

DUNEDIN CITY HOLDINGS LIMITED

ANNUAL REPORT 2008

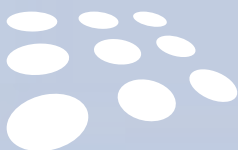




Cover – Dunedin Chinese Garden

- > The Dunedin Chinese Garden is a culmination of ten years of planning, funding and construction for Dunedin City Council and the Dunedin Chinese Gardens Trust. It is an example of a late-Ming/early-Ching dynasty scholar's garden, built from authentic Chinese materials crafted by a team of artisans from Dunedin's sister city of Shanghai. Dunedin is privileged to be one of only three authentic Chinese gardens outside of mainland China.

DELTA Utility Services Limited, a subsidiary company of Dunedin City Holdings, provided the horticultural skill and resources to prepare and plant the garden. The company was also awarded the annual maintenance contract.



dunedin city holdings limited

ANNUAL REPORT 2008

WHAT WE DO

We are an investment company, and our purpose is to earn cash from our subsidiary companies to provide a steady flow of payments to the Dunedin City Council. With these payments, the Council can then choose to increase development and/or modify rates.

We have been doing this now for fourteen years and will continue to do so into the future, responding to the needs of Council and the people of Dunedin.

In respect of this financial year a total of \$11.2m was paid to Council in dividends. Together with the \$9.5m in interest that has been paid to Council over and above dividends, this matches the overall distribution figure indicated in our Statement of Intent. Cash payments to Council over the last three years exceed \$50m.

OUR STRATEGY

Our strategy of concentrating on adding value to our existing businesses is unchanged and we execute this with discipline. The strongest company in our portfolio is Aurora Energy Limited, which has created the majority of our cash to date. We continue to give Aurora every encouragement to grow and this year capital expenditure of over \$17m exceeded the surplus after tax. But we also need to invest in and grow the other companies that have clear potential.

We aim to do this to reduce risk by spreading the sources of our earnings.

In this report you will see that major capital projects have slowed from the fast pace set over the last two years. However, the strategy remains, and in July 2007 *DELTA* Utility Services Limited completed another small business acquisition to grow its activity within the Wakatipu Basin.

OUR CHALLENGE

Our challenge is to increase investment in our businesses without interrupting the longer term strength in our cash flows so we can pay increasing amounts to our shareholder each year.

contents

02	Our performance
03	Our highlights
04	Chairman's Report
05	Directors' Report
08	Subsidiary Companies Reports
22	Environmental, Social and Economic Performance, and Corporate Governance
29	Financial Statements
59	Statutory Information

dunedin city holdings limited

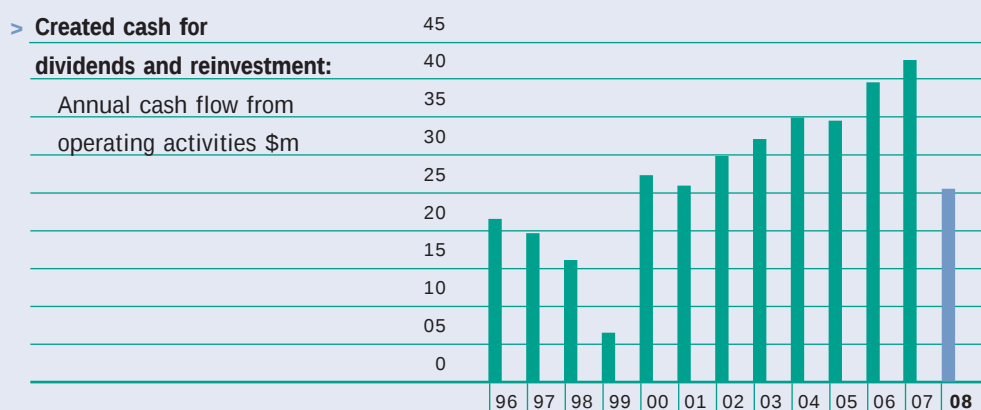
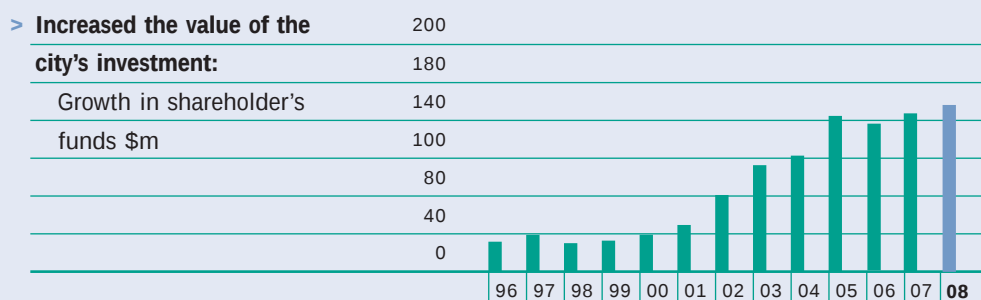
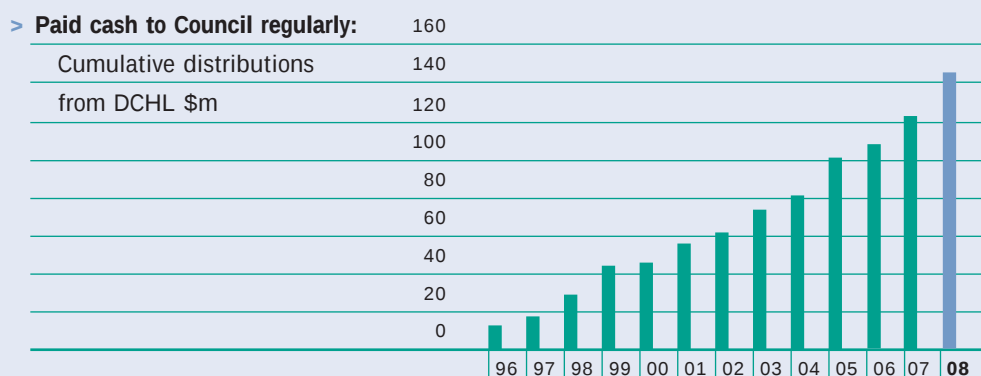
our performance 2007-08

Our job is to manage the investments of the Dunedin City Council to maximum advantage.

To do this, we must earn enough to:

- > Pay cash to the Council regularly;
- > Increase the value of the Council's investment;
- > Generate cash for dividends and reinvestment.

WE HAVE:



dunedin city holdings limited

our highlights 2007-08

WE HAVE:

- > Achieved record Group revenue – an increase of 8% on last year
- > Achieved a \$5.7 million increase in the Group share of the airport assets
- > Made provision for increased distributions to the Dunedin City Council totalling \$20.7 million for the year
- > Aurora Energy Limited continues to perform exceptionally well, particularly in Central Otago
- > Citibus Limited significantly expanded the super low-floor bus fleet for use in Dunedin
- > City Forests Limited increased its forestry assets to \$134 million
- > DELTA Utility Services Limited acquired the business of Lakes Contract Services Limited in Queenstown
- > Dunedin City Treasury Limited performed extremely well despite severe local and offshore pressures
- > Taieri Gorge Railway Limited refurbished the first of eleven 'A' carriages at its engineering workshop
- > The Group made substantial contributions to community charities and events
- > The Group was carbon positive, increasing its carbon balance during the year by 132,100 tonnes
- > The Group continued to reduce the staff accident rate and Lost Time Injuries



> Aurora Energy Limited is preparing a site on Queenstown's Commonage for a new zone sub-station to increase the town's CBD energy capacity

chairman's report

In this report I would like to discuss the progress made by the Group and some of the broader influences which have impacted upon our performance.

I am pleased to report that our business has been growing strongly, with sales increasing by 8.3% to \$199m. The accounting surplus has, however, declined following the worldwide economic situation, to which we are not immune. Directors are satisfied with the underlying profit results particularly given the poor economic environment in which City Forests Limited and Citibus Limited, in particular, have operated.

Cash flow generation from operations has slowed after substantial growth in recent years. Cash generated from operations of \$25.6m has not kept pace with the \$31.7m capital investment programme plus the distribution to Council. However, directors are confident that cash flow growth will return and have been determined not to undermine longer term strategies through precipitous cut backs.

Growth in the regional economy has had a favourable effect on the network growth of Aurora Energy Limited and the excellent performance of this company has once again been the key to the Group's results this year. The performance of the national economy as reflected in the currency exchange rates, the exposure to the effects of the price of oil, and the interest rates over the period have been negative influences on the results of the Group.

The strategy of the Dunedin City Holdings Limited board has been to pursue opportunities for growth where we see the potential to develop or extend our existing businesses. This year *DELTA* Utility Services Limited reviewed its competitive position in Central Otago and then undertook the purchase of the business and assets of Lakes Contract Services Limited.

The support given by the company to the major investment in Dunedin International Airport has proved highly successful with a recent valuation contributing to a major improvement in the value of our shares. Group equity has increased by \$5.7m as a result of the 28% increase in non-current asset value for the airport company.

Underlying our growth strategies is the desire to continue to produce a reliable cash benefit to the Dunedin City Council. The dividends paid to the Council in respect of this financial year will be \$11.2m. A further \$9.5m for interest on the Council shareholder's advance will be paid so that the total cash payments made will match the figure set out in the Statement of Intent.

Our result reflects the dedication of our people who have captured and built upon the potential and opportunities resulting from significant decisions made in previous years. There is a constant focus on achieving an appropriate return from changes made to the overall investment portfolio.

I would like to thank the directors, management and staff of all the companies in the Group for their invaluable contributions and energy shown during the 2008 financial year, and particularly for the intense efforts which were required to react to the quickly changing economic environment in which we operate.



Paul Hudson
Chair

A handwritten signature in blue ink that reads "Paul Hudson". Below the signature are three horizontal lines.

directors' report

RESULTS FOR THE YEAR-ENDED 30 JUNE 2008

	Group \$'000	Parent \$'000
Revenue	199,154	20,744
Operating surplus	14,057	9,082
Income tax	(5,419)	-
Net surplus after tax for the year	8,638	9,082

STATE OF AFFAIRS

The group has achieved an excellent increase in sales despite a deliberate policy by the board of City Forests Limited to constrain the level of log production due to economic conditions. The internal Otago economy has promoted growth of the electricity sector and this together with substantial revenue advances from contracting has boosted group revenue by 8.3% to a record \$199m.

Unfortunately, margins across the group have been constrained by a wide range of factors not entirely under the control of management. High exchange rates, fuel costs and shipping rates have impacted on the margins of City Forests Limited. Changes to the electricity meter leasing market, increased fuel costs and a major contract dispute have affected DELTA Utility Services Limited. High fuel costs and a rigid local transport regulatory regime have been issues for Citibus Limited, and changes to international tourism patterns have affected the results of both Citibus Limited and Taieri Gorge Railway Limited. An increase to the interest rate applying to the parent company shareholder's advance also increased group costs by \$1.3m.

Shareholder's funds have increased by 2% to \$154.1m and the group earned a return of 5.6% after tax on this increased capital employed.

The statement of cash flows records lower levels of cash generation from operating activities. Despite this unwelcome change directors have maintained cash distributions to the Dunedin City Council at a high level.

With slowing cash generation, the term debt of the group has increased from \$244.7m to \$304.2m. A major contributing factor in such a large change was the increase of \$32.2m in Dunedin City Council borrowing from Dunedin City Treasury Limited.

At \$8.6m, the profit after tax is lower than the \$22.6m achieved last year. There has been a series of items that affect this year's profit in comparison with last and the table below lists some of the major changes that have occurred this year, but not last year (or vice-versa) in an attempt to derive a more comparable underlying operating profit. Of the \$14m reduction in profit, less than half relates to a "like for like" change in operating performance compared to last year. The rest of the difference reflects primarily a change in the way cash is paid to the Dunedin City Council where more has been paid by way of interest, which is an expense to Dunedin City Holdings, rather than by way of dividends, being distribution from tax paid profits. The change in the corporate tax rate from 33% to 30% has also affected last year's result.

Overall the directors are of the view that the affairs of the group and the parent company are in very good order.

MAJOR INFLUENCES ON REPORTED PROFIT

	Group 2008 \$'000	Group 2007 \$'000
Net profit before subvention income, interest payments to the Dunedin City Council and tax	23,571	29,291
Plus subvention income received	-	1,203
Less interest to Dunedin City Council on shareholder's advance	(9,514)	(8,204)
Less tax	(5,419)	(5,921)
Plus effect of tax rate change on deferred tax	-	6,254
Net profit for the 2008 year from the Income Statement	8,638	22,623

DUNEDIN CITY HOLDINGS BOARD OF DIRECTORS

From left:
Ross Liddell
Mike Coburn
Paul Hudson (Chair)
Stuart McLauchlan
Norman Evans.

The Board is standing on the Level 3 stairway in Dunedin's historic Municipal Chambers.



PARENT COMPANY

Dunedin City Holdings Limited, as the parent company of the group, earned a net surplus after tax of \$9.1m compared to \$7.4m last year.

PARENT COMPANY PAYMENTS TO THE DUNEDIN CITY COUNCIL

The distribution of cash to the shareholder, the Dunedin City Council, has been maintained at a high level. Dunedin City Holdings Limited forms part of the Dunedin City Council tax group. There has been a change in distribution policy this year and no subvention payments are now received from the Dunedin City Council by the company. In total, cash payments made to the Council in respect of this last financial year will be:

	\$'000
Fully imputed dividends	11,210
Interest payments on shareholder's advance	9,514
Total cash distribution to Council	20,724

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, provided strategic guidance and assisted in assessing the feasibility of various expansion opportunities.

SUBSIDIARY COMPANIES

The performance of Aurora Energy Limited has been strong. The results of other subsidiaries have reflected the poor state of the markets within which they operate and are thus not as good as for some periods in the past. Detailed comment on the performance of all subsidiaries is contained later in this report.

ASSOCIATE COMPANIES

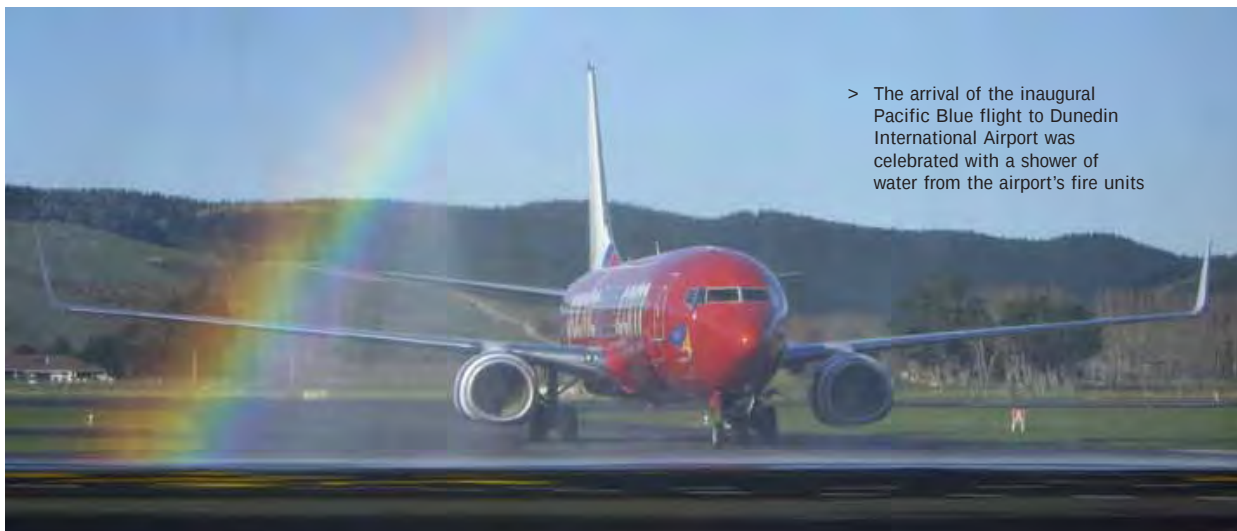
Dunedin International Airport Limited has had an excellent year. The terminal continues to prove that it has been built to an outstanding design that is easy and comfortable for visitors to use. The introduction on 1 July 2008 of services by Pacific Blue generated fresh excitement into our market. This new daily service, and the competitive response from Air New Zealand, are definitely pleasing customers and increasing numbers through the terminal. Total passenger numbers are up 0.9% on last year, with domestic passenger numbers increasing 2.6% and international passengers declining 11.9%.

The business assets of the company were revalued at the beginning of the year with a very positive impact on the group balance sheet. The effect of the revaluation of the airport property plant and equipment from \$46.3 at the end of last year to \$59.5m at 30 June 2008 resulted in an increase in the parent company investment in the airport of \$5.7m. This figure can be found in the attached Statement of Changes in Equity.

The Street NZ Limited is a technology-based start-up company and it remains in the process of proving the market for the products that it has developed. Being a start-up company its cash flows are negative, and consistent with a conservative approach, the group has written down its investment to the value of cash resources at year-end.

OUTLOOK

For several years we have had an expectation that the New Zealand dollar would fall in value relative to the currencies of our key trading partners and that the movement would provide a positive benefit to export activity. The movement has finally started to appear but nowhere near to the extent



> The arrival of the inaugural Pacific Blue flight to Dunedin International Airport was celebrated with a shower of water from the airport's fire units

that we had anticipated. High commodity prices, and high oil prices in particular, have kept inflation at the high side of the tolerance levels set by the governor of the Reserve Bank and now the combination of relatively high interest rates, increased inflation, high oil costs and a sharp contraction in credit have undermined the national and international economy.

From this point in the economic cycle it is going to take some time before North American building markets again underpin increases in log and timber prices, shipping supply becomes more in balance with demand and global tourism adapts to the increased cost of international flights. In this climate it is difficult to see immediate increases in the margins from log and timber export or any increase in tourist visitors. What we may see is change in the structure of business as, for example, Australians find that their tourist dollar extends a little further now in our market.

Growth in the Queenstown Lakes area in recent years has been strong, much stronger than in Dunedin, but the credit environment that lenders now face does not encourage business expansion. It will probably not be until the 2009/2010 year that we will start to see some tangible signs of recovery.

Two pieces of legislation are under debate in the House of Representatives. At this point it is too early to judge their impact. One deals with carbon emissions, and may result in City Forests Limited having a tradable carbon balance, and the other would affect the governance of local bus services. Both pieces of legislation have been subject to significant change and may alter further before completion.

Our Statement of Intent submitted to Council in February 2008 indicated that the group will maintain high cash payments with a further \$19.8m in this next year. The directors confirm that intent.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2008 are attached to this report.

AUDITORS

The principal auditor is Audit New Zealand providing services for the Controller and Auditor-General who has indicated his willingness to continue in office. The total audit fee for the group for the year was \$199,000.

On behalf of the Board of Directors
Paul R Hudson, Chairman
10 September 2008

subsidiary company reports

- 09 Principal Activities of the Group
- 10 Aurora Energy Limited
- 12 Citibus Limited
- 14 City Forests Limited
- 16 *DELTA* Utility Services Limited
- 18 Dunedin City Treasury Limited
- 20 Taieri Gorge Railway Limited



principal activities of the group

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

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

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

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

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



Aurora Energy Limited owns electricity network assets in the city of Dunedin and in Central Otago in areas from Roxburgh through to Queenstown and Wanaka.



Taieri Gorge Railway Limited operates a tourist and community orientated train on the Taieri Gorge Railway Line and provides other train services in the South Island, principally for charters and excursions.



City Forests Limited manages approximately 16,500 hectares of land from which forest products are grown, harvested and marketed. It owns a mill at Milburn, that produces dried sawn timber for export and domestic sales, plus a 49.9% share in Otago Chipmill Limited.



Otago Chipmill Limited (Associate) operates a chipping, peeling and anti-sap staining plant for Otago forest companies.



Citibus Limited operates tour services throughout the South Island, scheduled services throughout the lower South Island, and charter, urban and school contract services within Dunedin City.



Dunedin City Treasury Limited provides the group with funding and financial services, and manages the financial risks of the group.



DELTA Utility Services Limited is a multi-utility service provider specialising in delivering essential services to community, corporate and private customers. As asset manager to Aurora Energy it is responsible for the efficient distribution of electricity in Dunedin City and a large proportion of Central Otago.



Dunedin International Airport Limited (Associate) operates Dunedin Airport. It also farms adjacent land in partnership with a sharemilker and owns a small residential housing estate on land adjoining the airfield to the north.

100% 100%

72% 100%

100% 100%

49.9%

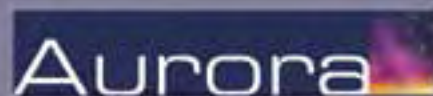
50%

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 new international-class ski centre at Queenstown's Coronet Peak is a large capacity energy user, supplied from Aurora's recently commissioned zone sub-station at Speargrass Flat.
- > Aurora continues an annual programme of repositioning power lines underground in historic and aesthetically sensitive precincts, including picturesque Rockside Road in Dunedin's Leith Valley.





FINANCIAL HIGHLIGHTS	2008	2007
	\$'000	\$'000
Revenue	76,606	71,267
Net surplus before deferred tax adjustment	15,262	16,576
Deferred tax adjustment	-	5,130
Net surplus for the year	15,262	21,706
Shareholder's funds	173,001	172,086
Total assets	334,366	329,195

WHAT WE DID THIS YEAR

Aurora has performed well in the past, and continued to do so this year. Revenue at \$77.0m was up 8% on last year. The trading surplus before tax was \$18.99m a figure that was above the annual target but down 10% on \$21.7m achieved last year.

Ongoing economic growth in the Otago region has created the right environment for strong management to do well. Growth in our Central Otago region has continued this year on the back of economic decisions made over recent years. At some point, given restrictions in the capital markets, that growth will slow. While the warning signs of that are clearly apparent for the future, enough projects were completed this year to still provide us with network expansion at the level anticipated.

Growth can be reflected in the additional number of consumer connections to the network. In Central Otago we achieved 3.3% growth (last year 3.9%) and in Dunedin there was 0.9% growth (last year 0.7%). Overall the total increase in customer connections this year was a creditable 1,332 – almost identical to the 1,337 last year.

Considerable planning within the company, to identify areas where the network needs to be strengthened to handle growth in the quantity of electricity carried and the reliability

of the delivery, is ongoing. This year the company renegotiated its maintenance contract with *DELTA* Utility Services Limited and the underlying performance requirement for this contract was, over the next ten years, to deliver a 10% reduction in the annual number of minutes of service downtime. No major upgrading projects were completed but \$17m was still spent in capital expenditure on ongoing network requirements and expansion.

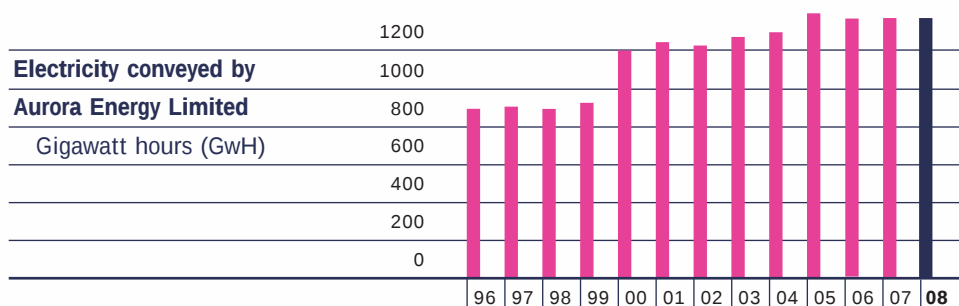
The cash generation performance of the company continues to be very strong and supports a high level of dividend to the parent company. Over the fourteen-year life of the group, Aurora Energy has provided 70% of the total dividends received by the parent company. Thus the importance of Aurora Energy to both the parent company and ultimately to the Dunedin City Council cannot be overstated. This year Aurora paid dividends of \$13.94m (\$7.98m), a critical component of the cash paid to Council as the ultimate shareholder.

The outlook for Aurora Energy remains strong. Its above-average supply quality and its below-average prices should provide it with a degree of insulation from future intervention by the line business government regulators. To date the company has remained within the price and quality thresholds set by the regulator, but any changes to rules or their interpretation will continue to be a risk to the company.

For more information visit www.electricity.co.nz

THE PEOPLE

Directors	R S Polson (Chair)
	M O Coburn
	N G Evans
	P R Hudson
	R D Liddell
	S J McLauchlan
Chief Executive	J F Walsh



WHAT WE DO

Citibus Limited operates tour and charter services throughout the South Island. It also operates urban and school contract services within Dunedin City, sightseeing services within Dunedin and daily services between Dunedin and the tourism locations of Queenstown, Wanaka and Mt Cook.

- > Citibus is determined to improve the bus services in Dunedin, investing in 17 new super low-floor buses during the year.





FINANCIAL HIGHLIGHTS

	2008	2007
	\$'000	\$'000
Revenue	6,801	6,964
Net surplus/(deficit) for the year	(714)	(699)
Shareholder's funds	5,545	1,198
Total assets	9,549	7,146

WHAT WE DID THIS YEAR

The economic environment for the bus transportation industry has been very poor. This year has seen unprecedented increases in fuel costs. The relatively high New Zealand dollar at the beginning of the season undoubtedly deterred some international visitors and the local environment has continued to be characterised by highly rigid regulatory structures that have nullified every attempt to partially recover cost increases.

The South Island tourist industry has been in slight decline. Early in the season high demand for aircraft, caused by strong growth in emerging economies, reduced the number of seats available for tourists into New Zealand. Faced with strong demand airlines reduced the numbers of seats available to the wholesalers who amalgamate visitors into tour groups. This impacted negatively on the demand for the New Zealand tour bus fleet. Latterly, increased fuel prices have generated some disincentive to travel long-haul to New Zealand and tour bus demand has remained at a low level.

The strategy over the year has been to significantly alter our method of operation in the independent travel sector and to expand in the Dunedin route services market where, in reaction to US\$140 per barrel in oil cost, there are some early signs of increased patronage. Any benefit from increases in patronage will not be felt until the 2008/09 financial year. However, in this last year the financial impact of many small positive changes to the way the business has been operated has, unfortunately, been outweighed by the increased fuel cost.

The company continues to see benefits in expanding its

involvement in the free-and-independent traveller sector. Passenger numbers on the acquired Wanaka, Queenstown, Invercargill and Dunedin routes have met their growth expectations but margins have been constrained by competition.

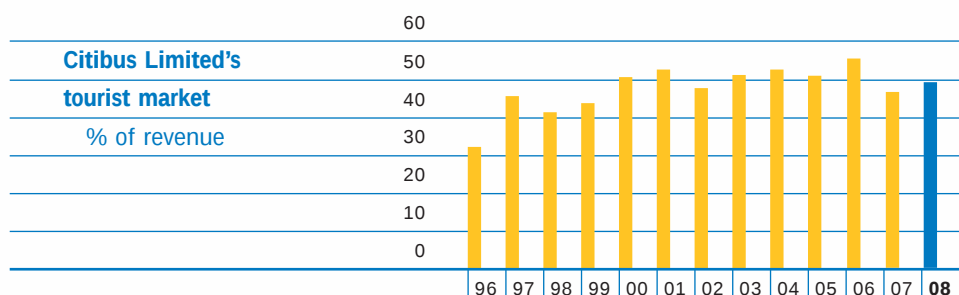
The efforts of the company to improve city route services have been significant with the purchase of seventeen super low-floor buses in this calendar year. To finance this Dunedin City Holdings Limited increased its investment in the shares of the company by \$5 million. This progress has yet to be reflected in the profitability of the company as it was only on 28 July 2008 that the regional council regulator agreed to an alteration in price. This is only the second time since the early 1990s that the price of a bus ticket on tendered services has increased to the public. Whilst beneficial to the public in terms of cost, the regulatory system has proved far too rigid and unresponsive to provide the modern, frequent and attractive service that we would like to see.

We continue to target growth in tourism-based income and are also always on the lookout for more opportunities. New capital has been committed to upgrade and adapt the fleet to ever-changing customer requirements and we look forward to a much improved performance over the coming financial year.

For more information visit www.citibus.co.nz and www.time2.co.nz

THE PEOPLE

Directors	P R Hudson (Chair)
	M O Coburn
	N G Evans
	S J Higgs
	R D Liddell
	SJ McLauchlan
	B R N Dodds
General Manager	A Collins



WHAT WE DO

City Forests Limited is a forest grower that actively harvests and markets the products from the 16,100 hectares of forests that it owns. Products are sold in both the export and domestic markets. To diversify our business risk we also have an investment in wood processing.

- > Harvesting in the Silverpeaks Forest.
- > Milburn wood processing plant.





FINANCIAL HIGHLIGHTS	2008	2007
	\$'000	\$'000
Revenue	30,313	33,413
Net surplus for the year	1,422	4,897
Shareholder's funds	71,917	71,674
Total assets	134,049	129,136

WHAT WE DID THIS YEAR

Most participants within the forestry industry would say that this last year has been the most difficult they can remember. Export sales prices have been relatively flat compared to many other commodities and New Zealand dollar returns have been eroded by the high value of our dollar during the year. In addition there has been the material increase in both international freight costs and contracting costs. Much of this increase in costs has been associated with the significant increase in the cost of fuel at harvesting and for shipping. Also supporting this negative movement has been the world-wide shortage of shipping capacity due to very high demand driven by the emerging economies of the world requiring increased amounts of commodities to fuel their manufacturing industries. The result has been that the margin from harvesting for export logs has been eliminated.

The company strategy has been, and continues to be, to build on the core forest investment while diversifying our business risks away from our former high exposure to movements in international log prices, and to gain production efficiencies by increasing the scale of our operations.

The construction of a mill at Milburn has provided us with the capacity to process milled product from the best part of our pruned forest and provides us with potential to add value in the longer term. During the year there has been excellent consolidation and improvement in plant operations. This has given us some diversification from the risks associated with log income from North Asian economies, but the business has been hit through the collapse of the residential construction industries in the USA. In response we developed new markets in Australia and New Zealand.

Faced with poor returns from the export sector the board has been concerned to undertake the minimum level of production necessary to ensure that crucial skills and infrastructure are maintained while preserving as much forest for future economic cycles as possible. Forest production, particularly from our high export log-yielding stands, was deliberately scaled down by approximately 29,000 cubic metres, below budget. This means that trees will continue their growth for higher yield later and it also provides a boost to the year-end forest valuation as we now have more mature trees than anticipated.

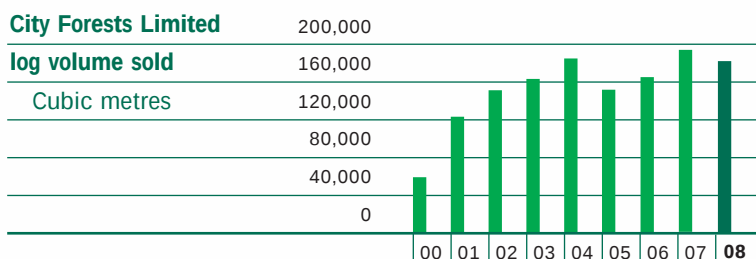
Under NZ IFRS accounting rules the value of the forest growth is brought directly into the annual income. Natural growth has led to a positive \$5.6m (\$4.57m last year) appreciation in forest value and this forms a significant part of the annual result.

Overall the company remains positive with regard to the long-term industry outlook. Carbon emission reduction legislation appears to be moving slowly but eventually some regulation, which should be positive, will occur. The company maintains its internationally recognised Forest Stewardship Certification and has the capacity to substantially increase production over the next ten-year period. Should any of the key factors in the economic cycle swing in our favour we are well positioned to take advantage.

For more information visit www.cityforests.co.nz

THE PEOPLE

Directors	R D Liddell (Chairman)
	M O Coburn
	N G Evans
	P R Hudson
	S J McLauchlan
Chief Executive	G Dodson



WHAT WE DO

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

- > Installation of the 27km water reticulation pipeline from Dunedin's northern reservoirs to Waikouaiti.
- > *DELTA* horticulturalists planting a weeping willow at the new Dunedin Chinese Garden.



FINANCIAL HIGHLIGHTS

	2008	2007
	\$'000	\$'000
Revenue	86,245	73,387
Net surplus for the year	1,980	3,546
Shareholder's funds	17,616	18,208
Total assets	42,962	39,386

WHAT WE DID THIS YEAR

This company continues to grow in size. Sales at \$86.2m are up 17% on last year and in terms of revenue this makes it the largest company in the group. The surplus after tax at \$1.98m is down on last year and does not reflect a claim in excess of \$3m against one major customer that is not recognised in these accounts and which is likely to result in litigation. The surplus was also affected by a substantial write-down in the value of the company's electrical metering investment in the Canterbury region.

Nevertheless the return to shareholders on the value of the assets invested in DELTA is good. Any company, like DELTA, that returns 11% (19% last year) on capital employed is working well.

DELTA's business activities continue to expand with the acquisition of another small Queenstown contractor in July 2007. Skills shortages across the board continue to be an ongoing issue although the market improved for civil contracting skills toward year-end.

Health and safety issues are always important. The company has placed a lot of effort into decreasing staff accident rates of staff and is very pleased to see that the statistics now show the effect of that effort. The number of lost time incidents fell to a new low for the company dropping from 1.29 incidents for every 100,000 hours worked to 1.26.

The construction of small sewerage schemes has proven to be excellent business for the company over several periods. This year the company finished a scheme at Tuatapere and has started a new scheme at Edendale/Wyndam. These projects followed the successful completion of the Wallacetown scheme the year earlier.

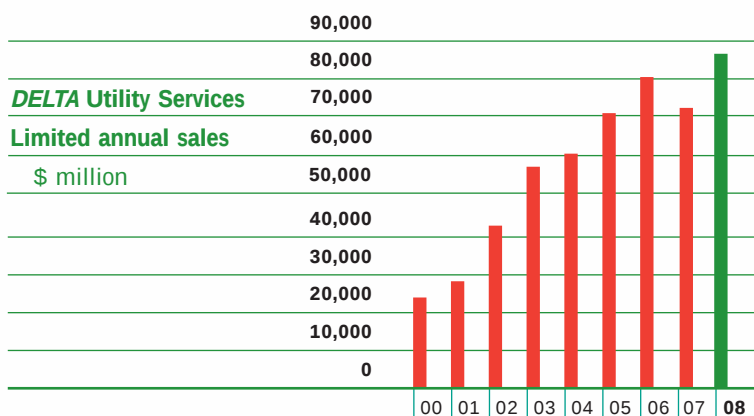
In Central Otago the company has entered a development joint-venture involving 200 residential sections. When the market is ready the company will complete the full sub-divisional development. In the Dunedin area the northern pipeline contract was undertaken for the City Council. This pipeline will carry water from Dunedin via Waitati to Waikouaiti on completion in March 2009.

The company continues to focus on growth in sectors in which it has competitive advantage. We understand that we must employ best practice contract management and have consequently invested in leading-edge data capture and display technology. We remain committed to increasing our involvement in the management of water and/or wastewater assets where there is strong synergy with the systems and skills associated with electricity distribution asset management.

For more information visit www.4delta.co.nz

THE PEOPLE

Directors	R S Polson (Chairman)
	M O Coburn
	G D Douglas
	N G Evans
	P R Hudson
	R D Liddell
	S J McLauchlan
Chief Executive	J F Walsh



> The grand Dunedin Town Hall,
opened in 1929



WHAT WE DO

Dunedin City Treasury Limited was established to provide funding and financial services to other entities in the group. The principal role of the company is to fund the group, inclusive of 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 possible otherwise.

Dunedin City Treasury Ltd

FINANCIAL HIGHLIGHTS	2008	2007
	\$'000	\$'000
Revenue	20,588	16,785
Net surplus for the year	15	16
Shareholder's funds	180	165
Total assets	312,741	253,712

WHAT WE DID THIS YEAR

Everything the company has achieved this year has been done in a financial market under severe pressure both here in New Zealand and offshore. The markets have certainly been more difficult than in any time since the early 1990s and many would say for much longer than that. At times the small New Zealand debt market has been under acute stress and banks, here and abroad, have been extremely cautious of lending between themselves.

In this environment the company has performed extremely well although on viewing some of the performance measures against last year that is not immediately apparent. What is clear is that interest rates have climbed markedly and from time to time cash has been in very short supply, even for those with strong credit ratings. Also clear is that through all the market turmoil the DCHL group has never been short of cash nor reliant on emergency funding lines. It has continued to operate as "best in class" in the short-term money markets.

Each year Standard & Poor's reviews the financial plans of the combined Dunedin City Council and Dunedin City Treasury Limited. The outcome of the August 2008 review was to confirm our solid rating of AA-/A1+.

The group's external debt is managed through an appropriate mix of bonds, promissory notes, long-term government forestry debt and interest rate derivatives. As a matter of policy, the proportion of fixed rate debt is higher than variable rate debt. This is because Council strikes its rates well in advance and then acts to protect its budget for the services that have been pledged for the following year.

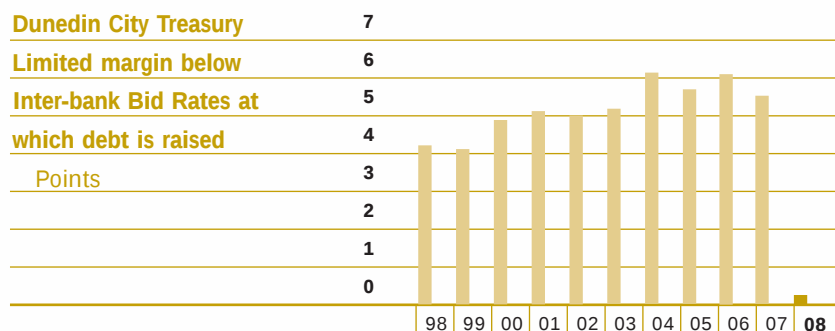
As commented on above Dunedin City Treasury Limited's promissory notes continue to be popular on the New Zealand money market. Actual interest rates achieved have risen with the market as the Reserve Bank has sought to execute a level of control over inflation. Further, they have risen as the general cost of credit, in a credit short market, has increased in price. We do notice, however, that the increased interest cost to the company has been less than for others on similar credit ratings.

During the year, the company secured borrowings at an average of 0.13 percentage points below the 90 day Inter-bank Bid Rate (compared to 5.6 points below last year), but in the market that has existed this can definitely be called a success. Tenders were oversubscribed by, on average, 2.3 times, compared to 3.4 times last year reflecting the significantly lower amount of cash available to lenders. The featured graph detailing the average margin at which funding has been achieved below the Inter-bank Bid Rate, shows that the company continues to perform at a very high level despite the credit market disruption this year.

The company also manages the investment of the Dunedin City Council's Waipori Fund. This year the managers achieved a positive return of 0.6% (7% last year), despite substantial turmoil and losses in international equity markets. After a \$3.75m payment into the general funds of Council, the value of the Waipori Portfolio fell from \$76.1m to \$72.7m.

THE PEOPLE

Directors	R D Liddell (Chair)
	A J Stephens
	G Dodson
	S M Wilson
	B R N Dodds
Chief Executive	M J Knight



WHAT WE DO

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

- > The new A2325-R passenger carriage was refurbished by Taieri Gorge Railway's engineering workshop and it is the first of 11 such carriages to be upgraded by the company.
- > Taieri River Gorge Railway plays a pivotal part in the success of the Otago Rail Trail, seen here disembarking trail blazers at the Middlemarch portal.



FINANCIAL HIGHLIGHTS

	2008	2007
	\$'000	\$'000
Revenue	4,307	4,079
Net surplus for the year	59	65
Shareholder's funds	1,684	1,625
Total assets	2,395	2,410

WHAT WE DID THIS YEAR

Year after year this company manages to reach significant strategic goals. This year it managed to acquire the last DJ locomotive in the country still under corporate ownership. It also managed to acquire eleven carriages from Toll NZ formerly operated on the Wellington to Wairarapa line. These carriages will increase safety for passengers over previous standards and will give the company greater capacity to benefit from the anticipated growth in the cruise ship trade.

Within the national tourism market there has been a softness not seen for a considerable time. The industry has been used to repeated growth in visitor numbers but that has ceased and reversed. Nationally the industry has been under pressure which has been higher in the south due to the reduction in flight connections into Christchurch from destinations beyond Australia. Against this backdrop, earlier efforts by the company to develop the market to the north of Dunedin (The Seaside) have paid off with a significant increase in sales.

Notwithstanding these economic factors beyond our control we are pleased to report that the numbers of passengers carried on our daily scheduled trains almost matched last year. The slight decrease of 2% to 59,641 passengers for the year was creditable given the general fall in the South Island tourist market. To this number we were able to add a further 14,235 (2007:16,579) cruise ship and charter passengers to achieve an overall total of 73,876 (2007:77,802).

However, these figures mask the fact that there was a sizeable increase in higher yielding cruise ship passengers with charter numbers being down on the previous year's figures which were inflated by the extra business generated by the Dunedin Railway Station Anniversary celebrations.

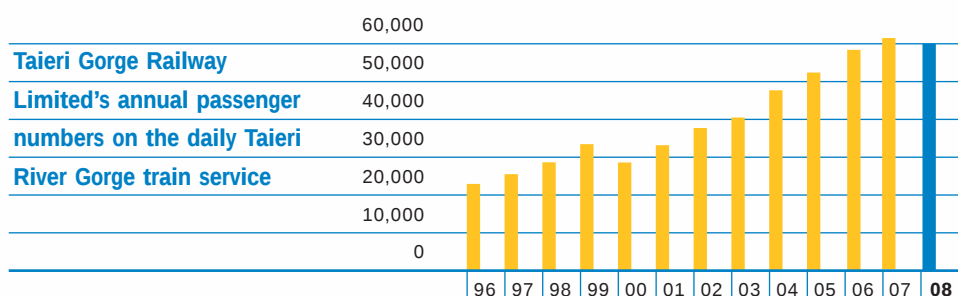
The after tax surplus this year is \$59,000, very close to the \$65,000 made last year. This was achieved after capital and operational expenditure of \$1.5m on workshop, carriages, locomotives and track, an increase on \$1.2m last year. The increase in revenue, and the use of the available cash resources, has allowed the investment in both track and plant to improve the quality of the visitor experience.

Dunedin is fortunate to have a company such as Taieri Gorge Railway Limited that is highly attractive to the large cruise ships that are visiting Port Chalmers in greater numbers through the summer season. This trade has been steady and indications continue to be positive for further growth, a factor that will remain beneficial for the city of Dunedin.

For more information visit www.taieri.co.nz

THE PEOPLE

Directors	J E Farry (Chair)
	J M Chapman
	F J McCall
	G M T Williams
	K Wilson
	B C Wolff
Chief Executive	M J Bond



- > The Group is heavily carbon positive and replanting forestry on the outskirts of Dunedin City provides an ongoing carbon sink for the entire community.
- > DELTA's Ripper reduces the community's carbon footprint by processing green waste, which typically would be burned, into high quality reusable compost.

environmental, social and economic performance, and corporate governance

- 23 Environmental, Social and Economic Performance
- 25 Environmental, Social and Economic Commitment
- 27 Corporate Governance



environmental, social and economic performance

For the Year-Ended 30 June 2008

SUMMARY

All companies throughout the group have policies that require them to act as socially responsible and environmentally aware citizens. We accept that the outcome of how we live up to our policies, the impact 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 performance and strong companies we cannot assist Council with the financial resources to deliver the higher standards sought by society.

ENVIRONMENTAL

The group is sensitive to the impact 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 \$1.9m eliminating the negative visual impact of power lines within Dunedin City and a further \$0.2m in a range of locations in Central Otago. Aurora Energy Limited also contributed significantly to the Energy Smart project that is committed to insulate homes and reduce the use of environmentally unfriendly solid fuel heaters.

City Forests Limited was the first major forest owner in the South Island to achieve Forest Stewardship Council certification. 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 the past this has included the identification of potential archaeological sites and areas of significant conservation value. This year has seen continued support for

the research on the native robin population in Flagstaff 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 record its electricity and liquid fuels energy usage in terms of the carbon dioxide that is emitted to the environment. We cannot undertake to reduce emissions in total as our growing businesses in utilities and transport necessarily require increased use of carbon-based fuels.

In total, group activity eliminated 132,100 tonnes of carbon dioxide from our environment. During the year the company's forests-stored carbon balance increased by 155,999 tonnes of CO₂ equivalent (641,725 tonnes last year). We have looked carefully at the diesel and electricity usage of our subsidiaries and have also tracked the CO₂ emitted by our forestry contractors, timber mill and log export ships.

Over the period of several years the group has accumulated many times more carbon into its forest than it uses from its own operations. The Dunedin City Holdings Limited group and the Dunedin City Council are heavily carbon positive.

SOCIAL – COMMUNITY INVOLVEMENT

Our community involvement continues to cover a wide range of civic, charitable, sporting and recreational activities. In 2008 this support comprised a combination of financial sponsorship or assistance, the provision of staff resources and other forms of non-financial donation from within the group's resources.

Encouragement of education in young people is one focus of this community involvement led by Aurora Energy Limited. The Otago Secondary Schools Science Fair, International Science Fair, two University of Otago Scholarships, and Otago



- > The terminal at Dunedin International Airport has won two significant awards for its benchmark environmentally sustainable and energy efficient heating and ventilation system.
- > Group companies made significant contributions to educational projects, including the tarantula exhibition at Otago Museum and the Otago Secondary Schools' Science Fair.



Social commitment

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

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

We will maintain a safe workplace for our staff.

Environmental commitment

We will act as an environmentally aware business.

The forestry business will be operated on a sustainable basis.

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

We will assist third party projects promoting environmental protection.

Economic commitment

We will employ economic value added (EVA) measures to optimise rates of return for the shareholders.

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 shareholders and company boards.

Museum have been beneficiaries of direct and indirect financial assistance over the last year.

The promotion of sport and culture receives assistance from all companies across the group. The contribution from Aurora Energy Limited of over \$230,000 to swimming pools in Queenstown and Cromwell head that list. The Richmond Cricket Club, Otago Cricket, Otago Yacht Club, Taieri Golf Club, Otago Pipers Club, Fringe Festival and others have also benefited from contributions during the year.

Finally, there has been focus on the assistance of at risk people in the community through support to the Kids Foundation, Youthline Otago, Plunket, Taieri Parents Association, Koru Care, Southern Cross Kids Camps, Queenstown Fun Centre, Movember Prostate Appeal, various Heart Foundations, Rotary Firewood for Families project and others.

The total value of these contributions is difficult to calculate as many of the costs are not directly measured, but overall across the group the value this year exceeded \$350,000 including the contribution to swimming pools explained above.

SOCIAL – HEALTH AND SAFETY

The health and safety of our staff are top priorities for all the companies. Our end goal is clear: no accidents and no harm to people, and that obviously gets more difficult as the numbers of staff increase. The safety performance has not met the end goal, but it has improved and this is consistent with the trend over the last few years.

Across the four subsidiaries of DELTA Utility Services Limited, Citibus Limited, Taieri Gorge Railway Limited and City Forests Limited that employ the bulk of the staff the lost hours from accidents, expressed as a percentage of total hours fell slightly from 0.23% to 0.21%. The number of incidents of lost time measured as a factor of every 100,000 hours worked also fell. Thus, both the frequency and the seriousness of the average incident reduced and contributed to the better performance.

> The new Alpine Aquatic Centre in Frankton benefitted from substantial grants from Aurora Energy Limited.





corporate governance

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

THE ROLE OF DUNEDIN CITY HOLDINGS LIMITED

Dunedin City Holdings Limited is a Council Controlled Organisation, or CCO, as are all the subsidiaries of Dunedin City Holdings Limited (with the exception of Aurora Energy Limited, which is an electricity company as defined by the Electricity Reform Act 1998).

Dunedin City Holdings Limited is responsible for the preparation of the Statement of Intent which achieves approval from the company's shareholder (Dunedin City Council). In addition to the obligations under the Local Government Act 2002, Dunedin City Holdings Limited is also covered by the Companies Act 1993 and governed by law and best practice.

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

DELEGATIONS TO SUBSIDIARY BOARDS

To enhance efficiency, Dunedin City Holdings Limited has delegated some of its powers to subsidiary boards and senior management. The terms for delegation of the capacity to acquire shares and/or assets in another company are contained within the Statement of Intent. The treasury policy and the Deed of Understanding determine policy applying to the conduct of all treasury activities. The chief executive officers of some subsidiaries have, in some cases, formally delegated certain authorities to their managers and have established a formal process for those managers to sub-delegate certain authorities.

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 which could materially interfere with the exercise of their independent judgement. The role of chairman and chief executive officer shall 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 shall be two, or one third of the directors. The Dunedin City Holdings Limited board currently comprises five directors, all of whom are non-executive.

A non-executive director shall 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 Proper Practice for Directors approved and adopted by the Institute of Directors in New Zealand (Incorporated). Where conflicts of interest do exist at law, directors shall excuse themselves from discussions and shall not exercise their right to vote in respect of those interests.

REVIEW OF BOARD MEMBERSHIP

The procedures for the appointment and removal of directors are ultimately governed by the group's Constitution and the policy of 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, using procedures set out by Council as the ultimate shareholder. These procedures require Dunedin City Holdings Limited to maintain a list of suitable applicants from which its evaluation and recommendation to Council is made.

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

BOARD MEETINGS

The Dunedin City Holdings Limited board and subsidiary boards typically meet formally 11 times each year. The directors generally receive materials for the meetings approximately three working days in advance of meetings for items to be acted upon, except in the case of special meetings for which the time period may be reduced due to the urgency of the matter to be considered. 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 board director is defined in Section 58 of the *Local Government Act 2002*. This section states that all decisions relating to the operation of the CCO shall be made pursuant to the authority of the directorate of the CCO and its Statement of Intent.

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 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
- > Achievement of financial objectives
- > Identification and control of areas of business risk
- > Ensuring that a quality system of internal control is in place and maintained appropriately
- > Employment of quality people
- > Supervision and development of staff; and
- > Regulatory compliance.

financial statements

- 30 Group Financial Statistics
- 31 Economic Value Added
- 32 Income Statement
- 33 Statement of Changes in Equity
- 34 Balance Sheet
- 36 Statement of Cash Flows
- 38 Notes to the Financial Statements

group financial statistics

For the year-ended 30 June

	2008 \$'000	2007 \$'000	2006 \$'000	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000	2001 \$'000	2000 \$'000	1999 \$'000
Revenue	199,154	183,805	167,711	151,534	141,656	129,945	117,550	106,594	94,019	72,464
Operating surplus	14,057	22,290	26,334	28,155	25,585	27,860	24,479	19,875	13,995	18,348
Tax	5,419	(333)	(2,914)	11,821	11,825	11,827	10,656	4,275	1,738	3,594
Surplus after tax but before "one off" accounting adjustments	8,638	22,623	20,522	16,334	13,760	16,033	13,823	15,600	12,257	14,754
Net interest paid to Council on advance	9,514	7,000	1,000	1,000	1,000	1,215	1,000	1,500	-	-
Net surplus before shareholder interest	18,152	29,623	30,248	17,334	14,760	17,248	(32,050)	17,100	12,257	14,754
Cash flows from operating activities	25,567	42,652	39,473	34,857	35,314	32,471	29,566	26,084	27,416	6,713
Shareholder's funds	154,167	150,887	138,068	147,010	104,215	93,537	83,808	51,717	39,643	29,386
Rate of return (on shareholder's funds)	5.6%	15.0%	21.1%	11.1%	13.2%	17.1%	(39.4)%	30.2%	41.3%	50.2%
Shareholder's advance	113,060	103,377	103,377	103,377	103,377	103,377	103,377	103,377	107,377	113,577
Dividend paid	11,210	12,500	9,000	19,000	8,500	8,000	5,000	7,000	2,000	14,700
Net interest paid to Council on advance	9,514	7,000	1,000	1,000	1,000	1,215	1,000	1,500	-	-
Total paid to Council	20,724	19,500	10,000	20,000	9,500	9,215	6,000	8,500	2,000	14,700
Total assets	683,764	609,973	575,016	551,982	474,783	447,524	443,871	366,018	355,096	352,873
Shareholder's funds to total assets	22.5%	24.7%	24.0%	26.6%	21.9%	20.9%	18.9%	14.1%	11.2%	8.3%

Notes:

1. The shaded figures have been compiled under NZ IFRS accounting standards.
2. The group revalued the electricity network and forest assets and changed tax accounting policy in 2002. The combined effect of the reduction in forest value and deferred tax changes reduced the surplus by \$46.8m. The annual tax charge now includes deferred tax, and annual surpluses are reduced by increased depreciation charges on the increased electricity network asset value.
3. The 2006 results have been affected by two changes in the interpretation of accounting policy. One altered the treatment of deferred tax in Aurora Energy Limited which increased the surplus after tax by \$9.4m. The other was to write off the balance of the goodwill in DELTA Utility Services Limited which reduced the surplus by \$0.7m.
4. The 2007 results were affected by two significant items. The change in corporate tax rates caused a write-back of deferred taxation of \$6.2m resulting in negative taxation. The accrual for subvention payments was adjusted by an additional \$6m to compensate for this, resulting in the operating surplus also being reduced by this amount.

economic value added

For the year-ended 30 June

It is disappointing to report that this year is the first in the last ten years that the company has not added value over and above the cost of the capital employed. The economic value added result is a loss of \$4.77m.

Successful business involves generating a return for those who have provided capital for the business (shareholders and financiers). This return on the amount of the capital must fully reflect the commercial risks associated with that business and the type of capital invested.

When a business is generating returns that exceed its cost of capital, economic value has been added. Conversely, if the company cannot meet its cost of capital, economic value is lost. This year the negative values from City Forests Limited and Citibus Limited outweighed the positive contributions from Aurora Energy Limited and DELTA Utility Services Limited.

The economic value added (EVA) concept has been applied to the group, both at the individual subsidiary level and at group level, to benchmark performance. Interest rates at the beginning and the end of the year were relatively similar although there was a peak in the middle of the year. Based on an averaging of opening and closing rates the cost of capital has also been relatively stable.

The EVA figure is quite sensitive to interest rate changes. A 1% change in the cost of capital of the group, on the current investment, changes the EVA figure by \$3.7m.

The table below demonstrates that the group over time has overwhelmingly added value to the investment. We look forward to a return to a positive result next year.

	2008 \$'000	2007 \$'000	2006 \$'000	2005 \$'000	2004 \$'000
Economic valued added	(4,773)	994	3,800	6,030	8,192

income statement

For the year-ended 30 June	Note	Group 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
Revenue	3	182,112	168,110	300	301
Forest revaluation	31,3	5,638	4,572	-	-
Financial income	4	11,404	11,123	20,474	17,211
Total revenue		199,154	183,805	20,774	17,512
Less expenses					
Audit fees	5	199	176	15	19
Contractors		22,577	19,162	-	-
Depreciation		17,028	16,371	1	-
Directors' fees		648	620	99	97
Employee expenses		38,781	33,775	199	185
Financial expenses	6	29,229	26,369	11,177	9,683
Raw materials and consumables used		47,878	41,733	-	-
Other expenses	5	28,517	23,354	201	93
Share of (profit)/loss of associates		240	(45)	-	-
Total expenditure		185,097	161,515	11,692	10,077
Profit before tax		14,057	22,290	9,082	7,435
Income tax expense	9	5,419	(333)	-	-
Net profit for the year		8,638	22,623	9,082	7,435
Net profit comprises:					
Equity holders of the parent		8,622	22,609	9,082	7,435
Minority Interest		16	14	-	-
Net profit for the year		8,638	22,623	9,082	7,435
Earnings per share	7	2.46 cents	6.46 cents		

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 2008	Note	Group 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
Equity at beginning of year		150,887	138,068	50,812	55,636
Recognised income and expense					
Gain/(Loss) of cash flow hedges taken to equity		1,166	2,439	284	241
Gain/(Loss) on forest land revaluation		605	257	-	-
Gain/(Loss) on asset revaluation in associates		5,743	-	-	-
Net income recognised directly in equity		7,514	2,696	284	241
To profit or loss on cash flow hedges		(1,662)	-	(367)	-
Transfers from equity		(1,662)	-	(367)	-
Net profit for the year		8,638	22,623	9,082	7,435
Total recognised income and (expense) for the year		14,490	25,319	8,999	7,676
Less distribution to owners	8	(11,210)	(12,500)	(11,210)	(12,500)
Equity at the end of the year		154,167	150,887	48,601	50,812
Attributable to:					
Equity holders of the parent		153,721	150,457	48,601	50,812
Minority interest		446	430	-	-
Equity at the end of the year		154,167	150,887	48,601	50,812

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

balance sheet

As at 30 June	Note	Group 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
Equity					
Share capital	10	100	100	100	100
Associate company asset revaluation reserve	29	5,743	-	-	-
Forest revaluation reserve	11	13,358	8,806	-	-
Cash flow hedge reserve	11	1,984	2,480	284	367
Retained earnings	12	132,536	139,071	48,217	50,345
Total equity attributable to Dunedin City Council		153,721	150,457	48,601	50,812
Minority interest in subsidiary company		446	430	-	-
Total equity		154,167	150,887	48,601	50,812
Current liabilities					
Short-term borrowings	13	5,798	7,523	-	-
Trade and other payables	14	17,201	22,065	1,876	9,666
Derivative financial instruments	15	1,583	3,855	-	-
Other current liabilities	16	575	1,487	6	4
Provisions	17	13,285	3,596	9,231	19
Current portion of term borrowings		-	4	-	-
Total current liabilities		38,442	38,530	11,113	9,689
Non-current liabilities					
Shareholders advance – DCC	18	113,060	103,377	113,060	103,377
Term borrowings	19	304,155	244,724	19,610	19,800
Other liabilities	16	737	653	-	-
Provisions	17	43	448	-	-
Deferred tax liability	20	73,160	71,354	-	181
Total non-current liabilities		491,155	420,556	132,670	123,358
Total liabilities		529,597	459,086	143,783	133,047
TOTAL EQUITY AND LIABILITIES		683,764	609,973	192,384	183,859

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

As at 30 June	Note	Group 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
Current assets					
Cash and cash equivalents	24	22,756	2,362	7,968	3,001
Trade and other receivables	25	22,042	19,832	1,686	2,584
Derivative financial instruments	15	2,726	7,321	-	547
Inventories	26	6,212	5,995	-	-
Prepayments		612	525	-	-
Tax refund due		1,060	231	-	-
Investments		13,711	5,544	-	-
Assets classified as held for sale	27	800	630	-	-
Total current assets		69,919	42,440	9,654	6,132
Non-current assets					
Investments in subsidiary company shares	28	-	-	178,326	173,325
Investments in equity accounted companies	29	17,132	11,629	4,400	4,400
Other investments	30	108,084	83,946	-	-
Forestry assets	31	90,614	85,327	-	-
Property, plant and equipment	32	396,158	385,865	4	2
Intangible asset		1,857	766	-	-
Total non-current assets		613,845	567,533	182,730	177,727
TOTAL ASSETS		683,764	609,973	192,384	183,859

For and on behalf of the Board of Directors



Director
Paul R Hudson
10th September 2008



Director
Ross D Liddell

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

statement of cash flows

For the year-ended 30 June	Note	Group 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
Cash flows from operating activities					
<i>Cash was provided from</i>					
Receipts from customers		177,690	156,263	330	424
Interest received		888	237	216	27
Dividends received from an associate		-	167	-	167
Dividends from other equity investments		-	3,636	18,290	14,356
Subvention payments		1,224	6,653	2,704	8,230
		179,802	166,956	21,540	23,204
<i>Cash was disbursed to</i>					
Payments to suppliers and employees		134,605	104,117	356	431
Interest paid		15,588	15,861	9,450	9,492
Income tax paid/(received)		3,886	4,166	-	-
Net GST paid		156	160	35	41
		154,235	124,304	9,841	9,964
Net cash inflows/(outflows) from operating activities	33	25,567	42,652	11,699	13,240
Cash flows from investing activities					
<i>Cash was provided from</i>					
Sale of property, plant and equipment		691	1,383	-	-
Investments realised		-	8,428	-	-
Receipts from derivatives		2,144	193	575	-
		2,835	10,004	575	-
<i>Cash was disbursed to</i>					
Purchase of property, plant and equipment		31,736	40,603	4	-
Purchase of investments		32,419	20,010	5,113	-
		64,155	60,613	5,117	-
Net cash inflows/(outflows) from investing activities		(61,320)	(50,609)	(4,542)	-

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

For the year-ended 30 June	Group 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
Cash flows from financing activities				
<i>Cash was provided from</i>				
Proceeds from borrowings	58,408	20,827	-	-
	58,408	20,827	-	-
<i>Cash was disbursed to</i>				
Repayment of borrowings	261	-	190	-
Dividends paid	2,000	12,511	2,000	12,500
	2,261	12,511	2,190	12,500
Net cash inflows/(outflows) from financing activities	56,147	8,316	(2,190)	(12,500)
Net increase/(decrease) in cash, cash equivalents and bank overdraft	20,394	359	4,967	740
Cash and cash equivalents at the beginning of the year	2,362	2,003	3,001	2,261
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	22,756	2,362	7,968	3,001
Composition of cash				
Cash and cash equivalents	22,756	2,431	7,968	3,001
Bank overdraft	-	(69)	-	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	22,756	2,362	7,968	3,001

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 2008

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 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 2008.

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 10 September 2008.

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.

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 initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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.

2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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. The interest and principal is not repayable on repayable loans until harvesting of the trees, planted with the loan monies, occurs.

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

Taxation

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 are as follows:

	Rate	Method
Buildings	1% to 5%	Straight Line
Roads and bridges	2% to 16%	Straight Line
Metering equipment	5% to 20%	Straight Line
Electricity network assets	2 % to 20%	Straight Line
Sawmill assets	3% to 10%	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 25%	Straight Line
Construction in progress	no depreciation charged	
Software	20% to 100%	Straight Line

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 taxation, 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 derocognised.

Investment property

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

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

Intangible assets

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

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

Research and development expenditure

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

Patents and trademarks

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

Impairment of assets excluding goodwill

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is immediately recognised as an expense, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent of any previous revaluation increase for that asset (or cash generating unit) that remains in the revaluation reserve. Any additional impairment is immediately transferred to the income statement. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is immediately recognised as income.

Inventories

Inventories, apart from log and wood processing inventories, 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 and wood processing inventories at net realisable value. 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 of cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Financial instruments

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

Trade and other receivables

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

Investments

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

Investments in debt and equity securities

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

Trade and other payables

Trade and other payables are stated at cost.

2. SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Borrowings

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

Financial liability and equity

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

Derivative financial instruments and hedge accounting

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates 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.

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.

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 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
3. OPERATING REVENUE				
Sales revenue	182,077	168,092	300	301
Gain on sale of assets	35	18	-	-
Forest revaluation	5,638	4,572	-	-
	187,750	172,682	300	301
4. FINANCIAL INCOME				
Subvention income	-	1,203	1,662	2,688
Interest on advances to related parties	7,582	5,453	231	28
Interest on other investments	1,240	246	-	-
Dividends	-	3,806	18,290	14,495
Net gain on foreign currency transactions	448	415	-	-
Gain on interest rate swap settlement	699	-	291	-
Forest suspensory loan	1,435	-	-	-
	11,404	11,123	20,474	17,211
No interest was earned on impaired or restructured assets.				
5. OTHER EXPENSES				
Audit fees – for audit of financial statements	188	148	15	14
– for audit services in relation to IFRS reporting	11	28	-	5
Total audit fees	199	176	15	19
Bad debts written-off	174	127	-	-
Impairment of intangible assets	401	165	-	-
Increase/(decrease) in impairment provision for receivables	(115)	70	-	-
Donations	37	52	-	-
Loss on sale of assets	66	26	-	-
Rental expense on operating leases	1,557	2,103	6	6
Research expenditure	57	89	-	-
Other expenses	26,340	20,722	195	87
Total other expenses	28,517	23,354	201	93
6. FINANCIAL EXPENSES				
Interest – related parties	10,805	8,204	11,177	9,683
Interest – term loans	18,424	16,185	-	-
Loss/(Gains) on the sale of investment	-	1,736	-	-
Fair value loss/(gains) on interest rate hedges transferred from equity	-	244	-	-
Total financial expenses	29,229	26,369	11,177	9,683

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 2008	Group 2007
Number of shares		
Weighted average number of ordinary shares	350,000,000	350,000,000
Basic earnings per share	2.46 cents	6.46 cents

Diluted earnings per share

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

8. DIVIDENDS

			Group 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
Interim dividend	July	0.57 cents/share	2,000	2,000	2,000	2,000
Interim dividend	Dec	1.42 cents/share	-	5,000	-	5,000
Interim dividend	May	0.57 cents /share	-	2,000	-	2,000
Final dividend	June	1 cent/share	-	3,500	-	3,500
Final dividend provision		2.63 cents/share	9,210	-	9,210	-
			11,210	12,500	11,210	12,500

9. INCOME TAX

Operating surplus – continuing operations	14,057	22,290	9,082	7,435
– discontinued operations	-	-	-	-
Operating surplus before income tax	14,057	22,290	9,082	7,435
Tax thereon at 33%	4,639	7,356	2,997	2,453
<i>Plus/(Less) the tax effect of differences</i>				
Revenue not liable for taxation	2,165	(1,927)	(2,997)	(2,453)
Expenditure not deductible for taxation	(1,345)	(5,599)	-	-
Under/(Over) tax provision in prior years	(40)	(163)	-	-
Tax effect of differences	780	(7,689)	(2,997)	(2,453)
Tax expense	5,419	(333)	-	-
Effective tax rate	38.6%	(1.5)%	0%	0%

Represented by

Current tax provision	3,663	4,557	-	-
Deferred tax provision	1,779	(4,738)	-	-
Under/(Over) tax provision in prior years	(23)	(152)	-	-
Income tax	5,419	(333)	-	-

Imputation credit account

Balance at the beginning of the year	9,305	9,653	7,860	8,871
Credits attached to dividends received	-	1,863	5,739	5,146
Taxation payments made	3,964	3,946	-	-
Credits attached to dividends paid	(4,919)	(6,157)	(4,919)	(6,157)
Balance at the end of the year	8,350	9,305	8,680	7,860

	Group 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
10. EQUITY – SHARE CAPITAL				
Issued capital				
350,000,000 ordinary shares	100	100	100	100

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

Since incorporation Dunedin City Holdings Limited 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

11. RESERVES

Forest revaluation reserve

Balance at beginning of the year	8,806	4,361
Net revaluations of forest	3,947	4,188
Net revaluation of forest land	605	257
Balance at the end of the year	13,358	8,806

Hedging reserve

Balance at beginning of the year	2,480	41	367	126
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Gain/(Loss) recognised on cash flow hedges

Interest rate swap revaluations	-	3,159	-	359
Deferred tax arising on hedges (note 20)	-	(720)	-	(118)
Gain on settlement of interest rate swaps to equity	1,165	-	284	-

Transferred to profit or loss

Interest rate swaps	(2,474)	-	(547)	-
Deferred tax related to amounts transferred	813	-	180	-
Balance at the end of the year	1,984	2,480	284	367

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 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
12. RETAINED EARNINGS				
Balance at the beginning of the year				
Group companies	132,069	126,193	50,345	55,410
Associate companies	7,002	6,957	-	-
	139,071	133,150	50,345	55,410
Net profit for the year	8,638	22,623	9,082	7,435
Dividend distributions	(11,210)	(12,500)	(11,210)	(12,500)
Minority share of surplus	(16)	(14)	-	-
Transfer to reserves –forest (note 11)	(3,947)	(4,188)	-	-
Balance at the end of the year	132,536	139,071	48,217	50,345
<i>Represented by</i>				
Group companies	125,774	132,069	48,217	50,345
Associate companies	6,762	7,002	-	-
Balance at the end of the year	132,536	139,071	48,217	50,345
13. SHORT-TERM BORROWINGS				
Consolidated group				
Bank loans repayable within one year	5,798	7,523	-	-
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 8.4% (2007: 7.94%).				
14. TRADE AND OTHER PAYABLES				
Trade payables	16,990	12,232	4	3
Due to related parties – subsidiaries	-	-	1,848	1,432
– Dunedin City Council	127	8,305	-	8,204
Accruals	84	1,528	24	27
	17,201	22,065	1,876	9,666

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

	2008 \$'000 Asset	2008 \$'000 Liability	2007 \$'000 Asset	2007 \$'000 Liability
15. DERIVATIVE FINANCIAL INSTRUMENTS – GROUP				
<i>Fair value</i>				
Forward foreign exchange contracts	272	-	7	9
Interest rate swaps	2,454	1,583	7,314	3,846
	2,726	1,583	7,321	3,855
Analysed as:				
Non-current	91	-	-	-
Current	2,635	1,583	7,321	3,855
	2,726	1,583	7,321	3,855
DERIVATIVE FINANCIAL INSTRUMENTS – PARENT				
<i>Fair value</i>				
Interest rate swaps	-	-	547	-
Analysed as:				
Non-current	-	-	-	-
Current asset	-	-	547	-
	-	-	547	-
	Group 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
16. OTHER LIABILITIES				
(i) Current liabilities				
GST payable	133	239	6	4
Other current liabilities	442	1,248	-	-
	575	1,487	6	4
(ii) Non-current liabilities				
Other non-current liabilities	737	653	-	-
	737	653	-	-

	Group 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
17. PROVISIONS				
(i) Current liabilities				
Long service leave	140	139	-	-
Annual leave	3,277	2,402	21	19
Dividend	9,210	-	9,210	-
Gratuities	-	174	-	-
Sick leave	93	99	-	-
Other provisions	565	782	-	-
	13,285	3,596	9,231	19
(ii) Non-current liabilities				
Long service leave	-	198	-	-
Gratuities	43	250	-	-
	43	448	-	-

18. SHAREHOLDER'S ADVANCE**Consolidated group and parent company**

Balance at the end of the year	113,060	103,377	113,060	103,377
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The shareholder's advance owing to Dunedin City Council is unsecured. The directors' view is that this advance forms an integral part of the DCC'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. Until last year the interest on this debt has been largely but not entirely matched by a subvention payment from the shareholder. Last year the interest cost paid to the Dunedin City Council was \$7.0 million more than the subvention payment received. This year the company will receive no subvention from Council so the net cash to Council equates to 9.52% (\$9.5m) on the advance of \$103.3m. In 2007 the gross interest on the debt averaged 7.94% (\$8.2m).

19. TERM BORROWINGS (SECURED)

Multi-option note facility	292,719	232,322	-	-
Forestry loans	11,427	12,393	-	-
Finance lease (refer to note 23)	9	9	-	-
Due to subsidiaries	-	-	19,610	19,800
	304,155	244,724	19,610	19,800

The term borrowings are secured against certain assets and undertakings of the group.

The Dunedin City Treasury Limited multi-option note facility was increased by \$75 million to \$350 million in June 2002.

Two independent banks have underwritten the facility to the amount of \$45 million.

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.

Group	Group	Parent	Parent
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

19. TERM BORROWINGS (SECURED) – CONTINUED

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) \$40m issued for 8 years, maturing 15/11/13 at a coupon rate of 7.07%
- b) \$50m issued for 10 years, maturing 15/11/16 at a coupon rate of 6.79%
- c) \$60m issued for 10 years, maturing 15/10/17 at a coupon rate of 7.81%
- d) \$40m issued for 3 years, maturing 15/4/11 at a coupon rate of 8.7%

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. Each loan is associated with an individual stand of trees and is repayable on the harvesting of the stand.

The repayment period on the term borrowings is as follows:

Repayable between one to two years	1,389	11,288	-	-
Repayable between two to five years	146,185	83,112	19,610	19,800
Repayable later than five years	156,581	150,324	-	-
	304,155	244,724	19,610	19,800

The weighted average interest rate for the multi-option note facility at year end, inclusive of any current portion, was 8.84% (2007: 7.06%).

The weighted average interest rates for the forestry loans ranged between 3.0% and 6.7%, (2007: between 3.0% and 6.7%).

With the exception of borrowings, directors view the carrying value of financial assets and liabilities equals their fair value. 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	283,805	226,813	-	-
Forestry loans	11,290	10,626	-	-

20. DEFERRED TAX
Group, 2008, \$'000

	Opening balance sheet	Charged to equity	Charged to income	Closing balance sheet assets	Closing balance sheet liabilities	Closing balance sheet net
Property, plant and equipment	57,795	-	346	(40)	58,181	58,141
Property, plant and equipment from change in tax rate	(5,130)	-	-	-	(5,130)	(5,130)
Employee benefits	(1,107)	-	(104)	(1,211)	-	(1,211)
Forest	12,368	-	1,691	-	14,059	14,059
Forest from change in tax rate	(1,124)	-	-	-	(1,124)	(1,124)
Forest costs capitalised	7,620	-	340	-	7,960	7,960
Other Investments	(181)	-	303	(137)	259	122
Hedge reserve – foreign exchange contracts	(1)	83	-	-	82	82
Hedge reserve – interest rate swaps	1,114	(467)	(386)	(386)	647	261
Balance at the end of the year	71,354	(384)	2,190	(1,774)	74,934	73,160

Group, 2007, \$'000

Property, plant and equipment	56,989	-	806	-	57,795	57,795
Property, plant and equipment from change in tax rate	-	-	(5,130)	-	(5,130)	(5,130)
Employee benefits	(977)	-	(130)	(1,107)	-	(1,107)
Forest capitalised costs	7,991	-	(371)	-	7,620	7,620
Forest	10,860	-	1,508	-	12,368	12,368
Forest from change in tax rate	-	-	(1,124)	-	(1,124)	(1,124)
Other investments	(171)	214	(224)	(532)	351	(181)
Hedge reserve – foreign exchange contracts	(88)	171	(84)	(1)	-	(1)
Hedge reserve – interest rate swaps	190	924	-	-	1,114	1,114
Balance at the end of the year	74,794	1,309	(4,749)	(1,640)	72,994	71,354

Parent, 2008, \$'000

Revaluations of interest rate swaps	181	(181)	-	-	-	-
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Parent, 2007, \$'000

Revaluations of interest rate swaps	62	119	-	-	181	181
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Group **Group**
2008 **2007**
\$'000 **\$'000**

21. CONTINGENT LIABILITIES

Performance bonds	5,305	3,236
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The performance bonds issued are principally in favour of South Island local body authorities for contract work. There is no indication that any of the above contingent liabilities will crystallise in the foreseeable future.

22. CAPITAL EXPENDITURE COMMITMENTS

Plant and equipment	12,529	6,723
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The parent company has no capital expenditure commitments. (2007 nil)

	Group 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
23. LEASE COMMITMENTS				
(i) Minimum operating lease payments				
Payable within one year	2,273	2,064	6	6
Payable between one to five years	5,004	4,329	12	12
Payable later than five years	987	1,210	-	-
	8,264	7,603	18	18
(ii) Minimum finance lease payments				
Minimum future lease payments:				
Payable within one year	4	4	-	-
Payable between one to five years	5	9	-	-
Payable later than five years	-	-	-	-
	9	13	-	-

Finance leases are employed to finance some office photocopier equipment.

24. CASH AND CASH EQUIVALENTS

Cash and bank	22,756	2,362	7,968	3,001
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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.

25. TRADE AND OTHER RECEIVABLES

Trade receivables	16,481	14,460	-	-
Estimated impairment	(61)	(175)	-	-
	16,420	14,285	-	-
Due from related parties:				
– Subsidiaries	-	-	1,686	1,529
– Other related parties	3,970	3,769	-	1,055
Other current receivables	1,652	1,778	-	-
	22,042	19,832	1,686	2,584

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

	Group 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
26. INVENTORIES				
Raw materials and stores	2,974	2,790	-	-
Work in progress	2,341	2,612	-	-
Finished goods	897	593	-	-
	6,212	5,995	-	-
27. NON-CURRENT ASSETS HELD FOR SALE				
Land	670	500	-	-
Buildings and associated chattels	130	130	-	-
	800	630	-	-

At 30 June 2007, City Forests Limited held for sale a parcel of land which was no longer able to be used for the purpose it was purchased. No impairment loss was recognised on reclassification of the asset. At June 2008 this land was still available for sale. The delay in the sale was due to difficulty in exiting the tenancy arrangements relating to the land.

28. INVESTMENTS IN SUBSIDIARY COMPANY SHARES

<i>Shares in subsidiary companies</i>	-	-	178,326	173,325
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Parent company

Name of entity (principal activities)	Percentage interest held	
Citibus Limited (transport)	100	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.

Group	Group	Parent	Parent
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

29. INVESTMENTS IN ASSOCIATE COMPANIES

Consolidated group

Investment in associate companies

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
The Street NZ Limited (internet)	37.7	37.7

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

None of the associate companies are listed, 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)

Total assets	32,166	25,537
Less total liabilities	(15,034)	(13,908)
Net assets	17,132	11,629

Associates surplus/(deficit) for the period (group/share)

Revenue	4,627	3,951
Surplus for the period	(240)	45
Increase in asset valuation reserve	5,743	-
Total recognised revenues and expenses	5,503	45
Opening carrying value	11,629	11,751
Dividends	-	(167)
Closing carrying value	17,132	11,629

Parent company

Investment in associate companies

Name of entity (principal activities)	Percentage interest held	
Dunedin International Airport Limited (transport)	50.0	50.0
The Street NZ Limited (internet)	37.7	37.7

The associate companies have a balance date of 30 June.

Interest in associate companies	4,400	4,400
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The associate companies have a balance date of 30 June.

	Group 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
30. INVESTMENTS – NON-CURRENT				
Advances due from Dunedin City Council				
Maturity 1-5 years	20,273	16,844	-	-
Maturity over 5 years	86,303	65,663	-	-
	106,576	82,507	-	-
Shares and units in other companies and funds	11	15	-	-
Mortgage receivables				
Maturity 1-5 years	1,497	1,424	-	-
	1,497	1,424	-	-
Total other investments	108,084	83,946	-	-

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

Advances Consolidated Group

The advances (above) due from the Dunedin City Council had a weighted average interest rate of 7.9% (2007:7.3%).

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. They are investments held for trading and the fair values are based on quoted market prices.

Acquisition of business

Name of business acquired	Principal activity	Date of acquisition	Assets acquired	Cost of acquisition
2008				
Assets of Lakes Contract Services Limited	Contractor	July 2007	Contracting Assets	\$2,033,000
2007				
Opio Forests	Forestry	July 2006	Land and forests	\$15,500,000

DELTA Utility Services Limited acquired the business assets of Lakes Contract Services Limited of Queenstown in July 2007 and since has integrated this business into its other activities in the Central Otago region.

Net assets acquired 2008:	Book value \$'000	Fair value adjustment \$'000	Fair value on acquisition \$'000
Current assets			
Cash	-	-	-
Trade and other receivables	-	-	-
Inventory	171	-	171
Non-current assets			
Property, plant and equipment	822	-	822
	993	-	993
Profit/Goodwill on acquisition			1,040

	Group 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
31. FORESTRY ASSETS				
Balance at the beginning of the year	85,327	71,058		
Add: Costs capitalised in establishing forests during the year	1,823	2,102		
Increase in forest from acquisition	-	9,932		
Revaluation	5,638	4,572		
Less: Value of logs harvested	(2,174)	(2,337)		
	90,614	85,327		
Gains/(Losses) arising from changes in fair value less point of sale costs;				
Attributable to physical changes	5,349	10,009		
Attributable to price changes	(61)	4,260		

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 \$25,532,750 value (see note 30). 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 of 7.5%. The discount rate chosen took into account a number of plantation forest sales that had taken place in the southern hemisphere since 1989. The log prices for the first year of the cash flow model were current prices and these were altered to trend line log prices over a period of 3 to 5 years. The valuation model is highly sensitive to discount rate.

At 30 June 2008 the company owned stands of trees on 16,119 hectares of a total land holding of approx 19,739 hectares. During the year the company harvested approx 179,678 cu.m. of logs.

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 34.4, 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 impact of the commodity price cycle over the longer term.

The valuer of the forestry asset was an employee of City Forests Limited who has a Bachelor of Forestry Science with Honours 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 valuation audit was completed with regard to a summary of market transactions at arm's-length terms and current market conditions.

The valuation assumptions include all direct costs and revenues.

32. PROPERTY, PLANT AND EQUIPMENT

Group 2008, \$'000	Land	Forest land	Buildings	Roads & bridges	Network	Plant & equipment	Sub-total
Cost or valuation							
Balance at beginning of period	3,676	25,103	14,694	4,647	330,407	19,835	398,362
Purchases/revaluation	624	430	436	90	18,873	1,757	22,210
Sales	-	-	-	-	(1,362)	(579)	(1,941)
Transfer to assets held for sale	(170)	-	-	-	-	-	(170)
Balance at end of period	4,130	25,533	15,130	4,737	347,918	21,013	418,461
Accumulated depreciation							
Balance at beginning of period	-	-	1,161	2,604	26,655	7,653	38,073
Depreciation	-	-	225	111	11,367	1,741	13,444
Impairment	-	-	-	-	-	-	-
Sales	-	-	-	-	(584)	(500)	(1,084)
Transfer to assets held for sale	-	-	-	-	-	-	-
	-	-	1,386	2,715	37,438	8,894	50,433
Balance at end of period	4,130	25,533	13,744	2,022	310,480	12,119	368,028
Comprising – Cost	4,130	-	13,744	2,022	310,480	12,119	342,495
– Valuation	-	25,533	-	-	-	-	25,533
Group 2008, \$'000							
	Sub-total	Motor vehicles	Office equipment	Locomotives	Railway track	Construction	Total
Cost							
Balance at beginning of period	398,362	35,285	1,608	1,851	407	5,895	443,408
Purchases/revaluation	22,210	8,548	320	411	2	209	31,700
Sales	(1,941)	(2,007)	(101)	-	-	(2,920)	(6,969)
Transfer to assets held for sale	(170)	-	-	-	-	-	(170)
Balance at end of period	418,461	41,826	1,827	2,262	409	3,184	467,969
Accumulated depreciation							
Balance at beginning of period	38,073	17,280	1,003	1,004	183	-	57,543
Depreciation	13,444	3,313	182	90	-	-	17,029
Impairment	-	-	-	-	-	-	-
Sales	(1,084)	(1,583)	(94)	-	-	-	(2,761)
Transfer to assets held for sale	-	-	-	-	-	-	-
	50,433	19,010	1,091	1,094	183	-	71,811
Balance at end of period	368,028	22,816	736	1,168	226	3,184	396,158
Comprising – Cost	342,495	22,816	736	1,168	226	3,184	370,625
– Valuation	25,533	-	-	-	-	-	25,533

32. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

Group 2007, \$'000	Land	Forest land	Buildings	Roads & bridges	Network	Plant & equipment	Sub-total
Cost or valuation							
Balance at beginning of period	4,176	22,528	14,502	4,642	311,987	17,751	375,586
Purchases/revaluation	-	3,445	330	5	18,420	2,326	24,526
Sales	-	(870)	-	-	-	(220)	(1,090)
Transfer to assets held for sale	(500)	-	(138)	-	-	(22)	(660)
Balance at end of period	3,676	25,103	14,694	4,647	330,407	19,835	398,362
Accumulated depreciation							
Balance at beginning of period	-	-	966	2,487	16,084	6,134	25,671
Depreciation	-	-	211	117	10,571	1,661	12,560
Impairment	-	-	-	-	-	-	-
Sales	-	-	-	-	-	(128)	(128)
Transfer to assets held for sale	-	-	(16)	-	-	(14)	(30)
	-	-	1,161	2,604	26,655	7,653	38,073
Balance at end of period	3,676	25,103	13,533	2,043	303,752	12,182	360,289
Comprising – Cost	3,676	-	13,533	2,043	303,752	12,182	335,186
– Valuation	-	25,103	-	-	-	-	25,103
Group 2007, \$'000	Sub-total	Motor vehicles	Office equipment	Locomotives	Railway track	Construction	Total
Cost							
Balance at beginning of period	375,586	33,430	1,384	1,773	407	6,662	419,242
Purchases/ revaluation	24,526	3,081	244	78	-	(628)	27,301
Sales	(1,090)	(1,226)	(20)	-	-	(139)	(2,475)
Transfer to assets held for sale	(660)	-	-	-	-	-	(660)
Balance at end of period	398,362	35,285	1,608	1,851	407	5,895	443,408
Accumulated depreciation							
Balance at beginning of period	25,671	14,953	837	922	196	-	42,579
Depreciation	12,560	3,263	179	82	(13)	-	16,071
Impairment	-	-	-	-	-	-	-
Sales	(128)	(936)	(13)	-	-	-	(1,077)
Transfer to assets held for sale	(30)	-	-	-	-	-	(30)
	38,073	17,280	1,003	1,004	183	-	57,543
Balance at end of period	360,289	18,005	605	847	224	5,895	385,865
Comprising – Cost	335,186	18,005	605	847	224	5,895	360,762
– Valuation	25,103	-	-	-	-	-	25,103

	Parent 2008 \$'000	Parent 2007 \$'000
32. PROPERTY, PLANT AND EQUIPMENT – CONTINUED		
Office equipment at cost		
Balance at beginning of period	11	11
Increase through acquisition	-	-
Purchases	4	-
Sales	(5)	-
Balance at end of period	<u>10</u>	<u>11</u>
Accumulated depreciation		
Balance at beginning of period	9	9
Depreciation	1	-
Sales	(4)	-
Balance at end of period	<u>6</u>	<u>9</u>
Property plant and equipment at end of period	<u>4</u>	<u>2</u>

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

	Group 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
33. RECONCILIATION OF NET SURPLUS FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES				
Net surplus/(deficit) for the year	8,638	22,623	9,082	7,435
Share of net surplus/(deficit) in associate companies	240	(45)	-	-
<i>Items not involving cash flows</i>				
Depreciation	17,028	16,371	1	-
Depletion of forest	2,174	2,337	-	-
Deferred tax	1,806	(3,440)	(180)	119
Amortisation expense	401	165	-	-
Forest revaluation	(5,638)	(4,572)	-	-
Ministry of Forests suspensory loan	(1,435)	-	-	-
Loss on investment disposal	-	1,736	-	-
(Increase)/Decrease in derivative valuation	1,836	-	465	(359)
Other non-cash items	660	(721)	113	240
<i>Impact of changes in working capital items</i>				
(Increase)/Decrease in trade and other receivables	(2,210)	2,907	897	5,607
(Increase)/Decrease in inventories	(218)	1080	-	-
(Increase)/Decrease in prepayments	(157)	(42)	-	-
(Increase)/Decrease in tax refund due	(194)	(1,110)	-	-
Increase/(Decrease) in trade and other payables	(3,865)	4,114	(7,789)	197
Increase/(Decrease) in provision for tax	(635)	1,395	-	-
Increase/(Decrease) in other current liabilities	(433)	(121)	2	1
<i>Items classified as investing or financing activities</i>				
Gain on sale of property, plant and equipment	(35)	(51)	-	-
Loss on sale of property, plant and equipment	66	26	-	-
Cash gain on swap settlement	(2,145)	-	(575)	-
Increase/(Decrease) in shareholder's advance	9,683	-	9,683	-
Net cash inflows/(outflows) from operating activities	25,567	42,652	11,699	13,240

34. FINANCIAL RISK

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

34.1 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 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, 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 council in public.

34.2 Liquidity risk

Liquidity risk represents the group's ability to meet its contractual obligations. 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 as follows:

Group 2008, \$'000	Maturity date 1 year or less	Maturity date over 1 year & less than or equal to 5 years	Maturity date over 5 years	Total
Financial assets				
Cash and cash equivalents	22,756	-	-	22,756
Trade and other receivables	22,042	-	-	22,042
Advances due from the DCC	13,653	20,273	86,303	120,229
Mortgage receivables	-	1,497	-	1,497
Derivative financial instruments	2,726	-	-	2,726
	61,177	21,770	86,303	169,250

Group 2008, \$'000	Maturity date 1 year or less	Maturity date over 1 year & less than or equal to 5 years	Maturity date over 5 years	Total
Financial liabilities				
Cash and cash equivalents	-	-	-	-
Trade and other payables	17,201	-	-	17,201
Borrowings	5,798	147,574	269,641	423,013
Derivative financial instruments	1,583	-	-	1,583
	24,582	147,574	269,641	441,797

Group 2007, \$'000**Financial assets**

Cash and cash equivalents	2,431	-	-	2,431
Trade and other receivables	19,832	-	-	19,832
Advances due from the DCC	5,449	16,884	65,663	87,996
Mortgage receivables	-	1,424	-	1,424
Derivative financial instruments	7,321	-	-	7,321
	35,033	18,308	65,663	119,004

Financial liabilities

Cash and cash equivalents	69	-	-	69
Trade and other payables	22,065	-	-	22,065
Borrowings	7,523	94,400	253,701	355,624
Derivative financial instruments	3,855	-	-	3,855
	33,512	94,400	253,701	381,613

34.3 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 2008 \$'000 asset	Group 2008 \$'000 liability	Group 2007 \$'000 asset	Group 2007 \$'000 liability
Maturing in less than one year	1,000	-	14,000	11,000
Maturing between one and five years	44,500	29,000	55,000	24,000
Maturing after five years	48,000	38,000	71,500	36,000
	93,500	67,000	140,500	71,000

This swap liability must be considered against the fair value of the bond debt that the swap is intended to hedge.

The fair value of the bond debt is now \$8.9m below (2007: \$5.5m below) the carrying cost in the Balance Sheet.

Group	Group	Parent	Parent
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

34.3 Interest rate risk – continued

Parent interest rate risk

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

Maturing in less than one year	-	-
Maturing between one and five years	-	10,000
Maturing after five years	-	-
	-	10,000

34.4 Currency market risk

City Forests Limited is the one company within the Dunedin City Holdings Limited group that 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.

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:

Forward foreign exchange contracts – fair value	279	7
– nominal value	6,200	4,559
(Sale of USD and purchase of NZD)		
Forward foreign exchange contracts – fair value	(7)	-
– nominal value	300	-
(Sale of AUD and purchase of NZD)		

All contracts are current.

34.5 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	Group	Parent	Parent
	2008	2007	2008	2007
	%	%	%	%
Effectiveness	100	100	100	100

Group 2008 \$'000	Group 2007 \$'000	Parent 2008 \$'000	Parent 2007 \$'000
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34.6 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. 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:

Past due receivables				
Age analysis: 30-60 days	738	659	154	147
60-90 days	447	460	154	139
90 days plus	1,591	1,637	1,249	1,102

34.7 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 an the year end rate of 0.7972
- > A parallel shift of +1%/-1% in the NZD market interest rate from the year end 90day BBBR of 8.67%.

Should these movements occur, the impact 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.

Derivatives are designated as cash flow hedges (interest rate swaps, forward currency deals separately disclosed).

2008, \$,000	Carrying amount	Interest rate				FX			
		-100bp		+100bp		-10%		+10%	
		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Financial assets									
Derivatives	2,726	-	(3,286)	-	3,492	-	471	-	(385)
Other financial assets	166,120	(1,217)	(1,217)	1,217	1,217	127	127	(127)	(127)
	168,846								
Financial liabilities									
Derivatives	1,583	-	2,562	-	(2,327)	-	-	-	-
Other financial liabilities	440,214	2,705	2,998	(2,705)	(2,998)	-	-	-	-
	441,797								
TOTAL INCREASE/(DECREASE)		1,488	1,057	(1,488)	(616)	127	598	(127)	(512)

34.7 Sensitivity analysis of financial assets and liabilities – continued

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. Accounts receivable within City Forests Limited include \$1.08m of USD denominated receivables at year-end. City Forests Limited is the only company to hold foreign exchange derivatives. All foreign exchange derivatives held at year end were subject to the hedge accounting regime.
3. 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.
4. 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.
5. The shareholder's advance of \$113m from the Dunedin City Council in Dunedin City Holdings Limited is variable rate debt that is not hedged. The \$121m of advances from Dunedin City Treasury Limited to the Dunedin City Council and mortgage holders is variable rate debt that is not hedged.

35. RELATED PARTY TRANSACTIONS

The parent entity in the consolidated entity is Dunedin City Holdings Limited which is a wholly-owned subsidiary of Dunedin City Council.

Group

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 28 to the financial statements

Details of the percentage of ordinary shares held in associates are disclosed in note 29 to the financial statements

Amounts receivable from and payable to related parties at balance date are disclosed in notes, 14 and 25.

Transactions with Dunedin City Council

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

	Group 2008 \$'000	Group 2007 \$'000
Sales of services to the Dunedin City Council:		
Contracting services	16,439	10,822
Subvention receipts	-	1,204
Interest income	7,581	5,453
Transport services	436	393
	24,456	17,872
Purchases of goods and services from the Dunedin City Council:		
Interest	10,805	8,204
Dividends	11,210	12,500
Materials purchased	850	542
Rates and property rentals	966	926
Administration and office services	32	32
	23,863	22,204
As at balance date:		
Receivable from Dunedin City Council	124,108	91,765
Payable to Dunedin City Council (inclusive of shareholders advance)	122,397	111,682

Group	Group
2008	2007
\$'000	\$'000

Transactions with associate companies

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

Sales of goods and services to associate companies:

Forest products sold to chip mill	992	654
Dividends	-	167
	992	821

Purchases of goods and services from associate companies:

City Forests Limited purchases from chip mill	31	-
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As at balance date:

Receivable from associate companies	432	457
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 to 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.

During the course of the year:

- > City Forests Limited and DELTA Utility Services Limited paid \$141,000 (2007: \$46,000) for materials and mechanical services to the Palmers Group, an organisation of which Mr R D Liddell is a director.
- > City Forests Limited, DELTA Utility Services Limited and Taieri Gorge Railway Limited paid \$393,000 (2007: \$491,000) for materials to Blackhead Quarries Limited, an organisation of which Mr R D Liddell is a director. Blackhead Quarries Limited paid \$3,000 (2007: nil) to DELTA Utility Services Limited for contacting services.
- > DELTA Utility Services Limited paid \$6,000 (2007: \$3,000) for consulting, accounting and financial services to Mr R J Polson.
- > DELTA Utility Services Limited sold electrical contracting services to a value of \$4,000 (2007: \$15,000) to Lake Hayes Limited an organisation of which Mr M O Coburn is a director.
- > DELTA Utility Services Limited and Aurora Energy Limited sold electrical contracting services to a value of \$3.95m (2007: \$3.01m) to Jacks Point Limited an organisation of which Mr M O Coburn is a director.
- > DELTA Utility Services Limited and Aurora Energy Limited sold contracting services to a value of \$111,000 (2007: \$92,000) to Arith Holdings Limited an organisation of which Mr M O Coburn is a director.
- > DELTA Utility Services Limited purchased consulting services to a value of \$4,000 (2007: \$7,000) from Douglas Consultants Limited an organisation of which Mr G D Douglas is a director.
- > DELTA Utility Services Limited sold contracting services to a value of \$239,000 (2007: \$20,000) to the University of Otago an organisation of which Mr S J McLauchlan is a councillor.
- > DELTA Utility Services Limited paid \$6,000 (2007: \$10,000) for training services to the Otago and Southland Employers Association, an organisation of which Mr S J McLauchlan is a director.
- > DELTA Utility Services Limited paid \$8,000 (2007: nil) for services to Scott Technology Limited, an organisation of which Mr S J McLauchlan is a director.
- > DELTA Utility Services Limited sold contracting services to a value of \$17,000 to Mr P R Hudson. (2007: nil)
- > Citibus Limited paid \$66,000 (2007: \$31,000) to Ms S Spiers for accounting services, a close family member of a director.
- > Taieri Gorge Railway Limited paid \$17,000 (2007: \$10,000) to Mr J Chapman for train staffing and workshop services.

Group	Group	Parent	Parent
2008	2007	2008	2007
\$'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	3,362	2,452	299	282
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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 Note 28). Transactions with all four parties are called "related party transactions" and were made on commercial terms and conditions and at market rates. The parent company purchases administrative services from its owner, provides management services to its subsidiaries and borrows from both owner and subsidiaries. Information is also contained in Notes 2, 4, 5, 6, 14 and 25.

Purchases of goods and services, payments made

Dunedin City Council

Dividends	11,210	12,500
Interest	9,514	8,204
Other	18	19

Subsidiaries	1,662	1,480
	22,404	22,203

Sales of goods and services, payments received

Dunedin City Council	-	1,204
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Subsidiaries

Dividends	18,290	14,327
Other	1,962	1,814

Associates

Dividends	-	167
	20,252	17,512

36. 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. These standards to be applied to future financial statements are NZIAS 1 Presentation of Financial Statements (revised), NZIAS 23 Borrowing Costs (revised) and NZIFRS 8 Operating Segments.

37. EVENTS AFTER BALANCE SHEET DATE

There were no significant events after balance date.

statutory information

- 70 Information on Directors
- 71 Employee Remuneration
- 72 Statement of Service Performance
- 74 Audit Report
- 76 Company Directory

statutory information on directors and employees

Responsibilities and Experience

<i>Director</i>	<i>Experience</i>	<i>Responsibilities</i>
Paul R Hudson <i>J.P., B.Com., C.A.</i>	Company Director, Councillor Dunedin City Council	Chairman Appointed by Dunedin City Council 1993
Michael O Coburn <i>F.N.Z.I.M., A.F.Inst.D.</i>	Company Director Chair, Clearwater Land Holdings Limited Director, Arthur Barnett Limited Director, Arith Holdings Limited Director, Jacks Point Limited Director, Lake Hayes Estate Limited Director, New Zealand Land Trust Limited	Non-executive Director Appointed 2003
Norman G Evans <i>D.B.A., M.B.A., N.Z.C.E., M.Inst.D.</i>	Company Director Chair, Enabling Pty Limited (Aus) Chair, Upstart Angels Limited Chair, Vouchermate Limited Chair, Enabling NZ Limited	Non-executive Director Appointed 2005
Ross D Liddell <i>B.Com., C.A.(P.P), A.C.I.S., A.F.Inst.D</i>	Company Director Chair, James Maurice Properties Limited Chair, Palmer & Son Limited Chair, Palmers Mechanical Limited Chair, Palmer M H Limited Chair, Browns Barkly Limited Chair, Viblock Limited Director, A B Lime Limited Director, Blackhead Quarries Limited Director, Victory Lime 2000 Limited Director, Newtons Coachways (1993) Limited Director, Fulcrum Partners Limited (resigned 30 April 2008)	Non-executive Director Appointed 1999
Stuart J McLauchlan <i>B.Com, C.A.(P.P)., A.F.Inst.D.</i>	Partner, G S McLauchlan & Co Chair, Highlanders Rugby Trust, Chair, NZ Sports Hall of Fame Chair, Scott Technology Ltd, Director, Cargill Hotel 2002 Ltd, Director, Dunedin Casinos Ltd, Director, Scenic Circle Hotels Ltd, Director, Lund South Ltd Director, Otago & Southland Employers Assn, Director, A D Instruments Pty Ltd. Director, Wagstaff Holdings Ltd, Director, Wavell Resources Ltd, Councillor, University of Otago.	Non-executive Director Appointed June 2007

In accordance with the constitution of Dunedin City Holdings Limited one third of the directors retire by rotation and directors appointed through the year must also retire. Messrs Evans and Coburn retire by rotation and, being eligible, offer themselves for re-election.

Directors' remuneration and benefits**Parent company**

<i>Director</i>	<i>\$</i>	<i>Company</i>
Paul R Hudson	31,439	Dunedin City Holdings Limited
Michael O Coburn	16,959	Dunedin City Holdings Limited
Norman G Evans	16,959	Dunedin City Holdings Limited
Ross D Liddell	16,959	Dunedin City Holdings Limited
Stuart J McLauchlan	16,959	Dunedin City Holdings Limited
Parent company total	99,275	

Subsidiaries

<i>Director</i>	<i>\$</i>	<i>Company</i>
Michael O Coburn	18,750	Aurora Energy Limited
	11,269	Citibus Limited
	17,030	City Forests Limited
	17,147	DELTA Utility Services Limited
George D Douglas	18,846	DELTA Utility Services Limited
Norman G Evans	21,050	Aurora Energy Limited
	11,269	Citibus Limited
	17,030	City Forests Limited
	19,971	DELTA Utility Services Limited
Paul R Hudson	18,750	Aurora Energy Limited
	17,261	Citibus Limited
	20,416	City Forests Limited
	17,147	DELTA Utility Services Limited
Ross D Liddell	29,500	Aurora Energy Limited
	11,269	Citibus Limited
	30,616	City Forests Limited
	30,992	DELTA Utility Services Limited
	27,956	Dunedin City Treasury Limited
Stuart J McLauchlan	18,750	Aurora Energy Limited
	11,269	Citibus Limited
	17,030	City Forests Limited
	17,147	DELTA Utility Services Limited
Stephen J Higgs	4,965	Citibus Limited
Raymond S Polson	38,000	Aurora Energy Limited
	40,166	DELTA Utility Services Limited
Bevan R N Dodds	nil	Citibus Limited
	nil	Dunedin City Treasury Limited
Athol J Stephens	nil	Dunedin City Treasury Limited
Stephen M Wilson	nil	Dunedin City Treasury Limited
Grant A Dodson	nil	Dunedin City Treasury Limited
John E Farry	10,475	Taieri Gorge Railway Limited
John M Chapman	7,138	Taieri Gorge Railway Limited
F John McCall	7,138	Taieri Gorge Railway Limited
Gary M Williams	7,138	Taieri Gorge Railway Limited
Kate Wilson	7,138	Taieri Gorge Railway Limited
Brian C Wolff	7,138	Taieri Gorge Railway Limited
Subsidiaries total	\$549,761	

Group total \$649,036**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.

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>Remuneration Range</i>	<i>Parent Company</i>	<i>Subsidiaries</i>
\$320,000-329,999	-	1
\$220,000-229,999	-	2
\$190,000-199,999	1	-
\$160,000-169,999	-	1
\$150,000-159,999	-	3
\$140,000-149,999	-	-
\$130,000-139,999	-	5
\$120,000-129,999	-	4
\$110,000-119,999	-	8
\$100,000-109,999	-	9

parent company statement of service performance

The performance targets established in the 2007/2008 Statement of Intent for Dunedin City Holdings Limited and the results achieved for the year-ended 30 June 2008 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. Refer to an earlier page for the group EVA result.
2.0 Dunedin City Council objectives A review of the draft Statements of Corporate Intent for 2007/2008 and updated strategic plans for the group Companies to be completed by 31 July 2007	The review of the draft 2007/2008 Statements of Corporate Intent and the draft strategic plans was completed and reported to the council for February 2007.
3.0 Operating activities Monthly reviews of the operating activities of the group Companies to be performed 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 Dunedin City Council within five days of occurrence.	All matters of substance were reported to the council within five days of occurring.
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, as well, various consultancy projects have been performed for the group companies.
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- with a positive outlook. Ongoing reviews of capital structures within the group were performed and the equity investment by Dunedin City Holdings Limited in Citibus Limited was increased by \$5,000,000.
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 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.
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 the 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 2007/2008 Statement of Intent, presented to the shareholder in February 2007, projected that the parent company surplus after tax would be \$17.5m and that the shareholder's funds at year end would be \$56.6m 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 \$9.0m lower than expected due to the change in tax subvention policy within the Dunedin City Council tax group that dropped revenue by \$8.5m. The shareholder's funds at the end of the period were very close to expectations at \$48.6m due to the reduction in the surplus after tax. The dividends to the Dunedin City Council this year were projected to be \$17.2 and \$11.2m was paid with the difference in the distribution being made up in cash to the shareholders through increased interest payments. The parent company has distributed in cash the full amount anticipated in the Statement of Intent.

**TO THE READERS OF DUNEDIN CITY HOLDINGS LIMITED AND GROUP'S
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2008**

The Auditor-General is the auditor of Dunedin City Holdings Limited (the company) and group. The Auditor-General has appointed me, KJ Boddy, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the company and group, on his behalf, for the year ended 30 June 2008.

Unqualified Opinion

In our opinion:

- The financial statements of the company and group on pages 32 to 68:
 - 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 2008; and
 - > the results of its operations and cash flows for the year ended on that date.
- The performance information of the company and group on page 72 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 30 June 2008.
- Based on our examination the company and group kept proper accounting records.

The audit was completed on 10 September 2008, and 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 the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and performance information did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and performance information. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- > determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- > verifying samples of transactions and account balances;
- > performing analyses to identify anomalies in the reported data;
- > reviewing significant estimates and judgements made by the Board of Directors;
- > confirming year-end balances;
- > determining whether accounting policies are appropriate and consistently applied; and
- > determining whether all required disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information.

We evaluated the overall adequacy of the presentation of information in the financial statements and performance information. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the company and

group as at 30 June 2008 and the results of their operations and cash flows for the year ended on that date. The Board of Directors is also responsible for preparing performance information that gives a true and fair view of service performance achievements for the year ended 30 June 2008. The Board of Directors' responsibilities arise from the *Financial Reporting Act 1993* and the *Local Government Act 2002*. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This 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 Institute of Chartered Accountants of New Zealand. In addition to the audit of the annual financial statements we have carried out other audit assignments for the company's subsidiary, Aurora Energy Limited. These involved issuing audit certificates pursuant to the *Electricity Information Disclosure Requirements 2004*. These assignments are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the company or any of its subsidiaries.

A handwritten signature in black ink, appearing to read 'K J Boddy', written over a faint rectangular box.

K J Boddy
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

company directory

Directors

Paul R Hudson (Chair)
Michael O Coburn
Norman G Evans
Ross D Liddell
Stuart J McLauchlan

Company Secretary

Athol J Stephens

Chief Executive

Bevan R N Dodds

Registered Office

50 The Octagon
Dunedin
New Zealand

Banker

National Bank of New Zealand Limited

Taxation Advisor

Deloitte

Solicitor

Anderson Lloyd

Auditor

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

