,364	79,538

Group 2012, \$'000						
Property, plant and equipment	52,465	-	(101)	-	52,364	52,364
Employee benefits	(1,401)	-	(189)	(1,590)	-	(1,590)
Forest	14,935	-	981	-	15,916	15,916
Forest costs capitalised	8,587	-	337	-	8,924	8,924
Other Investments	2,124	-	446	(117)	2,687	2,570
Hedge reserve – foreign exchange contracts	634	(250)	-	-	384	384
Hedge reserve – interest rate swaps	(662)	(293)	67	(922)	34	(888)
Balance at the end of the year	76,682	(543)	1,541	(2,629)	80,309	77,680

Parent, 2013, \$'000						
Revaluations of interest rate swaps	201	(20)	-	181	-	181

Parent, 2012, \$'000						
Revaluations of interest rate swaps	76	125	-	201	-	201

	Group 2013 \$'000	Group 2012 \$'000
21. CONTINGENT LIABILITIES		
Performance bonds	4,168	4,062

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

22. DISCONTINUED OPERATIONS

On 1 July 2012, the board of directors of City Forests Limited entered into a lease agreement in respect of the processing mill at Milburn. The activities relating to the wind up of City Forests Limited operations at that plant have been reclassified to discontinued operations

Discontinued operations

Revenue	1,122	-
Less expenses and inventory movements	1,103	-
Profit before income tax expense	19	-
Income tax expense	5	-
	14	-

	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
23. CASH AND CASH EQUIVALENTS				
Cash and bank	14,469	4,453	2,057	-

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

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

24. TRADE AND OTHER RECEIVABLES

Trade receivables	33,134	34,672	-	-
Estimated impairment	(574)	(151)	-	-
	32,560	34,521	-	-
Due from related parties:				
– Subsidiaries	-	-	111	89
– Other related parties	5,414	4,200	115	-
Other current receivables	-	11	-	-
	37,974	38,732	226	89

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

	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
25. INVENTORIES				
Raw materials and stores	2,919	2,770	-	-
Work in progress	2,050	1,843	-	-
Finished goods	478	1,021	-	-
	5,447	5,634	-	-
26. CURRENT ASSETS HELD FOR SALE				
Delta Utility Services Limited property held for sale				
Balance at the beginning of the year	6,320	8,820	-	-
Less impairment/sale	(1,216)	(2,500)	-	-
Balance at the end of the year	5,104	6,320	-	-
Development in progress	2,480	2,793	-	-
New Zealand carbon credits	386	552	-	-
	7,970	9,665	-	-

The property held for sale is valued at the lower of cost and net realisable value.

27. INVESTMENTS IN SUBSIDIARY COMPANY SHARES				
Shares in subsidiary companies	-	-	167,026	157,240

Parent company

Name of entity (principal activities):	Percentage Interest Held	
Dunedin Transport Limited formerly Citibus Limited (transport)	-	100
City Forests Limited (forestry)	100	100
Dunedin City Treasury Limited (finance)	100	100
Aurora Energy Limited (energy)	100	100
Taieri Gorge Railway Limited (transport)	72	72
Delta Utility Services Limited (contractor and asset manager)	100	100

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.

The recoverable amount of the investment in City Forests Limited, in terms of NZIAS36 under which we are required to report, has been written back up by \$9.7m in comparison to last year's impairment of \$15.2m. This takes into account the fair value of City Forests Limited's forestry assets, as confirmed by an independent peer review as at 30 June 2013.

	Group 2013	Group 2012
28. INVESTMENTS IN ASSOCIATE COMPANIES		
Consolidated group		
Name of entity (principal activities)	Percentage interest held	
Dunedin International Airport Limited (transport)	50.0	50.0
Otago Chipmill Limited (forestry)	49.9	49.9
Interlogic Online Limited (internet)	36.1	44.2
Waitaki Wind Limited (energy)	25.0	25.0

For the purpose of applying the equity method of accounting, the financial statements of Dunedin International Airport Limited, Otago Chipmill Limited and the Interlogic Online Limited for the year ended 30 June have been used.

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

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

Summarised financial information in respect of the group's associates is set out below:

Associates net assets (group share)	\$'000	\$'000
Total assets	39,694	39,161
Less total liabilities	(17,245)	(17,480)
Net assets	22,449	21,681
Associates surplus/(deficit) for the period (group/share)		
Revenue	6,406	6,271
Surplus for the period	863	569
Increase/(Decrease) in asset valuation reserve	236	6,842
Total recognised revenues and expenses	1,099	7,411
Opening carrying value	21,680	14,644
Dividends	(330)	(374)
Closing carrying value	22,449	21,681

	Parent 2013	Parent 2012
29. INVESTMENTS IN ASSOCIATE COMPANIES		
Parent Company	Percentage Interest Held	
Dunedin International Airport Limited (transport)	50.0	50.0
Interlogic Online Limited (internet)	36.1	36.1
Interest in associate companies	\$'000	\$'000
The associate companies have a balance date of 30 June	4,400	4,400

	Group 2013	Group 2012	Parent 2013	Parent 2012
30. INVESTMENT IN JOINTLY CONTROLLED OPERATIONS	Percentage Interest Held			
Luggate Park development	50.0	50.0		
	\$'000	\$'000	\$'000	\$'000
Long-term advance				
Long-term advance representing a 50% share in the land value of Luggate Park				
– Balance at the beginning of the year	288	5,288		
Less impairment/loss	(165)	(5,000)		
Total investment in jointly controlled operations at Luggate Park	133	288		
Interest in joint venture				
<i>Current assets</i>				
Development property	682	493		
<i>Non-current assets</i>				
Development property	-	-		
Total assets	682	493		
<i>Current liabilities</i>				
Westpac Banking Corporation loan	857	868		
Other	370	5		
Retained earnings	(545)	(380)		
Total equity and liabilities	682	493		
Revenue	107	2		
Less expense	272	79		
Net (deficit) for the year	(165)	(77)		

The fair value of the long term advance at the end of the year resulted from a reassessment of market value, less the costs to sell, by the board of Delta Utility Services Limited.

31. INVESTMENTS non-current				
Loan repayments due from Dunedin City Council				
Maturity one to five years	73,953	65,859	-	-
Maturity over five years	277,482	281,139	-	-
	351,435	346,998	-	-
Shares and units in other companies and funds	11	10	-	-
Mortgage receivables				
Maturity one to five years	506	981	-	-
Maturity over five years	-	-	-	-
	506	981	-	-
Total other investments	351,952	347,989	-	-

No mortgage receivables are past due or impaired, either in the current year or the previous comparative period.

31. INVESTMENTS non-current – continued**Advances consolidated group**

The advances (above) due from the Dunedin City Council and its subsidiaries outside the Dunedin City Holdings Limited group had a weighted average interest rate of 6.32 % (2012: 6.24%).

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.

	Group 2013 \$'000	Group 2012 \$'000
32. FORESTRY ASSETS		
Balance at the beginning of the year	103,528	100,335
Add: Costs capitalised in establishing forests during the year	2,147	2,568
Revaluation	7,046	3,503
Less: Value of logs harvested	(4,132)	(2,878)
	108,589	103,528
Gains/(Losses) arising from changes in fair value less point of sale costs:		
Attributable to physical changes	(12,137)	364
Attributable to price changes	17,198	2,828

The directors of City Forests Limited revalue its forestry assets annually and Dunedin City Holdings Limited adopts that value. The methodology used established the current market value of the collective forest and land resource and then subtracts the value of the land at \$25,113,800 value (see note 33). 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 period to period is reflected in the Income Statement.

Fair value requires calculating the present value of expected net cash flows using a post-tax discount rate. The discount rate used is 7.0%.

At 30 June 2013 the company owned stands of trees on 16,114 hectares of a total land holding of 19,987 hectares. During the year the company harvested approx. 302,096 m3 of logs from its forests

City Forests Limited is exposed to financial risks associated with USD log price and the USD sawn timber prices. This risk is managed through its financial management policy described within note 36.4, Currency Market Risk. City Forests Limited is a long-term forestry investor that expects log prices to fluctuate within a commodity cycle. It is not possible to hedge against 100% of the price cycle but the company does manage harvest volumes to minimise the effect of the commodity price cycle over the longer term.

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

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

32. FORESTRY ASSETS – continued**New Zealand carbon credits**

The New Zealand Emissions Trading Scheme was enacted under the Climate Change Response Amendment Act 2008 and was made into law on 26 September 2008.

A forest owner with forests established after 31 December 1989, under the Act, may opt to join the Emissions Trading Scheme. Post-89 forests will earn carbon credits (NZUs) from 1 January 2008 and these may be traded within New Zealand or converted into Assigned Amount Units (AAUs) and sold internationally. City Forests Limited completed registration of the Post-89 forests under the Emissions Trading Scheme in January 2010. These forests have been sequestering carbon under the scheme since 1 January 2008. Subsequent to our Post-89 registration, the New Zealand Government has allocated City Forests Limited a total of 811,364 Post-89 derived NZUs, being the carbon sequestered by these forests during the 2008 to 2013 calendar years. In 2013 80,000 Post-89 NZUs (2012 80,000) have been sold to emitters with New Zealand interests, and 200,000 pre 1990 NZUs have been sold,

As at 30 June 2013, 214,277 units were unsold (2012 81,176). 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:

	As at 30 June 2013 \$'000	As at 30 June 2012 \$'000
New Zealand carbon credits	386	552

33. PROPERTY, PLANT AND EQUIPMENT

Group 2013, \$'000	Land	Forest	Buildings land	Roads & bridges	Network	Plant & equipment	Sub-total
Cost or valuation							
Balance at beginning of period	11,337	25,114	19,301	6,349	427,222	25,138	514,461
Increase through acquisition	-	-	-	-	-	-	-
Purchases/Revaluation	439	-	1	29	13,899	694	15,062
Sales	-	-	-	-	-	(517)	(517)
Transfer to assets held for sale	-	-	-	-	-	-	-
Balance at end of period	11,776	25,114	19,302	6,378	441,121	25,315	529,006
Accumulated depreciation							
Balance at beginning of period	110	-	3,218	3,268	85,035	15,741	107,372
Depreciation	-	-	299	162	12,509	1,726	14,696
Impairment	-	-	-	-	-	-	-
Sales	-	-	-	-	-	(319)	(319)
Transfer to assets held for sale	-	-	-	-	-	-	-
	110	-	3,517	3,430	97,544	17,148	121,749
Balance at end of period	11,666	25,114	15,785	2,948	343,577	8,167	407,257
Comprising – Cost	11,666	-	15,785	2,948	343,577	8,167	382,143
– Valuation	-	25,114	-	-	-	-	25,114

Group 2013, \$'000	Sub-total	Motor vehicles	Office equipment	Locomotives	Railway track	Construction	Total
Cost							
Balance at beginning of period	514,461	42,619	1,748	3,519	409	6,475	569,231
Increase through acquisition	-	-	-	-	-	-	-
Purchases/Revaluation	15,062	1,714	70	504	-	4,787	22,137
Sales	(517)	(6,049)	(91)	-	-	(11)	(6,668)
Transfer to assets held for sale	-	-	(61)	-	-	-	(61)
Balance at end of period	529,006	38,284	1,666	4,023	409	11,251	584,639
Accumulated depreciation							
Balance at beginning of period	107,372	23,745	1,228	1,634	184	-	134,163
Depreciation	14,696	3,762	94	183	-	-	18,735
Impairment (refer to footnote)	-	-	-	-	-	-	-
Sales	(319)	(4,840)	(98)	-	-	-	(5,257)
Transfer to assets held for sale	-	-	-	-	-	-	-
	121,749	22,667	1,224	1,817	184	-	147,641
Balance at end of period	407,257	15,617	442	2,206	225	11,251	436,998
Comprising – cost	382,143	15,617	442	2,206	225	11,251	411,884
– valuation	25,114	-	-	-	-	-	25,114
Group 2012, \$'000	Land	Forest	Buildings land	Roads & bridges	Network	Plant & equipment	Sub-total
Cost or valuation							
Balance at beginning of period	11,166	25,524	19,295	6,218	408,882	23,994	495,079
Increase through acquisition	-	-	-	-	-	-	-
Purchases/Revaluation	201	(410)	6	131	18,558	2,174	20,660
Sales	(30)	-	-	-	(218)	(1,030)	(1,278)
Transfer to assets held for sale	-	-	-	-	-	-	-
Balance at end of period	11,337	25,114	19,301	6,349	427,222	25,138	514,461
Accumulated depreciation							
Balance at beginning of period	-	-	2,175	3,104	72,626	12,311	90,216
Depreciation	-	-	317	164	12,476	1,925	14,882
Impairment	110	-	726	-	-	2,103	2,939
Sales	-	-	-	-	(67)	(598)	(665)
Transfer to assets held for sale	-	-	-	-	-	-	-
	110	-	3,218	3,268	85,035	15,741	107,372
Balance at end of period	11,227	25,114	16,083	3,081	342,187	9,397	407,089
Comprising – Cost	11,227	-	16,083	3,081	342,187	9,397	381,975
– Valuation	-	25,114	-	-	-	-	25,114

33. PROPERTY, PLANT AND EQUIPMENT – continued

Group 2012, \$'000	Sub-total	Motor vehicles	Office equipment	Locomotives	Railway track	Construction	Total
Cost							
Balance at beginning of period	495,079	38,617	1,733	3,244	409	6,795	545,877
Increase through acquisition	-	-	-	-	-	-	-
Purchases/Revaluation	20,660	4,792	33	275	-	-	25,760
Sales	(1,278)	(790)	(18)	-	-	(320)	(2,406)
Transfer to assets held for sale	-	-	-	-	-	-	-
Balance at end of period	514,461	42,619	1,748	3,519	409	6,475	569,231
Accumulated depreciation							
Balance at beginning of period	90,216	20,484	1,123	1,463	184	-	113,470
Depreciation	14,882	3,876	110	171	-	-	19,039
Impairment (refer to footnote)	2,939	56	5	-	-	-	3,000
Sales	(665)	(671)	(10)	-	-	-	(1,346)
Transfer to assets held for sale	-	-	-	-	-	-	-
	107,372	23,745	1,228	1,634	184	-	134,163
Balance at end of period	407,089	18,874	520	1,885	225	6,475	435,068
Comprising – Cost	381,975	18,874	520	1,885	225	6,475	409,954
– Valuation	25,114	-	-	-	-	-	25,114

The value in use calculation of the Milburn timber mill asset by the board of City Forests Limited resulted from a comparison made between the carrying value and the estimated future cash flows, discounted at 10%, from the income of the mill lease.

	Parent 2013 \$'000	Parent 2012 \$'000
Cost		
Balance at beginning of period	10	10
Purchases	-	-
Sales	-	-
Balance at end of period	10	10
Accumulated depreciation		
Balance at beginning of period	9	9
Depreciation	1	1
Sales	-	-
Balance at end of period	10	10
Property plant and equipment at end of period	-	-

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

	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
34. RECONCILIATION OF NET SURPLUS FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES				
Net surplus/(deficit) for the year	20,512	(5,087)	16,884	(10,568)
Share of net surplus/(deficit) in associate companies	(863)	(568)	-	-
<i>Items not involving cash flows</i>				
Depreciation	18,785	19,249	-	1
Depletion of forest	4,132	2,878	-	-
Deferred tax	1,858	998	(20)	(137)
Asset impairment	-	12,044	(9,786)	15,219
Forest revaluation	(7,046)	(3,503)	-	-
Other non-cash items	167	173	20	87
<i>Impact of changes in working capital items</i>				
(Increase)/Decrease in trade and other receivables	758	(6,706)	(137)	80
(Increase)/Decrease in inventories	187	1,789	-	-
(Increase)/Decrease in prepayments	(1,338)	245	-	-
(Increase) /Decrease in tax refund due	533	(391)	-	-
Increase /(Decrease) in trade and other payables	(1,449)	(1,218)	5	83
Increase /(Decrease) in provision for tax	1,832	(1,877)	-	-
Increase/(Decrease) in other current liabilities	(651)	1,613	18	(19)
<i>Items classified as investing or financing activities</i>				
Gain on sale of property, plant and equipment	(1,672)	(90)	-	-
Loss on sale of property, plant and equipment	-	-	-	-
Net cash inflows from operating activities	35,745	19,549	6,984	4,746

35. CAPITAL EXPENDITURE COMMITMENTS

Plant and equipment	8,163	8,402
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The parent company has no capital expenditure commitments. (2012 : Nil)

36. FINANCIAL RISK

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

36.1 Capital management strategy

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

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

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

36.2 Liquidity risk

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

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

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

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

The maturity profile and effective interest rates of the group term borrowings are set out in note 19. The maturity profiles of the group's financial assets and liabilities, with the exception of equity investments, are explained on the next page.

Group 2013, \$'000	Maturity date 1 year or less \$'000	Maturity date over 1 year & less than or equal to five years \$'000	Maturity date over 5 years \$'000	Total \$'000
Financial assets				
Cash and cash equivalents	14,469	-	-	14,469
Trade and other receivables	37,974	-	-	37,974
Advances due from related party	21,849	73,953	277,482	373,284
Mortgage receivables	46	189	317	552
Derivative financial instruments	27,165	-	-	27,165
NZ carbon credits	386	-	-	386
	101,889	74,142	277,799	453,830

Group 2013, \$'000	Maturity date 1 year or less \$'000	Maturity date over 1 year & less than or \$'000	Maturity date over 5 years \$'000	Total equal to five years \$'000
Financial Liabilities				
Cash and cash equivalents	1,391	-	-	1,391
Advances due to related party	4,913	-	-	4,913
Trade and other payables	20,340	-	-	20,340
Other liabilities	9,247	-	-	9,247
Borrowings	61,765	492,251	178,621	732,637
Derivative financial instruments	27,852	-	-	27,852
	125,208	492,251	178,621	796,380

Group 2012, \$'000**Financial assets**

Cash and cash equivalents	4,453	-	-	4,453
Trade and other receivables	38,732	-	-	38,732
Advances due from the DCC	19,128	65,859	281,139	366,126
Mortgage receivables	-	981	-	981
Derivative financial instruments	34,841	-	-	34,841
NZ carbon credits	552	-	-	552
	97,706	66,840	281,139	445,685

Group 2012, \$'000**Financial liabilities**

Cash and cash equivalents	3,737	-	-	3,737
Advance-related party	1,637	-	-	1,637
Trade and other payables	20,742	-	-	20,742
Other liabilities	2,736	-	-	2,736
Borrowings	60,489	421,335	248,726	730,550
Derivative financial instruments	36,649	-	-	36,649
	125,990	421,335	248,726	796,051

36.3 Interest rate risk

Each company with material debt within the Dunedin City Holdings Limited group has its own interest rate risk management policy approved by its own board. This policy determines, for economic reasons, the proportion of projected debt that is fixed by the issue of fixed rate debt or by interest rate swaps. The treasury company monitors, on a monthly basis, the level of fixed interest rates for the next ten years and compares this against anticipated debt levels.

The group uses interest rate swaps to manage its exposure to interest rate movements on its multi-option facility borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. The treasury policies of each company recommend that the level of the fixed interest hedge should be limited to a series of ranges within set debt time periods.

Group interest rate risk

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

	Group 2013 \$'000	Group 2012 \$'000
Maturing in less than one year	7,500	16,500
Maturing between one and five years	168,000	143,000
Maturing in more than five years	155,500	132,500
	331,000	292,000

36.3 Interest rate risk – continued*Parent interest rate risk*

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

	Parent 2013 \$'000	Parent 2012 \$'000
Maturing in less than one year	-	-
Maturing between one and five years	-	-
Maturing in more than five years	5,000	5,000
	5,000	5,000

36.4 Currency market risk

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

Projected sales up to three years out may be covered by forward exchange hedging instruments. Transactions may be undertaken only with a core of nominated international banks and the quantities of the transactions are subject to limits against each individual bank. The types of transactions that may be carried out are limited by policy and a report on foreign funds held and the forward cover in place is provided at each meeting of directors.

Other companies within the group will occasionally purchase forward cover against expected purchases in foreign currency. At balance sheet date, the total notional amount and fair values of outstanding forward foreign exchange contracts to which City Forests Limited is committed are as follows:

	Group 2013 \$'000	Group 2012 \$'000
Forward foreign exchange contracts – fair value	278	1,336
– nominal value	21,486	21,944
(Sale of USD and purchase of NZD)		
Forward foreign exchange contracts – fair value	-	30
– nominal value	-	477
(Sale of NZD and purchase of USD)		
Forward foreign exchange contracts – fair value	-	4
– nominal value	-	322
(Sale of AUD and purchase of NZD)		

All contracts are current.

36.5 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 2013 %	Group 2012 %	Parent 2013 %	Parent 2012 %
Effectiveness	100	100	100	100

36.6 Credit risk

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

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

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

Trade receivables consist of a large number of customers spread across diverse industries and geographical areas.

The group does not have any significant credit risk exposure to any single counterparty or group of counterparties having similar characteristics.

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

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

	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
Past due receivables				
Age analysis: 30-60 days	557	2,706	-	-
60-90 days	188	362	-	-
90 days plus	858	608	-	-

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	AA \$'000 2013	AA- \$'000 2013	No rating \$'000 2013	Group \$'000 2013
Cash and cash equivalents	-	14,569	-	14,469
Trade and other receivables	1,351	-	36,623	37,974
Advances due from related parties	227,357	-	145,927	373,284
Mortgage receivables	-	-	552	552
Derivatives	-	27,165	-	27,165
NZ carbon credits	-	-	386	386
	228,718	41,634	183,488	453,830

Financial assets analysis	AA \$'000 2012	AA- \$'000 2012	No rating \$'000 2012	Group \$'000 2012
Cash and cash equivalents	-	4,453	-	4,453
Trade and other receivables	1,486	-	37,246	38,732
Advances due from related parties	336,126	-	-	336,126
Mortgage receivables	-	-	981	981
Derivatives	-	34,841	-	34,841
NZ carbon credits	-	-	552	552
	367,612	39,294	38,779	445,685

36.7 Sensitivity analysis of financial assets and liabilities

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

- > Proportional foreign exchange rate movement of -10% (depreciation of NZD) and a +10% (appreciation of the NZD) against the USD, from the year end rate of 0.793. A parallel shift of +1%/-1% in the NZD market interest rate from the year end 90 day BBBR of 2.64% (2012: 2.68%).

36.7 Sensitivity analysis of financial assets and liabilities – continued

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.

2013, \$'000	Carrying amount	Interest rate				FX			
		-100bp		+100bp		-10%		+10%	
		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Financial assets									
Derivatives – designated as cash flow hedges (interest rate swap and forward currency deals separately disclosed)	27,165	-	(10,520)	-	10,010	-	2,241	-	(1,833)
Other financial assets	426,674	(3,721)	(3,721)	3,721	3,721	-	-	-	-
	453,839								
Financial liabilities									
Derivatives – designated as cash flow hedges (interest rate swaps and forward currency deals separately disclosed)	27,852	-	13,671	-	(12,876)	-	-	-	-
Other financial liabilities	768,528	2,003	2,003	(2,003)	(2,003)	-	-	-	-
	796,380								
TOTAL INCREASE/(DECREASE)		(1,718)	1,433	1,718	(1,148)	-	2,241	-	(1,833)

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. External borrowings within each of the companies of the group are subject to an interest rate hedging 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. The shareholder's advance of \$112m from the Dunedin City Council to Dunedin City Holdings Limited is variable rate debt that is not hedged.

36.8 Fair value of financial instruments

Fair value measurements recognised in the statement of financial position

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

Level 1	Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3	Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2013, NZ \$'000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	27,165	-	27,165
New Zealand carbon credits	386	-	-	386
	<u>386</u>	<u>27,165</u>	<u>-</u>	<u>27,551</u>
Financial liabilities				
Derivative financial liabilities	-	27,852	-	27,852
	<u>-</u>	<u>27,852</u>	<u>-</u>	<u>27,852</u>
2012, NZ \$'000				
Financial assets				
Derivative financial assets	-	34,841	-	34,841
New Zealand carbon credits	552	-	-	552
	<u>552</u>	<u>34,841</u>	<u>-</u>	<u>35,393</u>
Financial liabilities				
Derivative financial liabilities	-	36,649	-	36,649
	<u>-</u>	<u>36,649</u>	<u>-</u>	<u>36,649</u>

37. RELATED PARTY TRANSACTIONS

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

Group

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 27 to the Financial Statements.

Details of the percentage of ordinary shares held in associates are disclosed in note 28 to the Financial Statements.

Amounts receivable from and payable to related parties at balance date are disclosed in notes, 14 and 24.

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

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

	Group 2013 \$'000	Group 2012 \$'000
Sales of services to the Dunedin City Council and its subsidiaries outside the Dunedin City Holdings Limited group:		
Contracting services	10,434	11,619
Interest income	24,820	24,005
Transport services	127	158
	<u>35,381</u>	<u>35,782</u>
Purchases of goods and services from the Dunedin City Council and its subsidiaries outside the Dunedin City Holdings Limited group:		
Interest	5,903	7,213
Dividends	4,547	10,737
Materials/Network assets	253	669
Rates and property rentals	745	583
Administration and office services	55	52
	<u>11,503</u>	<u>19,254</u>

	Group 2013 \$'000	Group 2012 \$'000
37. RELATED PARTY TRANSACTIONS – continued		
As at balance date:		
Receivable from the Dunedin City Council and subsidiaries	<u>377,511</u>	370,326
Payable to the Dunedin City Council and subsidiaries (inclusive of shareholder's advance)	<u>112,044</u>	112,131

Transactions with associate companies

The group also conducted the following commercial transactions with associate companies.

Received or receivable from associate companies:

Forest products sold to chipmill	6	783
Dividends	200	175
Management fee	-	25
	<u>206</u>	<u>983</u>

Paid or payable to associate companies:

City Forests Limited purchases from chipmill	<u>7</u>	-
----------------------------------------------	----------	---

As at balance date.

Receivable from associate companies	-	2
Payable to associate companies	-	-

No related party debts have been written off or forgiven during the year and no provision has been required for impairment of any receivables due from related parties.

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

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

During the course of the year:

- > City Forests Limited, Taieri Gorge Railway Limited and Delta Utility Services Limited paid \$5,000 (2012: \$10,000) for materials and mechanical services to Palmers Mechanical Limited, an organisation of which Mr R D Liddell is a director. No monies were outstanding at 30 June 2013 (2012: \$2,000). Contracting services of \$52,000 were provided to Palmer Mechanical (2012: nil). No monies were outstanding at 30 June.
- > City Forests Limited, Delta Utility Services Limited and Taieri Gorge Railway Limited paid \$363,000 (2012: \$465,000) for materials to Blackhead Quarries Limited, an organisation of which Mr R D Liddell and Mr A W Baylis are directors. \$20,000 was outstanding at 30 June 2013 (2012: \$71,000). Blackhead Quarries Limited made no purchases from Delta Utility Services Limited in 2013 (2012: \$113,000).
- > City Forests Limited, Delta Utility Services Limited and Taieri Gorge Railway Limited paid \$8,000 (2012: \$15,000) for training services to the Otago and Southland Employers Association, an organisation of which Mr S J McLauchlan is a director. No monies were outstanding at 30 June. (2012: nil)
- > City Forests Limited, Delta Utility Services Limited and Aurora Energy Limited sold services to the value of \$53,000 (2012: \$33,000) and purchased services to a value of \$26,000 (2012: \$35,000) from the University of Otago, an organisation of which Mr S J McLauchlan is the Pro-Chancellor. \$4,000 was outstanding to the University at 30 June 2012 (2012: \$3,000).

- > Delta Utility Services Limited sold no contracting services in 2013 (2012: \$5,000) to Lake Hayes Estate Limited, an organisation of which Mr M O Coburn is a director. No monies were outstanding at 30 June (2012: nil).
- > Delta Utility Services Limited purchased services to a value of \$12,000 (2012: \$31,000) from Ruboc Holdings Limited, an organisation of which Mr M O Coburn was a director. No monies were outstanding at 30 June (2012: nil)
- > Delta Utility Services Limited provided contracting services and credits to the value of \$25,000 (2012: \$675,000) from Lund South Limited, an organisation of which Mr S J McLauchlan is a director. No monies were outstanding at 30 June (2012: \$310,000).
- > Delta Utility Services Limited this year provided no (2012: \$1,000) contracting services to Roxdale Foods Limited, an organisation of which Mr S J McLauchlan is a director.
- > Delta Utility Services Limited and Taieri Gorge Railway Limited purchased \$3,000 (2012: \$3,000) of services from Cargill Hotel 2002, an organisation of which Mr S J McLauchlan is a director. No monies were outstanding at 30 June.
- > Taieri Gorge Railway Limited paid \$5,000 (2012: \$21,000) for services from Oceana Gold Corporation, an organisation of which Mr J D Shale is a director. Contracting services were provided by Delta Utility Services Limited this year to the value of \$33,000 (2012: \$459,000). \$3,000 was outstanding at 30 June. (2012: \$84,000)
- > Taieri Gorge Railway Limited paid \$47,000 (2012: nil) for services from Action Engineering Limited an organisation of which Mr G Crombie is a director. No monies were outstanding at 30 June (2012: nil)
- > Delta Utility Services purchased materials and services to the value of \$1,031,000 (2012: nil) from ETEL an organisation of which Mr D Frow is a director. An amount of \$31,000 was outstanding at 30 June (2012: nil)
- > Delta Utility Services Limited provided services to a value of \$9,000 (2012: nil) to Lakes Environmental Limited, an organisation of which Mr M O Coburn was a director. No monies were outstanding at 30 June (2012: nil)
- > Taieri Gorge Railway Limited paid \$16,000 (2012: \$19,000) to Mr J Chapman for train staffing and workshop services.
- > Dunedin City Holdings Limited paid \$21,000 (2012: \$52,000) for consulting services to Mr J D Shale. Mr Shale is a director of Dunedin City Holdings Limited
- > Dunedin City Holdings Limited paid \$14,000 (2012: \$44,000) for consulting services to Edincorp Business Services Limited. Mr A W Baylis is a director of both Dunedin City Holdings Limited and Edincorp Business Services Limited.
- > Dunedin City Holdings Limited paid \$2,000 (2012: nil) for consulting services to Mrs K E Grant. Mrs K E Grant is a director of Dunedin City Holdings Limited.
- > Dunedin City Holdings Limited paid \$12,000 (2012: nil) for consulting services to Polson Higgs. Mr G W Crombie, at the time of the contract, was a partner of Polson Higgs. Mr G W Crombie is a director of Dunedin City Holdings Limited.
- > Delta Utility Services Limited, Aurora Energy Limited, Dunedin City Treasury Limited and City Forests Limited paid \$186,000 (2012:209,000) for legal services to Gallaway Cook Allan, an organisation of which Mrs K E Grant is a Consultant.

	Group	Group	Parent	Parent
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Compensation of key management personnel				
The remuneration of directors and other members of key management during the year was as follows.				
Short-term benefits	3,466	3,541	451	338

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

Parent company

The parent company has executed transactions with the Dunedin City Council (its owner) and its subsidiaries and associates (as listed in Notes 27 and 28). Transactions with all four parties are called 'related party transactions' and were made on commercial terms and conditions and at market contained in Notes 2, 4, 6, 14 and 24.

	Group 2013 \$'000	Group 2012 \$'000	Parent 2013 \$'000	Parent 2012 \$'000
37. RELATED PARTY TRANSACTIONS – continued				
Purchases of goods and services, payments made				
Dunedin City Council				
Dividends			4,547	10,737
Interest			5,903	7,213
Other			29	24
Subsidiaries			2,085	1,963
			<u>12,564</u>	<u>19,937</u>
 Sales of goods and services, payments received				
Dunedin City Council			-	-
Subsidiaries				
Dividends			15,150	13,804
Other			312	314
Associates				
Dividends			330	198
			<u>15,792</u>	<u>14,316</u>
38. LEASE COMMITMENTS				
Minimum operating lease payments				
Payable within one year	1,172	1,042	6	6
Payable between one to five years	2,051	1,587	-	6
Payable later than five years	303	195	-	-
	<u>3,526</u>	<u>2,824</u>	<u>6</u>	<u>12</u>

39. STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of accounting standards have been issued but as they are not yet compulsory they have not been applied to this set of accounts. The standard to be applied to future financial statements is NZ IFRS 9. NZ IAS 39 is being replaced by NZ IFRS 9 through three phases: phase 1 classification and measurement, phase 2 impairment methodology and phase 3 hedge accounting. The new standard is required to be adopted for the year ended 30 June 2016.

40. EVENTS AFTER BALANCE SHEET DATE

There were no significant events after balance date.

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RESPONSIBILITIES AND EXPERIENCE

<i>Director</i>	<i>Qualifications and Experience</i>	<i>Responsibilities</i>
Graham W Crombie	Company director Chairman, NZ Institute of Chartered Accountants Chairman, Otago Museum Trust Chairman, Action Engineering Limited Chairman, NZ Genomics Limited Director, Innovatio Limited Trustee, Arai Te Uru Kokiri Centre Charitable Trust	Non-executive Chairman Appointed 17 July 2012
A W (Bill) Baylis	Company director Chairman, Blackhead Quarries Limited Chairman, Dairy Holdings Limited Chairman, Institute of Directors Accreditation Board Chairman, Landcorp Farming Limited and Subsidiaries Director, Palmer & Son Limited Director, Palmer Oliver Holdings Limited Director, Port of Tauranga Limited Director, Tenby Estate Limited Director, Edincorp Business Services Limited Trustee, Carisbrook Stadium Trust	Non-executive Director Appointed 31 October 2011
Kathy E Grant	Company director Chair of Council, Otago Polytechnic Deputy Chair, Sport Otago Consultant, Gallaway Cook Allan Director, Southern Sinfonia Director, Dunedin International Airport Limited Trustee, Anglican Family Care	Non-executive Director Appointed 17 July 2012
J D (Denham) Shale	Company director Chairman, The Farmers Trading Company Limited Group Chairman, Jenkin Timber Limited Chairman, Mercy Hospice Auckland Foundation Director, Carlaw Heritage Trust Inc Director, Carlaw Heritage Limited Director, Carlaw Heritage (Stage Two) Limited Director, Carlaw Campus GP Limited Director, Carlaw Stage 2 GP Limited Director, Consortium Limited Director, Consortium Media Limited Director, D'Argent Trust Limited Director, Oceana Gold Limited Director, Oceana Gold Corporation Director, Turners Auctions Limited Director, Whitcoulls 2011 Limited	Director Appointed 31 October 2011

The constitution of Dunedin City Holdings Limited states that one third of the directors retire by rotation and directors appointed through the year must also retire. However, both Mr Shale and Mr Baylis will retire at the end of the calendar year to be replaced by new appointees chosen in accordance with Dunedin City Council policy in a process currently in progress.

DIRECTORS' REMUNERATION AND BENEFITS**Parent company**

<i>Director</i>	<i>\$</i>	<i>Company</i>
J D (Denham) Shale	71,291	Dunedin City Holdings Limited
A W (Bill) Baylis	46,450	Dunedin City Holdings Limited
Graham W Crombie	46,379	Dunedin City Holdings Limited
Kathy E Grant	46,486	Dunedin City Holdings Limited
Parent company total	210,606	

Subsidiaries

<i>Director</i>	<i>\$</i>	<i>Company</i>
Tony D Allison	18,583	City Forests Limited
Michael O Coburn	7,000	Aurora Energy Limited
	26,908	City Forests Limited
	7,117	Delta Utility Services Limited
Norman G Evans	7,000	Aurora Energy Limited
	7,491	City Forests Limited
	6,950	Delta Utility Services Limited
David F Frow	15,000	Aurora Energy Limited
	15,000	Delta Utility Services Limited
John F Gallaher	18,583	City Forests Limited
Ross D Liddell	10,973	Aurora Energy Limited
	47,859	City Forests Limited
	11,479	Delta Utility Services Limited
	37,313	Dunedin City Treasury Limited
Stuart J McLauchlan	25,667	Aurora Energy Limited
	7,491	City Forests Limited
	25,783	Delta Utility Services Limited
Ian M Parton	15,000	Aurora Energy Limited
	15,000	Delta Utility Services Limited
Raymond S Polson	42,840	Aurora Energy Limited
	44,308	Delta Utility Services Limited
Bevan R N Dodds	nil	Dunedin City Treasury Limited
	11,233	Taieri Gorge Railway Limited
Athol J Stephens	nil	Dunedin City Treasury Limited
Grant A Dodson	nil	Dunedin City Treasury Limited
Grady W Cameron	nil	Dunedin City Treasury Limited
John E Farry	17,250	Taieri Gorge Railway Limited
John M Chapman	11,233	Taieri Gorge Railway Limited
F John McCall	11,233	Taieri Gorge Railway Limited
Gary M Williams	11,233	Taieri Gorge Railway Limited
Hon Stan Rodger	11,233	Taieri Gorge Railway Limited
Subsidiaries total	\$486,760	
Group total	\$697,366	

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INSURANCE

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

DIRECTORS' BENEFITS

No director of Dunedin City Holdings Limited has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total remuneration received or due, and receivable by the directors as disclosed in the group financial statements). No directors have received loans from the parent company or the group. There were no notices from directors of the company requesting to use company information which had been received in their capacity as directors, and which would not otherwise have been available to them.

EVENTS SUBSEQUENT TO BALANCE DATE

The directors are not aware of any matters or circumstances since the end of the financial year not otherwise dealt with in this report or the group financial statements that have significantly, or may significantly, affect the operations of Dunedin City Holdings Ltd, the results of those operations or the state of affairs of the parent company or the group.

EMPLOYEE REMUNERATION

Details of remuneration ranges (inclusive of retirement allowances) for employees of the holding company and subsidiaries are:

<i>Number of Employees</i>	<i>Parent Company</i>	<i>Subsidiaries</i>
<i>Remuneration Range</i>		
\$450,000-459,999	-	1
\$250,000-259,999	-	2
\$240,000-249,999	1	1
\$230,000-239,999	-	-
\$220,000-229,999	-	1
\$210,000-219,000	-	-
\$200,000-209,000	-	2
\$190,000-199,999	-	-
\$180,000-189,999	-	1
\$170,000-179,999	-	1
\$160,000-169,999	-	3
\$150,000-159,999	-	3
\$140,000-149,999	-	5
\$130,000-139,999	-	6
\$120,000-129,999	-	8
\$110,000-119,999	-	9
\$100,000-109,999	-	19

statement of service performance

Statement of service performance for the year ended 30 June 2013

The performance targets established in the 2012/2013 Statement of Corporate Intent for Dunedin City Holdings Limited, and group, and the results achieved for the Year Ended 30 June 2013 are as follows.

<i>Performance targets</i>	<i>Outcome achieved</i>
ECONOMIC	
1.0 Value added At the half year and the full year to assess the economic value added and the appropriateness of rates of return for each of the group companies.	Rates of return reviewed and value added assessed at the half year and full year.
2.0 Dunedin City Council objectives A review of the draft Statements of Corporate Intent for 2012/2013 to be completed by 31 July 2012.	The review of the draft 2013/2014 Statements of Corporate Intent reported to the Council for February 2013.
3.0 Operating activities Monthly reviews of the operating activities of the group companies to be undertaken by the Board of Dunedin City Holdings Limited.	Monthly reviews of the operating activities of the group companies have been performed.
4.0 Matters of substance The Chairman to report matters of substance to the Dunedin City Council within five days of occurrence.	All matters of substance were reported to the Council within five days of occurrence.
5.0 Performance monitoring Continual reviews to be undertaken by Dunedin City Holdings Limited of the operating strategies, financial performance and service delivery of the group Companies.	Continual reviews of performance throughout the group have been undertaken.
6.0 Financial strength (i) The annual credit review by Standard and Poor's of the group's financial position to confirm a rating of A or better. (ii) The capital structure of the group companies will be reviewed at the half-year and full year.	At year end the long-term credit rating from Standard and Poor's was AA. Ongoing reviews of capital structures within the group were performed.
SOCIAL	
7.0 Reporting (i) Monthly reports to be received from the group companies within 35 days from the end of the month under review. (ii) Reports are to be provided to the Dunedin City Council within 45 days after the end of each quarter by Dunedin City Holdings Limited.	Each of the Companies in the group reported monthly within 35 days of the previous month end. Reports were provided to the Council within 45 days of the end of each quarter.
8.0 Corporate citizen A review of the activities undertaken by the group companies for purposes of being a good corporate citizen.	A review of activities undertaken in the group in support of being a good corporate citizen was completed and disclosed in the earlier social section of this report.

FINANCIAL PROJECTIONS

The 2012/2013 Statement of Intent, presented to the shareholder in February 2012, projected that the parent company surplus after tax would be \$3.56m and that the shareholder's funds at year end would be \$23.89m based upon the continual application of the accounting policies that applied at the date of the Statement of Intent. The actual surplus after tax was \$16.88m and higher than expected due to the write back of \$9.78m of the impairment taken in the carrying value of the shares in City Forests Limited in the previous year. The shareholder's funds at the end of the period, at \$23.5m, were accordingly lower as a result of the earlier impairment being greater than the write back amount to date. The dividends to the Dunedin City Council, the interest on the shareholders advance from the Dunedin City Council plus the net subvention payment from Aurora Energy Limited to Dunedin Venues Limited in February 2012 were projected to be \$18.2m. However, a total of \$15.7m was paid after agreement with the shareholder that the company may avoid, where possible, increasing debt for the payment of dividends.

auditor's report

**INDEPENDENT AUDITOR'S REPORT
TO THE READERS OF
DUNEDIN CITY HOLDINGS LIMITED AND GROUP'S
FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2013**

The Auditor General is the auditor of Dunedin City Holdings Limited (the company) and group. The Auditor General has appointed me, Ian Lothian, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the company and group on her behalf.

We have audited:

- the financial statements of the company and group on pages 31 to 70, that comprise the balance sheet as at 30 June 2013, the statement of 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 company and group on pages 74 to 75.

Opinion

Financial statements and statement of service performance

In our opinion:

- the financial statements of the company and group on pages 31 to 70:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the company and group's:
 - financial position as at 30 June 2013; and
 - financial performance and cash flows for the year ended on that date; and
- the statement of service performance of the company and group on pages 74 to 75:
 - complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the company and group's service performance achievements measured against the performance targets adopted for the year ended 30 June 2013.

Other legal requirements

In accordance with the *Financial Reporting Act 1993* we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 18 September 2013. This is the date at which our opinion is expressed.

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

Basis of opinion

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

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control 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 company and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

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

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company and group's financial position, financial performance and cash flows; and
- give a true and fair view of the company and group's service performance.

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

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the *Public Audit Act 2001* and section 69 of the *Local Government Act 2002*.

Independence

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

Other than the audit, we have no relationship with or interests in the company or any of its subsidiaries.

A handwritten signature in black ink, reading "Ian Lothian". The signature is fluid and cursive, with the first name "Ian" and last name "Lothian" clearly distinguishable.

Ian Lothian
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand

company directory

Directors

G W (Graham) Crombie (Chairman) *BCom, FCA(CPP), A.M.Inst.D, M.D.Ent.*
 J D (Denham) Shale, *LLB, AF.Inst.D.*
 A W (Bill) Baylis *MCom (Hons), FCA, FNZIM, A.F.Inst.D.*
 (appointed on 17 July 2012)
 K E (Kathy) Grant, *BA, LLB, Dip.Law, M.Inst.D.*

Chief Executive

Bevan R N Dodds, *BCA (Hons), CA, FCIS, M.Inst.D*

Registered Office

50 The Octagon
 Dunedin
 New Zealand

Bankers

National Bank of New Zealand Limited

Taxation advisors

Deloitte

Solicitors

Anderson Lloyd

Auditor

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



DUNEDIN CITY HOLDINGS LIMITED