



DUNEDIN CITY HOLDINGS LIMITED

ANNUAL REPORT 2009





Centennial Memorial Signal Hill Lookout Dunedin

The memorial was constructed in 1940 to commemorate the first European settlement of New Zealand in 1840. The two figures flanking the memorial were designed by F.W. Shurrock and F.C.W. Staub and are cast in bronze.

The male figure, an old man, represents the Spirit of History, time past.

The female figure, a young woman, is spinning the Thread of Life, the future.

The facade of the memorial is embellished with limestone carvings of Scottish thistles and New Zealand ferns.

The lookout offers excellent views of the city, Otago Harbour, Otago Peninsula and the Pacific Ocean.



dunedin city holdings limited

ANNUAL REPORT 2009

OUR MISSION

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

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 may then choose to increase development and/or modify rates. We have been doing this now for fifteen years and will continue to do so into the future, responding to the needs of the Council and its ratepayers.

In respect of this financial year a total of \$9.5m was paid to the Council in dividends. Together with the \$10.3m in interest that has been paid to the Council over and above dividends this exceeds the overall distribution figure indicated in our Statement of Intent. Cash payments to the Council over the last three years exceed \$60m and as a result the targeted growth in shareholder's funds has slowed. This high level of distribution is strongly supported by our shareholder and is expected to continue for the immediate future.

OUR STRATEGY

Our strategy of concentrating on adding value to our existing businesses is unchanged and we execute this with discipline. A key part of the strategy is to reduce risk by spreading the sources of our earnings and in this report you will see that capital projects have not been cut in reaction to the international economic situation

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 the capital expenditure of over \$21m exceeded the surplus after tax.

But we also need to invest in, and grow, the other companies that have clear potential and a further \$11m was invested by *DELTA* Utility Services Limited. Land purchased in a joint venture at Luggate will be made ready for future residential development. Also, land purchased at Jacks Point will be used to consolidate and expand the company's Queenstown/Frankton operations.

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.

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dunedin city holdings limited

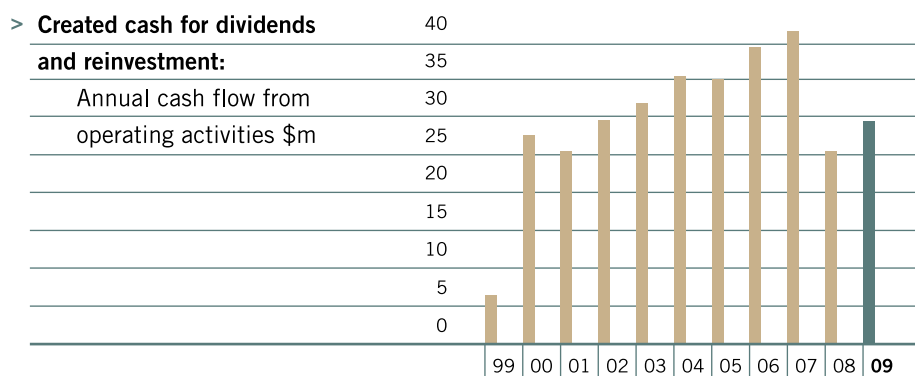
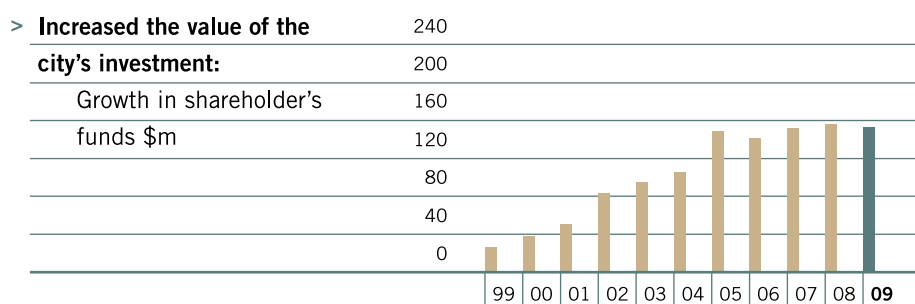
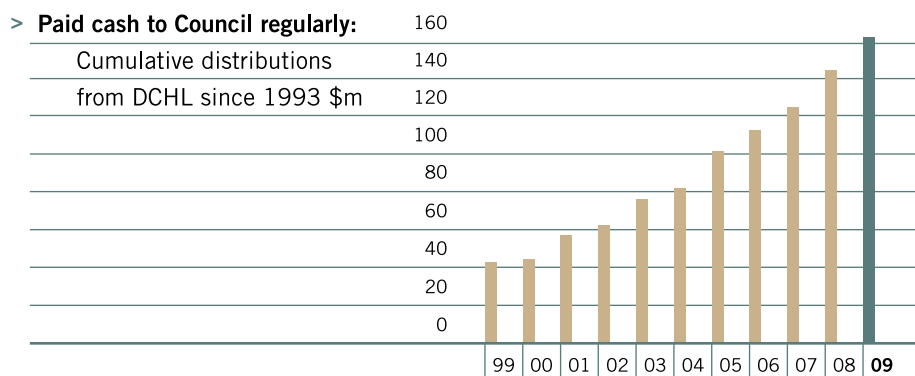
our performance 2008-09

Our job is to manage the commercial 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 2008-09

WE HAVE:

- > Achieved record group revenue of \$214m, an increase of 7.6%
- > In tough economic times repeated last year's profit after tax of \$8.7m
- > Improved cash flow from group operations by 14% to \$29.3m
- > Made distributions to the Dunedin City Council totalling \$19.8m for the year
- > Continued to reduce the staff accident rate
- > Acquired a contract for *DELTA* to provide estate management services to Jacks Point
- > Using *DELTA*, commenced the building of the 'Flute' fibre optic network in Dunedin and Queenstown
- > Increased Citibus services to Dunedin residents



- > The arrival of Pacific Blue flights to Dunedin International Airport contributed to a 12.8% increase in domestic air travellers during the year, confirming the need for a competitive marketplace.

chairman's report

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

I am pleased to report that our business has been growing strongly, with revenue increasing by 7.6% to \$214m. The accounting surplus after tax, at \$8.7m, has not declined despite the worldwide economic downturn, although we are not immune to its impact. Directors are very pleased with the underlying profit results particularly given the volatile business environment in which all the companies have operated.

Cash flow is more important than the level of accounting profit. This year, despite the difficulties, the group increased its cash flow performance. Cash generated from operations rose from \$25.6m to \$29.3m. This excellent improvement gives the group the capacity to invest to improve the competitive position of the companies in the future and to maintain generous levels of distribution to the Dunedin City Council.

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 invested solidly in that area. City Forests Limited expanded its capacity to add value in log processing, and Citibus Limited significantly expanded its local fleet as it took on additional Dunedin services.

Underlying our growth strategies is the desire to continue to produce a reliable cash benefit to the Dunedin City Council. The cash that is paid to the Council is made up of both dividends and interest paid on the shareholder's advance. The combined total paid this year was \$19.8m which is higher than forecasted by 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. All have had to be particularly nimble as they have reacted very positively to changes in the market caused by factors such as cancellation of international flight schedules, drops in international shipping charges, overnight illiquidity in property and financial markets, and other similar factors.

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 2009 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
Chairman

A handwritten signature in blue ink that reads "Paul Hudson". The signature is stylized with a large initial 'P' and a horizontal line underneath.

directors' report

RESULTS FOR THE YEAR ENDED 30 JUNE 2009

	Group \$'000	Parent \$'000
Revenue	214,434	19,746
Operating surplus	13,914	7,353
Income tax	(5,210)	-
Net surplus after tax for the year	8,704	7,353

STATE OF AFFAIRS

The group has achieved an excellent increase in sales during a period of very difficult economic conditions. For a short period late in 2008 economic settings improved for City Forests. Within *DELTA* the past acquisition strategy supported revenue growth, and within Citibus the additional contracts gained from the Otago Regional Council expanded the company significantly. These factors combined boosted group revenue by 7.6% to a record \$214m.

Unfortunately, margins across the group have been constrained by a range of factors mostly associated with the poor international economic situation. A very depressed worldwide housing market, the financial impacts on local property development, ongoing change to the electricity meter leasing market and changes to international tourism patterns have reduced the margins available across the group.

Shareholder's funds have decreased marginally from \$154.1m to \$151.7m as directors met the wish of the Dunedin City Council for distributions slightly in excess of earnings and as falling interest rates reduced the current value of the derivative valuation reserves within equity. The group earned a stable return of 5.7% after tax (5.6% last year) on capital employed.

The statement of cash flows records higher levels of cash generation from operating activities. Most welcome improvements in performance in this area came from City Forests, Aurora and Citibus.

Even with improved cash generation, the term debt of the group has increased from \$304.2m to \$372.4m. A major contributing factor in such a large change was the increase of \$60.7m in Dunedin City Council borrowing from Dunedin City Treasury. The Council debt of \$173m, owed to the central treasury company, is now a sizeable factor in the group balance sheet and this is projected to grow significantly in the near future.

At \$8.7m, the profit after tax is very close to that achieved last year but it was reached after a much lower revaluation to the forestry asset. Therefore the operational element in the surplus was higher and this improved the cash flow.

In page two of this report three graphs record how directors intend managing the affairs of the group to meet their objective of maximising advantage to the Dunedin City Council. The first requires regular payment of cash to the shareholder and that certainly has been achieved. The second measures the increase in value in the shareholders investment. This has slowed in the most recent times but that is due to the increased levels of cash distributed and this has been the preference of the Council. The last is the capacity to generate cash. That graph shows a dip in the last two years which is due to the change in the method of distribution from dividends to pre-tax interest within the Dunedin City Council group inclusive of Dunedin City Holdings. Had the policy stayed the same Dunedin City Holdings cash flow would have been higher by \$10.3m, cash flow generated would have been \$39.6m and very close to the record year. This, in a period of economic hardship, is a creditable performance.

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

PARENT COMPANY

Dunedin City Holdings, as the parent company of the group, earned a net surplus after tax of \$7.4m, compared to \$9.1m 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 forms part of the Dunedin City Council tax group. In total, cash payments made to the Council in respect of this last financial year will be:

	\$'000
Fully imputed dividends	9,468
Interest payments on shareholder's advance	10,333
Total cash distribution to Council	19,801



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

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

ASSOCIATE COMPANIES

Dunedin International Airport Limited has had a very volatile year. Passenger numbers have grown overall by 8.7% due to the entry of Pacific Blue into the Dunedin market. Conversely the marketing effort of Air New Zealand in the international market, following the closure of Freedom Air, did not have the desired effect. This, combined with the aviation downturn, resulted in the decline in trans-Tasman passenger numbers and the ultimate cancellation of scheduled flights.

The June announcement that Pacific Blue will commence three trans-Tasman flights each week to Brisbane from 3 September 2009 has been most welcome. However, even with this advance, the numbers of international passengers next year may well be down on that achieved a year ago.

OUTLOOK

The International Monetary Fund sees the global economy contracting for the first time since World War II. But there

are some signs that global economic deterioration is slowing so the main question now is how long it is going to be before growth commences and just how strong will that growth be? In particular this group is concerned with the recovery of the international log market, the US building market, the level and patterns of international air traffic, and the Otago and Central Otago economies.

We are well into the bottom of the economic cycle but it is going to take some time before North American building markets again underpin increases in log and timber prices as more than two million people lost their jobs in the US in the first quarter of the 2009 calendar year and almost half of the US residential real estate sales have come from foreclosures. In this climate any recovery is likely to be both slow and weak.

Imploding financial markets and viral health issues have had a huge impact on international travel. Recent positive movements in world share markets will have provided relief to individuals that the worse may be over. Initial optimism that this is the case has been tempered by the reality of an appreciating NZD and increasing levels of unemployment in the countries that provide many of our tourists. The delay between the time to make the decision to travel and the time when actual travel starts means that we will probably not be able to judge the impact of the recent market improvement until after Christmas 2009.

In recent years growth in the Queenstown Lakes area has been strong, much stronger than in Dunedin, but the credit environment has deteriorated and high profile receiverships have slowed, or stopped, a number of developments. Tangible signs of recovery appear to be further off than first thought but the depressed Central Otago market has presented some long



- > *DELTA's* turf management team produced a first class international wicket for the New Zealand – West Indies cricket test held at the University Oval, Dunedin, in December 2008.

term opportunities for the group and this may continue.

The carbon emission legislative environment remains in a state of uncertainty. It is possible that City Forests may have a tradable carbon balance, but the company would want to be sure that any legislation has bedded in, and that the market for carbon credits had stabilised, before proceeding to trade.

Our Statement of Intent submitted to the Council in February 2009 indicated that the group will maintain high cash payments with an increased commitment to pay a total of \$23.1m next year. The directors confirm that intent.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2009 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 \$205,000.



DUNEDIN CITY HOLDINGS BOARD OF DIRECTORS

From left:

Ross Liddell, Mike Coburn, Paul Hudson (Chairman), Stuart McLauchlan, Norman Evans.

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

On behalf of the Board of Directors
Paul R Hudson, Chairman
9 September 2009

subsidiary company reports

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principal activities of the group

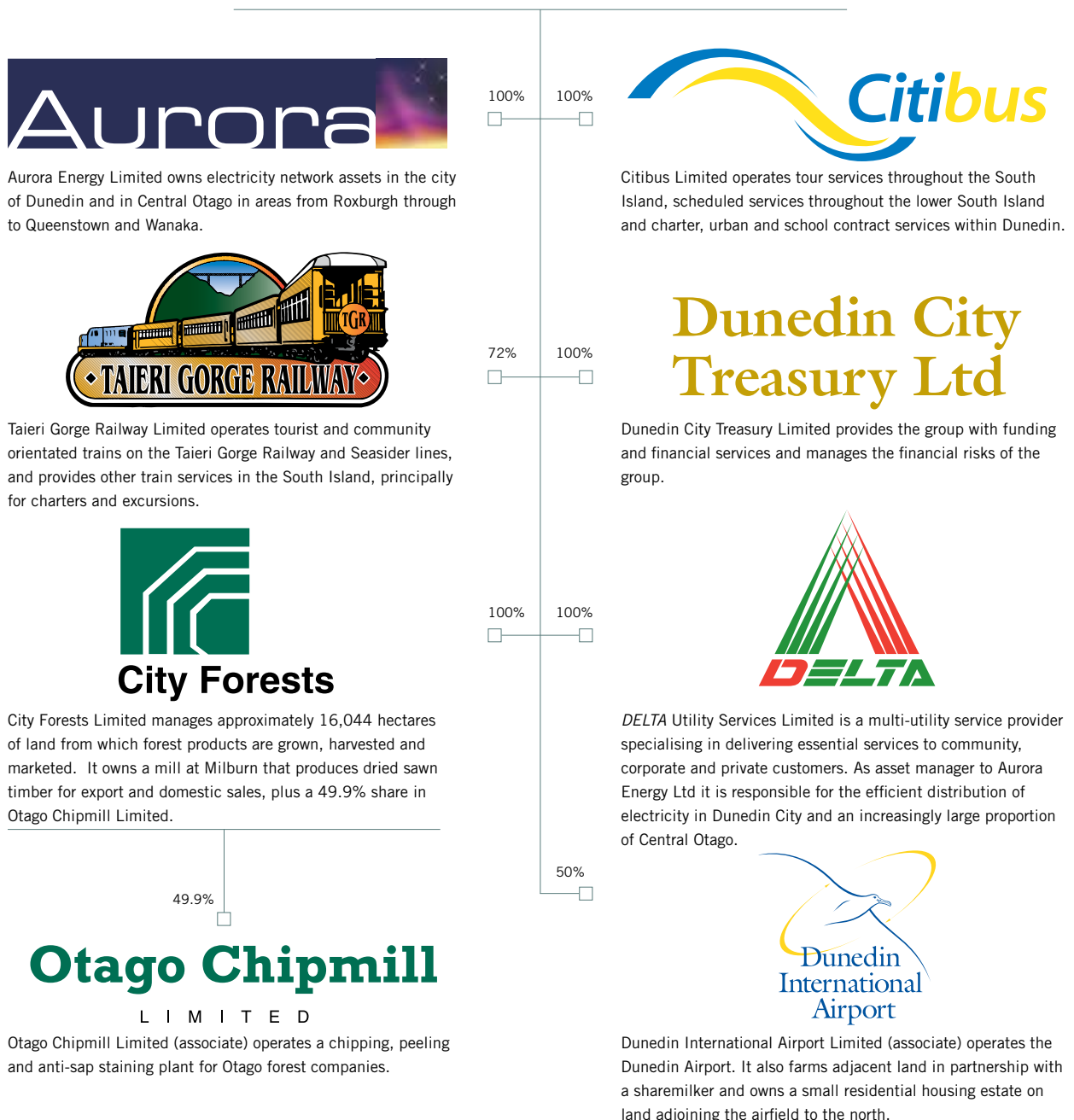
Dunedin City Holdings Limited, as the parent company of the group, has the primary role to monitor the operating performance of its subsidiary companies on behalf of the ultimate shareholder, Dunedin City Council.

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

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

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

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



WHAT WE DO

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

- 
- > The Wall Street shopping centre is a significant retail development and energy consumer in Dunedin's CBD. Its construction demanded the installation of its own electrical substation.
 - >> Aurora's new substation at The Commonage in Queenstown is being constructed in a style complementary to its environment.



FINANCIAL HIGHLIGHTS	2009 \$'000	2008 \$'000
Revenue	81,687	76,606
Net surplus for the year	15,431	15,262
Shareholder's funds	174,287	173,001
Total assets	346,104	334,366

WHAT WE DID THIS YEAR

Aurora has performed well in the past, and continued to do so this year. Revenue at \$81.6m was up 6% on last year. The surplus after tax was \$15.4m up on the \$15.3m achieved last year.

Economic growth in the Otago region has clearly slowed but it has not prevented a strong management from performing well and having confidence in the future. However, growth within the company has not stopped and capital investment has continued strongly in the expectation of increased demand. This year the company acquired from *DELTA* Utility Services Limited the fledgling glass fibre network that is being constructed in Dunedin and the company is part of the New Zealand Regional Fibre Group that is promoting telecommunications infrastructure, not just in our region, but nationally.

Growth can be reflected in the additional number of consumer connections to the network. In Central Otago, Aurora achieved 2.2% growth (last year 3.9%) and in Dunedin there was 0.4% growth (last year 0.7%). At year-end the total number of connections in Dunedin was 53,185 and the figure in Central Otago was 27,709.

Considerable planning within the company is ongoing 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. This year The Commonage substation was completed in Queenstown at a cost of \$4.7m. From now on this investment will reduce the risk of interruption of supply in this high profile area.

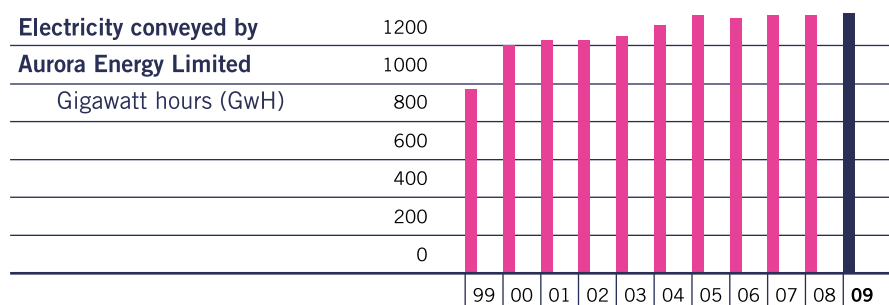
The cash generation performance of the company continues to be very strong and supports a high level of dividend to the parent company. Over the fifteen-year life of the group, Aurora has provided 70% of the total dividends received by the parent company. Thus the importance of Aurora, to both the parent company and ultimately to the Dunedin City Council, cannot be overstated. This year Aurora paid dividends of \$13.2m (\$13.9m last year), a critical component of the cash paid to the Council as the ultimate shareholder.

The outlook for Aurora remains strong. Its supply quality, measured by the SAIDI statistic (a measure of how many minutes supply is interrupted across the network), beat the target set at the beginning of the year by the board. This should provide it with a degree of insulation from future intervention by the line business government regulators who will review company performance next year.

For more information visit www.electricity.co.nz

THE PEOPLE

Directors	R S Polson (Chairman)
	M O Coburn
	N G Evans
	P R Hudson
	R D Liddell
	S J McLauchlan
Chief executive	G Cameron



WHAT WE DO

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



- > Dunedin commuters continue to benefit from the ongoing improvement to the look and comfort of its bus fleet.
- >> Citibus continues to target market share in the tourism sector, despite the marked decline in tourist numbers.



FINANCIAL HIGHLIGHTS	2009	2008
	\$'000	\$'000
Revenue	8,631	6,801
Net surplus/(deficit) for the year	(292)	(714)
Shareholder's funds	5,291	5,545
Total assets	11,118	9,549

WHAT WE DID THIS YEAR

The economic environment for the bus transportation industry has been both unsettled and poor. Fuel costs have fluctuated violently and the international financial situation has impacted on long haul travel plans as the well reported stresses on airlines manifested itself in lower tourist numbers entering the country. The local environment has continued to be characterised by highly rigid regulatory structures.

It is unfortunate that directors must again report a trading loss for this company although in this difficult environment it is very pleasing to be able to reduce that loss on the level sustained last year.

The South Island tourist industry remains in slight decline. The financial uncertainty felt by potential travellers, in tandem with the spread of the H1N1 virus, has been a powerful combination. The Japanese tourist market, which was soft, has declined further as has the number of coach tourists from the northern hemisphere in general. The overall impact is negative for the New Zealand tour bus fleet particularly as the only area of strength in the tourism market is the Australian sector and the Australians are nearly all independent travellers, confident of their ability to explore the country freely on their own.

The strategy in early 2008 was to expand in the Dunedin route services market and operationally this was achieved from July 2008 when additional routes, won at the Otago Regional

Council tender, commenced under the Citibus brand. This strategy has continued and an additional route was won in the 2009 tender round. The result has been a substantial increase in revenue from Dunedin bus routes and this will increase further into the 2009/2010 financial year.

The efforts of the company to improve city route services continue. Over the last few years Dunedin commuters will have noted major changes in the look and comfort provided by the Citibus Dunedin fleet. This change will continue with more new, low-floor, buses being purchased to allow us to phase out the old fleet.

We continue to target growth in tourism-based income and we are always on the lookout for more opportunities. Yet, in the current economy, it is not surprising that the proportion of revenue this year from tourism sources has declined significantly as a proportion of the total revenue.

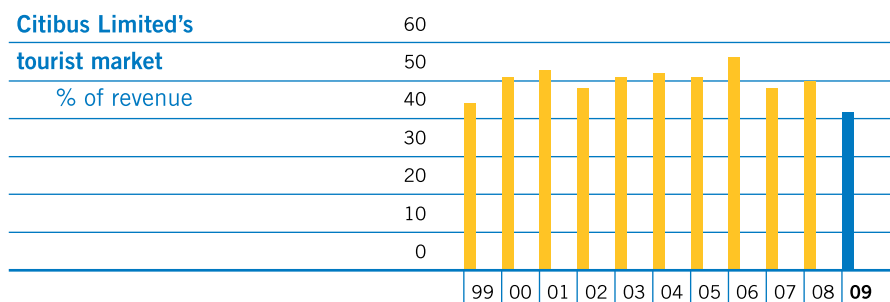
In the new financial year further capital has been committed to upgrade and adapt the fleet to ever-changing customer requirements. We expect that fuel price volatility will continue to have effect on both commuters and the bus fleets provided to serve them.

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

THE PEOPLE

Directors	P R Hudson (Chairman)
	M O Coburn
	N G Evans
	R D Liddell
	S J McLauchlan
	B R N Dodds
General manager	A Collins

**Citibus Limited's
tourist market**
% of revenue



WHAT WE DO

City Forests Limited is a forest grower that actively harvests and markets the products from the 16,044 hectares of forests that it owns. Products are sold in both the export and domestic markets. To diversify its business risk, City Forest we also has an investment in wood processing.

- > City Forests' strategy is to build on its core forest investment while diversifying the business by processing and adding value to its product.



FINANCIAL HIGHLIGHTS	2009	2008
	\$'000	\$'000
Revenue	33,884	30,313
Net surplus for the year	365	1,422
Shareholder's funds	70,869	71,917
Total assets	138,571	134,283

WHAT WE DID THIS YEAR

City Forests has successfully grown its log and timber sales volumes in an extremely challenging economic climate. This has been achieved primarily in the export market as domestic sales have declined over the year and many local mills have reduced volumes in response to the economic crisis.

Trading conditions have been extremely volatile during the year from massive changes in the key profitability drivers of exchange rate, shipping costs and market prices. The first half of the financial year saw an improvement in export returns driven by a rapid decrease in the value of the NZD and a decrease in shipping costs whilst market prices were slower to decline. The company moved quickly to increase harvest volumes over this period to take advantage of these returns.

In demonstrating the volatility of this market the period of higher returns ended abruptly in early 2009 when product dumping and low demand in Korea combined to reduce the market price of logs. Sales volume of the company's logs has been largely unaffected due to solid customer relationships. However, returns over the first half of 2009 have been declining rapidly as the NZD and shipping rates strengthened while market prices failed to compensate.

The company strategy has been, and continues to be, to build on the core forest investment while diversifying its business risks away from its former almost total exposure to movements in international log prices.

The construction of a mill at Milburn has provided City Forests with the capacity to process milled product from the best part of its pruned forest and this provides it with potential to add value in the longer term. During the year City Forests placed the majority of its higher value pruned logs into its own processing plant. Most lumber products from this plant are exported and the company undertook market development primarily in Asia and Australia to absorb the additional production from a third timber kiln that was commissioned in late June 2009.

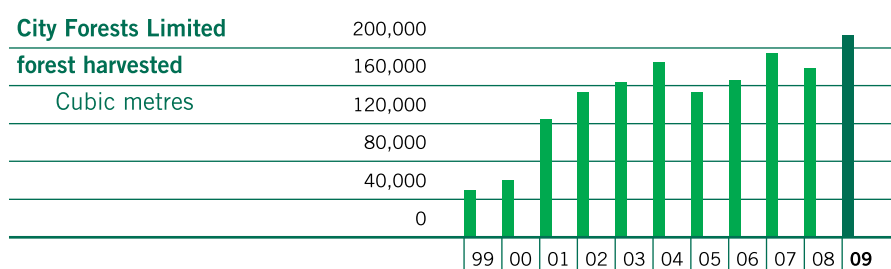
Under NZ IFRS accounting rules the value of the forest growth is brought directly into the annual income. Natural growth has led to a positive \$3.3m (\$5.6m last year) appreciation in forest value and this forms a significant part of the annual result.

Looking to the future the company believes that volatile economic conditions will exist for some time and this will create opportunities as well as challenges. Management is focused on delivering improved returns to our shareholder and positioning the company to be nimble, reacting to the expected volatility in terms of production and logistical capacity. The company will also continue to ensure a strong international market presence to allow it to anticipate, and take advantage of, the improvement in any global demand for sustainably produced wood products that might occur.

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.

- > *DELTA* achieved a ten year agreement with Jacks Point Limited for the ongoing infrastructural development and estate management of the Jacks Point subdivision near Queenstown.
- >> The Dunedin northern suburbs water reticulation scheme was completed, comprising 27km of pipeline and a large capacity reservoir in Waitati Valley (pictured).



FINANCIAL HIGHLIGHTS

	2009 \$'000	2008 \$'000
Revenue	87,891	86,245
Net surplus for the year	3,866	1,980
Shareholder's funds	18,482	17,616
Total assets	48,427	42,962

WHAT WE DID THIS YEAR

This company continues to grow strongly. During this period of economic hardship, sales at \$87.9m were up on last year and in terms of revenue this continues to make it the largest company in the group. The surplus after tax at \$3.9m is up 95% on the \$1.98m made last year.

The return to the shareholder on the value of the assets invested in *DELTA* is good. The return of 11% on equity achieved last year was pleasing and this year the return increased to 21%. This level of return continues to drive further investment.

The year saw the completion of several large subdivisions in Central Otago and the commencement of a large subdivision in Dunedin, together with major piping projects in Otago, Canterbury and Southland. The multi-disciplinary capacity of the company allows it to undertake large and technically complex projects.

DELTA's business activities continue to expand. At the start of the financial year the company became party to an agreement that provided it with preferred contractor rights to a substantial development in Luggate.

In June the company progressed its property development plans with a ten year agreement to participate in development at Jacks Point in Queenstown. Much of the infrastructure construction in that area has already been completed by *DELTA* and the current commercial arrangement will allow the consolidation of several operational bases into this area, plus ongoing work to provide full estate management services. This will include power supply, water, roads, sewage disposal and rubbish removal in a similar fashion to local government. The agreement will provide the company with both the opportunity to reduce operating costs in the general Wakatipu area as well as being a source of future growth.

The company has continued to win large contracts for water construction projects. This year it has completed a large water distribution system in Dunedin's northern coastal

communities and several rural sewerage schemes in Southland.

Health and safety issues are always important. The company has placed a lot of effort into decreasing staff accident rates and is very pleased to see that the statistics now show the effect of that effort. Some divisions of the company are managing to operate for 1,000 days without a lost-time injury. The number of lost-time incidents fell to a new low for the company dropping from 1.26 incidents for every 100,000 hours worked to 1.25.

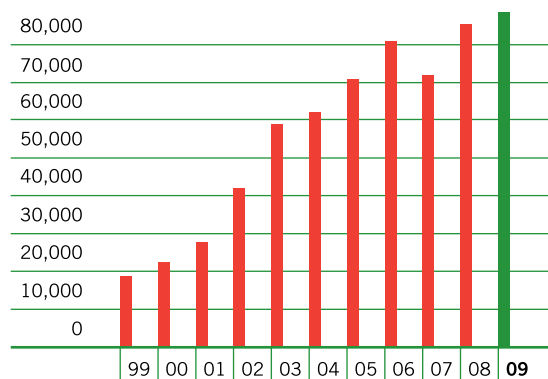
Investments made by the company recently demonstrate that it continues to focus on growth in sectors in which it has competitive advantage. *DELTA* understands that it must employ best practice contract management and have consequently invested in leading-edge data capture and display technology. It remains committed to increasing its 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
	N G Evans
	P R Hudson
	R D Liddell
	S J McLauchlan
Chief executive	G Cameron

DELTA Utility Services Limited annual sales \$ million



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 otherwise possible.

- > University of Otago Registry.
The long standing characteristics of many of Dunedin's buildings reflect the solid, conservative southern approach to financial markets.
- >> The idiosyncratic figure located above the Archway represents the university's commerce department.



Dunedin City Treasury Ltd

FINANCIAL HIGHLIGHTS	2009	2008
	\$'000	\$'000
Revenue	25,752	20,588
Net surplus for the year	11	15
Shareholder's funds	191	180
Total assets	384,159	312,741

WHAT WE DID THIS YEAR

The financial markets have remained under severe pressure both here in New Zealand and offshore. Commentators have stopped comparing the current situation with the late 80s and early 90s and now recognise that the global recession is the worst for 75 years. The large western financial markets have required considerable support from government to function and it is clear that they are still far from being able to do so in a fully effective manner.

In this environment credit rating and banking relationships are crucial. For many borrowers, even those with a good credit rating, there is doubt that cash will be available when it is required. In this environment central banks have lowered interest rates but risk premiums and premiums reflecting a general shortage of a supply of cash have climbed markedly. Many public companies have chosen to increase equity capital rather than to attempt to roll over term debt.

Throughout all the market turmoil the DCHL group has never been short of cash or reliant on emergency funding lines. It has continued to operate as "best in class" in the short-term money markets. Bonds that it has issued into the NZ wholesale market have been at premiums lower than others of similar credit ratings.

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 AA-(long term)/A1+(short term) rating.

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 the 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.

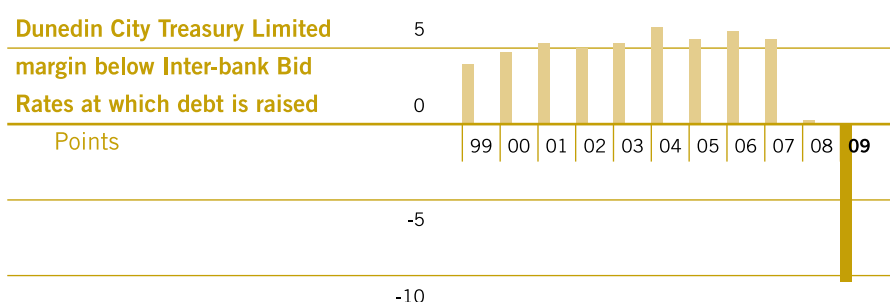
A historic benchmark for the company is the relative price at which the company can access funds from the promissory note market on its 90 day borrowing programme. Over the last year it has been a major success to be able to access any funds at all and many borrowers have withdrawn. However, during the year the company secured borrowings at an average of 10.1 percentage points above the 90 day Inter-bank Bid Rate (compared to 0.13 points below last year). Tenders were oversubscribed by, on average, 1.9 times, compared to 2.3 times last year reflecting the significantly lower amount of cash available to lenders.

The company also manages the investment of the Dunedin City Council's Waipori Fund. This year the managers, for the first time in the history of the fund, failed to achieve a positive return and a loss of \$1.6m was recorded. After a \$3.98m payment into the general funds of the Council, the value of the Waipori Portfolio fell from \$72.7m to \$67.0m.

THE PEOPLE

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

Dunedin City Treasury Limited
margin below Inter-bank Bid
Rates at which debt is raised



WHAT WE DO

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



> Taieri Gorge Railway once again operated commuter services between Waitati and Mosgiel, proving extremely popular with children and reminiscing parents and grandparents.

>> The route through the Taieri River Gorge is regarded as one of the world's great train trips.



FINANCIAL HIGHLIGHTS	2009 \$'000	2008 \$'000
Revenue	4,651	4,307
Net surplus for the year	14	59
Shareholder's funds	1,698	1,684
Total assets	2,537	2,395

WHAT WE DID THIS YEAR

Year after year this company manages to reach significant strategic goals. This year the first two of the eleven carriages formerly used on the Wellington to Wairarapa line became available. Also, a new catering car, reached a stage of near completion. The catering car will be ready for the next cruise ship season and will take pressure off staff who have undertaken catering in very cramped and difficult conditions.

Visitors to the Dunedin Railway Station will also note the substantial refurbishment of the ticket office which now presents a much more professional and successful image to our customers.

The national tourism market has been highly volatile. The industry has grown to satisfy historical visitor patterns and it has come to expect consistent growth. That growth in visitor numbers has now ceased, the numbers of northern hemisphere higher spending visitors have reduced, and group tourism has declined. But recent efforts to attract Australians have been successful.

Because of this inconsistent and changing market the company has had to invest even greater effort to maintain its financial situation. Through the winter period the company has promoted special dinner excursions to Middlemarch in close partnership with Middlemarch restaurants. A suburban train revival, both north and south of Dunedin, was hugely successful. Also, the company continues to present itself

directly to its customers through participation at the New Zealand KiwiLink Asia Conference in China and the annual national Trenz conference.

Notwithstanding these economic factors beyond our control it is pleasing to report that the numbers of passengers carried on the daily scheduled trains almost matched last year. The slight decrease of 4.8% to 56,753 passengers for the year was creditable given the general fall in the New Zealand tourist market. To this number was able to be added an increased number of cruise ship and charter passengers to achieve an overall total of 83,382 (73,876 last year).

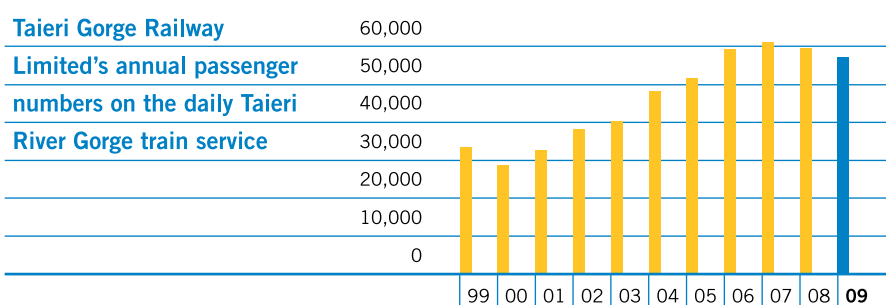
The after tax surplus this year of \$14,000 compares to the \$59,000 made last year. This was achieved after capital and operational expenditure of \$1.2m on workshop, carriages, locomotives and track – a similar amount to that spent last year. In addition a further \$0.5m was spent on the upgrade of the facilities at the station, on the development of the new catering car and on the upgrade to the safety communications system.

Dunedin is fortunate to have a company such as Taieri Gorge Railway that is highly attractive to the large cruise ship operators visiting Port Chalmers in greater numbers through the summer season. This trade has been steady and will remain beneficial for the city of Dunedin.

For more information visit www.taieri.co.nz

THE PEOPLE

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



- > Walkways through Flagstaff Forest provide a valuable recreational and educational asset, with information signs outlining the history of the plantation.
- >> The Green Island Landfill provides a benchmark for other New Zealand landfills, with management and leachate monitoring programmes operated by *DELTA*. Green Island is the first landfill in New Zealand to achieve a silver level Enviro-mark certification.

environmental, social and economic performance, and corporate governance

23 Environmental, Social and Economic
Performance

27 Corporate Governance



environmental, social and economic performance

For the year ended 30 June 2009

SUMMARY

All companies throughout the group have policies that require them to act as socially responsible and environmentally aware citizens. However, environmental and social performance is about more than policies and we accept that the outcome of how we live up to our policies, the 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 competitive performance and strong companies we cannot be sustainable over the long-term and provide the Council with the financial resources to deliver the higher standards sought by society.

ENVIRONMENTAL

The group is aware of 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 is committed over time to increasing its underground network in highly scenic areas. This year the company spent \$940,000 eliminating the negative visual impact of power lines within Dunedin. Aurora also contributed \$245,000 to Energy Smart projects in Dunedin and Central Otago that are committed to home insulation and increasing the efficiency of clean energy use.

City Forests was the first major forest owner in the South Island to achieve Forest Stewardship Council certification. Following an annual audit this certification continues and as part of the effort the company continues to improve its knowledge and management of environmental and cultural issues within the forest. In 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 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. It cannot undertake to substantially reduce operating emissions as its growing businesses in utilities and transport necessarily require increased use of carbon based fuels.

In total, group activity eliminated 63,060 tonnes of carbon dioxide from our environment. During the year the company's forests-stored carbon balance increased by 84,120 tonnes of CO₂ equivalent (155,999 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 2009 this support comprised a combination of financial sponsorship or assistance, the provision of staff resources and other forms of non-financial donations from within the group's resources.

The encouragement of education in young people is one focus of this community involvement led by Aurora. Hands on Science, Aurora Scholarships, Alexandra Scouts and Otago Museum have been beneficiaries of direct and indirect financial assistance over the last year.



- > The historic Alexandra Bridge piers became a night-time focal point after the installation of lighting by *DELTA*.
- >> Young peoples' activities continue to be supported, including a *DELTA* workbee at Alexandra Playcentre and Aurora's sponsorship of the Festival of Colour in Wanaka.



Social commitment

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

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

We will maintain a safe workplace for our staff.

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 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 shareholder and company boards.

The promotion of sport and culture receives assistance from all companies across the group. The sponsorship of Otago rugby by *DELTA* heads that list. The Otago Cricket Association, Otago Hockey Association, Brighton Surf Club, Taieri Golf Club, Otago Festival, Fringe Festival, Festival of Colour 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 Cancer Society, Otago SPCA, Child Cancer Foundation, Otago Community Hospice, Living Options and Alexandra Rotary Club.

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 \$150,000.

SOCIAL – HEALTH AND SAFETY

The health and safety of staff are top priorities for all the companies. Our end goal is clear: no accidents and no harm to people. This obviously gets more difficult as the number of staff increases. 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*, Citibus, Taieri Gorge Railway, and City Forests that employ the bulk of the staff the lost hours from accidents, expressed as a percentage of total hours, fell slightly from 0.21% to 0.15%. In total the number of hours worked increased by 8% but the total amount of lost time fell by 25% or 817 hours, and this is a pleasing improvement.

- > Aurora is at the forefront of providing fibre optic networking in Dunedin and Queenstown, owning the assets of the Flute Network. *DELTA* is contracted to Aurora to provide the installation and management of the new network.





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 on a quarterly basis. Half-yearly and annual reports of financial and operational performance are also provided. Other reporting requirements are detailed in the *Statement of Intent*.

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 must be kept separate at all times.

The New Zealand Stock Exchange's *Corporate Governance Best Practice Code* recommends that the minimum number of independent directors 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 must be considered independent when the board determines that the director is independent in character and judgement and there are no relationships or circumstances which could affect, or appear to affect, the director's judgement.

The group supports the need for the highest standards of behaviour and accountability from directors and accordingly endorses the principles set out in the *Code of Proper Practice for Directors* approved and adopted by the Institute of Directors in New Zealand (Incorporated). Where conflicts of interest do exist in law, directors must excuse themselves from discussions and may 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 depending on 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 must 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
- > the achievement of financial objectives
- > the identification and control of areas of business risk
- > a quality system of internal control is in place and maintained appropriately
- > the employment of quality people
- > supervision and development of staff; and
- > regulatory compliance.



financial statements

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group financial statistics

For the year ended 30 June

	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000	2001 \$'000	2000 \$'000
Revenue	214,434	199,154	183,805	167,711	151,534	141,656	129,945	117,550	106,594	94,019
Operating surplus	13,914	14,057	22,290	26,334	28,155	25,585	27,860	24,479	19,875	13,995
Tax	5,210	5,419	(333)	(2,914)	11,821	11,825	11,827	10,656	4,275	1,738
Surplus after tax but before "one off" accounting adjustments	8,704	8,638	22,623	20,522	16,334	13,760	16,033	13,823	15,600	12,257
Net interest paid to Council on advance	10,333	9,514	7,000	1,000	1,000	1,000	1,215	1,000	1,500	-
Net surplus before shareholder interest	19,037	18,152	29,623	30,248	17,334	14,760	17,248	(32,050)	17,100	12,257
Cash flows from operating activities	29,261	25,567	42,652	39,473	34,857	35,314	32,471	29,566	26,084	27,416
Shareholder's funds	151,743	154,167	150,887	138,068	147,010	104,215	93,537	83,808	51,717	39,643
Rate of return (on shareholder's funds)	5.7%	5.6%	15.0%	21.1%	11.1%	13.2%	17.1%	(39.4)%	30.2%	41.3%
Shareholder's advance	113,060	113,060	103,377	103,377	103,377	103,377	103,377	103,377	103,377	107,377
Dividend paid	9,468	11,210	12,500	9,000	19,000	8,500	8,000	5,000	7,000	2,000
Net interest paid to Council on advance	10,333	9,514	7,000	1,000	1,000	1,000	1,215	1,000	1,500	-
Total paid to Council	19,801	20,724	19,500	10,000	20,000	9,500	9,215	6,000	8,500	2,000
Total assets	753,146	683,764	609,973	575,016	551,982	474,783	447,524	443,871	366,018	355,096
Shareholder's funds to total assets	20.2%	22.5%	24.7%	24.0%	26.6%	21.9%	20.9%	18.9%	14.1%	11.2%

Notes:

1. The shaded figures have been compiled under NZ IFRS accounting standards.
2. 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.
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 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.

economic value added

For the year ended 30 June

The economic value added result is \$1.79m, a satisfactory improvement on the negative \$4.77m recorded last year.

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.

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 end of the year were significantly lower than at the start of the year but the risk associated with an investor in equities in New Zealand has increased. Overall the cost of capital has declined slightly due to the substantial fall in interest rates.

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 \$3.8m.

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

	2009	2008	2007	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000
Economic valued added	1,792	(4,773)	994	3,800	6,030

income statement

For the year ended 30 June	Note	Group 2009 \$'000	Group 2008 \$'000	Parent 2009 \$'000	Parent 2008 \$'000
Revenue	3	196,869	182,112	300	300
Forest revaluation	3,32	3,311	5,638	-	-
Financial income	4	14,254	11,404	19,446	20,474
Total revenue		214,434	199,154	19,746	20,774
Less expenses					
Audit fees	5	205	199	17	15
Contractors		19,392	22,577	-	-
Depreciation		18,436	17,028	1	1
Directors' fees		691	648	102	99
Employee expenses		40,554	38,781	195	199
Financial expenses	6	35,048	29,229	11,991	11,177
Raw materials and consumables used		53,711	47,878	-	-
Other expenses	5	32,156	28,517	87	201
Share of (profit)/loss of associates		327	240	-	-
Total expenditure		200,520	185,097	12,393	11,692
Profit before tax		13,914	14,057	7,353	9,082
Income tax expense	9	5,210	5,419	-	-
Net profit for the year		8,704	8,638	7,353	9,082
Net profit comprises:					
Equity holders of the parent		8,700	8,622	7,353	9,082
Minority interest		4	16	-	-
Net profit for the year		8,704	8,638	7,353	9,082
Earnings per share	7	1.83 cents	2.46 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	Note	Group 2009 \$'000	Group 2008 \$'000	Parent 2009 \$'000	Parent 2008 \$'000
Equity at beginning of year		154,167	150,887	48,601	50,812
Recognised income and expense					
Gain/(Loss) of cash flow hedges taken to equity	11	(673)	1,166	-	284
Gain/(Loss) on forest land revaluation	11	162	605	-	-
Gain/(Loss) on asset revaluation in associates	11	(560)	5,743	-	-
Net income recognised directly in equity		(1,071)	7,514	-	284
Transfer to profit or loss on cash flow hedges	11	(589)	(1,662)	(134)	(367)
Transfers from equity		(589)	(1,662)	(134)	(367)
Net profit for the year		8,704	8,638	7,353	9,082
Total recognised income (expense) for the year		7,044	14,490	7,219	8,999
Less distribution to owners	8	(9,468)	(11,210)	(9,468)	(11,210)
Equity at the end of the year		151,743	154,167	46,352	48,601
Attributable to:					
Equity holders of the parent		151,293	153,721	46,352	48,601
Minority interest		450	446	-	-
Equity at the end of the year		151,743	154,167	46,352	48,601

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

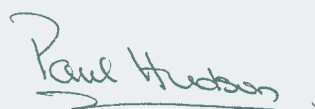
balance sheet

For the year ended 30 June	Note	Group 2009 \$'000	Group 2008 \$'000	Parent 2009 \$'000	Parent 2008 \$'000
Equity					
Share capital	10	100	100	100	100
Associate company asset revaluation reserve	29, 11	5,183	5,743	-	-
Forest revaluation reserve	11	15,838	13,358	-	-
Cash flow hedge reserve	11	722	1,984	150	284
Retained earnings	12	129,450	132,536	46,102	48,217
Total equity attributable to Dunedin City Council		151,293	153,721	46,352	48,601
Minority interest in subsidiary company		450	446	-	-
Total equity		151,743	154,167	46,352	48,601
Current liabilities					
Short-term borrowings	13	7,353	5,798	-	-
Trade and other payables	14	17,344	17,201	1,814	1,876
Derivative financial instruments	15	10,252	1,583	-	-
Other current liabilities	16	1,084	575	4	6
Provisions	17	4,235	13,285	12	9,231
Current portion of term borrowings		156	-	-	-
Total current liabilities		40,424	38,442	1,830	11,113
Non-current liabilities					
Shareholder's advance – Dunedin City Council	18	113,060	113,060	113,060	113,060
Term borrowings	19	372,442	304,155	23,260	19,610
Other liabilities	16	320	737	-	-
Provisions	17	505	43	-	-
Deferred tax liability	20	74,652	73,160	-	-
Total non-current liabilities		560,979	491,155	136,320	132,670
Total liabilities		601,403	529,597	138,150	143,783
TOTAL EQUITY AND LIABILITIES		753,146	683,764	184,502	192,384

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

For the year ended 30 June	Note	Group 2009 \$'000	Group 2008 \$'000	Parent 2009 \$'000	Parent 2008 \$'000
Current assets					
Cash and cash equivalents	24	13,002	22,756	44	7,968
Trade and other receivables	25	21,689	22,042	1,729	1,686
Derivative financial instruments	15	10,260	2,726	-	-
Inventories	26	5,975	6,212	-	-
Prepayments		599	612	-	-
Tax refund due		99	1,060	-	-
Investments		5,771	13,711	-	-
Assets classified as held for sale	27	-	800	-	-
Total current assets		57,395	69,919	1,773	9,654
Non-current assets					
Investments in subsidiary company shares	28	-	-	178,326	178,326
Investments in associate companies	29	16,163	17,132	4,400	4,400
Investments in jointly controlled operations	30	5,605	-	-	-
Other investments	31	168,910	108,084	-	-
Forestry assets	32	94,035	90,614	-	-
Property, plant and equipment	33	408,974	396,158	3	4
Intangible asset		2,064	1,857	-	-
Total non-current assets		695,751	613,845	182,729	182,730
TOTAL ASSETS		753,146	683,764	184,502	192,384

For and on behalf of the board of directors



Director
Paul R Hudson
9th September 2009



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 2009 \$'000	Group 2008 \$'000	Parent 2009 \$'000	Parent 2008 \$'000
Cash flows from operating activities					
<i>Cash was provided from</i>					
Receipts from customers		187,359	177,690	274	330
Interest received		10,975	888	28	216
Dividends received from an associate		-	-	88	-
Dividends from other equity investments		-	-	17,554	18,290
Subvention payments		-	1,224	1,662	2,704
		198,334	179,802	19,606	21,540
<i>Cash was disbursed to</i>					
Payments to suppliers and employees		140,452	134,605	428	356
Interest paid		24,160	15,588	12,055	9,450
Income tax paid/(received)		4,340	3,886	-	-
Net GST paid		121	156	19	35
		169,073	154,235	12,502	9,841
Net cash inflows/(outflows) from operating activities	34	29,261	25,567	7,104	11,699
Cash flows from investing activities					
<i>Cash was provided from</i>					
Sale of property, plant and equipment		1,497	691	-	-
Investments realised		366	-	-	-
Receipts from derivatives		-	2,144	-	575
		1,863	2,835	-	575
<i>Cash was disbursed to</i>					
Purchase of property, plant and equipment		33,158	31,736	-	4
Purchase of investments		58,586	32,419	-	5,113
		91,744	64,155	-	5,117
Net cash inflows/(outflows) from investing activities		(89,881)	(61,320)	-	(4,542)

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

For the year ended 30 June	Note	Group 2009 \$'000	Group 2008 \$'000	Parent 2009 \$'000	Parent 2008 \$'000
Cash flows from financing activities					
<i>Cash was provided from</i>					
Proceeds from borrowings		70,948	58,408	3,650	-
		70,948	58,408	3,650	-
<i>Cash was disbursed to</i>					
Repayment of borrowings		1,404	261	-	190
Dividends paid		18,678	2,000	18,678	2,000
		20,082	2,261	18,678	2,190
Net cash inflows/(outflows) from financing activities		50,866	56,147	(15,028)	(2,190)
Net increase/(decrease) in cash, cash equivalents and bank overdraft		(9,754)	20,394	(7,924)	4,967
Cash and cash equivalents at the beginning of the year		22,756	2,362	7,968	3,001
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		13,002	22,756	44	7,968
Composition of cash					
Cash and cash equivalents		13,002	22,756	44	7,968
Bank overdraft		-	-	-	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		13,002	22,756	44	7,968

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

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 2009.

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 9 September 2009.

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Construction contracts

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

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

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

Leasing

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

The group as lessor

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

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

The group as lessee

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

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

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

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements the results and financial position of each entity are expressed in New Zealand dollars, which is the functional currency of the Council and group. Transactions in currencies other than New Zealand dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. The group does not hold non-monetary assets and liabilities denominated in foreign currencies.

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

Borrowing costs

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

2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

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

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

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

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

Assets held under finance leases are depreciated.

Depreciation rates and methods used 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 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments

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

Trade and other receivables

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

Investments

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

Investments in debt and equity securities

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

Trade and other payables

Trade and other payables are stated at cost.

Borrowings

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

Financial Liability and Equity

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

Derivative financial instruments and hedge accounting

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

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

The use of financial derivatives in each entity within the group is governed by that entity's policy approved by its board of directors. The policies provide written principles on the use of financial derivatives.

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

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

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

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

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

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

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

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 2009 \$'000	Group 2008 \$'000	Parent 2009 \$'000	Parent 2008 \$'000
3. OPERATING REVENUE				
Sales revenue	196,495	182,077	300	300
Gain on sale of assets	374	35	-	-
Forest revaluation	3,311	5,638	-	-
	200,180	187,750	300	300
4. FINANCIAL INCOME				
Subvention income	-	-	1,659	1,662
Interest on advances to related parties	11,410	7,582	11	231
Interest on other investments	2,322	1,240	-	-
Dividends	-	-	17,642	18,290
Net gain on foreign currency transactions	388	448	-	-
Gain on interest rate swap settlement	134	699	134	291
Forest suspensory loan	-	1,435	-	-
	14,254	11,404	19,446	20,474

No interest was earned on impaired or restructured assets.

	Group 2009 \$'000	Group 2008 \$'000	Parent 2009 \$'000	Parent 2008 \$'000
5. OTHER EXPENSE				
Audit fees – for audit of financial statements	189	188	17	15
– for other audit services	16	11	-	-
Total audit fees	205	199	17	15
Bad debts written-off	72	174	-	-
Impairment of intangible assets	546	401	-	-
Increase/(Decrease) in impairment provision for receivables	147	(115)	-	-
Donations	41	37	-	-
Loss on sale of assets	489	66	-	-
Rental expense on operating leases	2,520	1,557	6	6
Research expenditure	66	57	-	-
Other expenses	28,275	26,340	81	195
Total other expenses	32,156	28,517	87	201

6. FINANCIAL EXPENSES				
Interest – related parties	10,333	10,805	11,991	11,177
Interest – term loans	25,170	18,424	-	-
Fair value loss/(gains) on interest rate hedges transferred from equity	(455)	-	-	-
Total financial expenses	35,048	29,229	11,991	11,177

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 2009	Group 2008
Number of shares		
Shares at year end	600,000,000	350,000,000
Weighted average number of ordinary shares	475,000,000	350,000,000
Basic earnings per share	1.83 cents	2.46 cents

Diluted earnings per share

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

			Group 2009 \$'000	Group 2008 \$'000	Parent 2009 \$'000	Parent 2008 \$'000
8. DIVIDENDS						
Interim dividend	July	0.57cents/share	-	2,000	-	2,000
Interim dividend	Dec	0.25cents /share	1,500	-	1,500	-
Final dividend	June	1.33cents/share	7,968	-	7,968	-
Final dividend provision		2.63 cents/share	-	9,210	-	9,210
			9,468	11,210	9,468	11,210

	Group 2009 \$'000	Group 2008 \$'000	Parent 2009 \$'000	Parent 2008 \$'000
9. INCOME TAX				
Operating surplus – continuing operations	13,914	14,057	7,353	9,082
– discontinued operations	-	-	-	-
Operating surplus before income tax	13,914	14,057	7,353	9,082
Tax thereon at 30%	4,174	4,639	2,206	2,997
<i>Plus/(Less) the tax effect of differences</i>				
Revenue not liable for taxation	1,019	2,165	(2,206)	(2,997)
Expenditure not deductible for taxation	189	(1,345)	-	-
Under/(Over) tax provision in prior years	(172)	(40)	-	-
Tax effect of differences	1,036	780	(2,206)	(2,997)
Tax expense	5,210	5,419	-	-
Effective tax rate	37.4%	38.6%	0%	0%
<i>Represented by</i>				
Current tax provision	3,041	3,663	-	-
Deferred tax provision	2,336	1,779	-	-
Under/(Over) tax provision in prior years	(167)	(23)	-	-
Income tax	5,210	5,419	-	-
Imputation credit account				
Balance at the beginning of the year	8,350	9,305	8,680	7,860
Credits attached to dividends received	-	-	2,917	5,739
Taxation payments made	2,531	3,964	-	-
Credits attached to dividends paid	(4,049)	(4,919)	(4,058)	(4,919)
Balance at the end of the year	6,832	8,350	7,539	8,680
10. EQUITY - share capital				
Issued Capital				
600,000,000 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 Ltd has issued additional shares of \$1 each in favour of the Dunedin City Council. The shares carry equal voting rights and are uncalled. The amounts and dates of issue are:

May 1996	75,000,000 ordinary shares
March 1999	100,000,000 ordinary shares
June 2002	75,000,000 ordinary shares
September 2008	250,000,000 ordinary shares

	Group 2009 \$'000	Group 2008 \$'000	Parent 2009 \$'000	Parent 2008 \$'000
11. RESERVES				
Forest revaluation reserve				
Balance at beginning of the year	13,358	8,806		
Net revaluations of forest	2,318	3,947		
Net revaluation of forest land	162	605		
Balance at the end of the year	15,838	13,358		
Hedging reserve				
Balance at beginning of the year	1,984	2,480	284	367
<i>Gain/(Loss) recognised on cash flow hedges:</i>				
Interest rate swap revaluations	(1,020)	-	-	-
Deferred tax arising on hedges (note 20)	347	-	-	-
Gain on settlement of interest rate swaps to equity	-	1,165	-	284
<i>Transferred to profit or loss:</i>				
Interest rate swaps	(726)	(2,474)	(134)	(547)
Deferred tax related to amounts transferred	137	813	-	180
Balance at the end of the year	722	1,984	150	284
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.				
Associate company asset revaluation reserve				
Balance at beginning of the year	5,743	-		
Gain/(Loss) recognised on cash flow hedges/assets	(560)	5,743		
Balance at end of year	5,183	5,743		
The reserve comprises assets within Dunedin International Airport Limited.				
12. RETAINED EARNINGS				
Balance at the beginning of the year				
Group companies	125,774	132,069	48,217	50,345
Associate companies	6,762	7,002	-	-
	132,536	139,071	48,217	50,345
Net profit for the year	8,704	8,638	7,353	9,082
Dividend distributions	(9,468)	(11,210)	(9,468)	(11,210)
Minority share of surplus	(4)	(16)	-	-
Transfer to reserves – forest (note 11)	(2,318)	(3,947)	-	-
Balance at the end of the year	129,450	132,536	46,102	48,217
<i>Represented by</i>				
Group companies	123,015	125,774	46,102	48,217
Associate companies	6,435	6,762	-	-
Balance at the end of the year	129,450	132,536	46,102	48,217

	Group	Group	Parent	Parent
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000

13. SHORT TERM BORROWINGS**Consolidated group**

Bank loans repayable within one year	7,353	5,798	-	-
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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 4.2% (2008: 8.4%).

14. TRADE AND OTHER PAYABLES

Trade payables	17,236	16,990	11	4
Due to related parties – subsidiaries	-	-	1,784	1,848
– Dunedin City Council	63	127	-	-
Accruals	45	84	19	24
	17,344	17,201	1,814	1,876

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

	2009	2009	2008	2008
	\$'000	\$'000	\$'000	\$'000
	Asset	Liability	Asset	Liability
15. DERIVATIVE FINANCIAL INSTRUMENTS – GROUP				
<i>Fair value</i>				
Forward foreign exchange contracts	1,184	17	272	-
Interest rate swaps	9,076	10,235	2,454	1,583
	10,260	10,252	2,726	1,583
Analysed as:				
Non-current	-	-	91	-
Current	10,260	10,252	2,635	1,583
	10,260	10,252	2,726	1,583

DERIVATIVE FINANCIAL INSTRUMENTS – PARENT*Fair value*

Interest rate swaps	-	-	-	-
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Analysed as:

Non-current	-	-	-	-
Current asset	-	-	-	-
	-	-	-	-

	Group 2009 \$'000	Group 2008 \$'000	Parent 2009 \$'000	Parent 2008 \$'000
16. OTHER LIABILITIES				
(i) Current liabilities				
GST payable	955	133	4	6
Other current liabilities	129	442	-	-
	1,084	575	4	6
(ii) Non-current liabilities				
Other non-current liabilities	320	737	-	-
	320	737	-	-
17. PROVISIONS				
(i) Current liabilities				
Long service leave	124	140	-	-
Annual leave	3,514	3,277	12	21
Dividend	-	9,210	-	9,210
Gratuities	224	-	-	-
Sick leave	90	93	-	-
Other provisions	283	565	-	-
	4,235	13,285	12	9,231
(ii) Non-current liabilities				
Long service leave	265	-	-	-
Gratuities	240	43	-	-
	505	43	-	-
18. SHAREHOLDER'S ADVANCE				
Consolidated group and parent company				
Balance at the end of the year	113,060	113,060	113,060	113,060
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 2007 the interest on this debt was largely but not entirely matched by a subvention payment from the shareholder. This year, as in 2008, the company will receive no subvention from Council so the net cash to Council equates to 9.14% (\$10.3m) on the advance of \$113.0m. In 2008 the gross interest on the debt averaged 9.52% (\$9.5m).				
19. TERM BORROWINGS (SECURED)				
Multi-option note facility	361,869	292,719	-	-
Forestry loans	10,572	11,427	-	-
Finance lease (refer to note 23)	1	9	-	-
Due to subsidiaries	-	-	23,260	19,610
	372,442	304,155	23,260	19,610

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

Group	Group	Parent	Parent
2009	2008	2009	2008
\$'000	\$'000	\$'000	\$'000

19. TERM BORROWINGS (SECURED) – CONTINUED

The Dunedin City Treasury Limited multi-option note facility was increased by \$250 million to \$600 million in September 2008. Three independent banks have underwritten the facility to the amount of \$55 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.

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) \$90 m issued for 3 years, maturing 15/4/11 at a coupon rate of 8.7%
- b) \$30m floating rate notes, maturing 17/10/11 at a margin of 90bp over BKBM
- c) \$40m issued for 8 years, maturing 15/11/13 at a coupon rate of 7.07%
- d) \$50m issued for 10 years, maturing 15/11/16 at a coupon rate of 6.79%
- e) \$60m issued for 10 years, maturing 15/10/17 at a coupon rate of 7.81%
- f) \$15m issued for 10 years, maturing 17/12/18 at a coupon rate of 6.85%

The forestry loans are from the Ministry of Agriculture and 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	107,868	1,389	-	-
Repayable between two to five years	131,396	146,185	23,260	19,610
Repayable later than five years	133,178	156,581	-	-
	372,442	304,155	23,260	19,610

The weighted average interest rate for the multi-option note facility at year end, inclusive of any current portion, was 6.0% (2008: 8.84%).

The weighted average interest rates for the forestry loans ranged between 4.5% and 6.5%, (2008: 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	366,857	283,805	-	-
Forestry loans	10,575	11,290	-	-

20. DEFERRED TAX**Group, 2009, \$'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	58,141	-	595	(38)	58,774	58,736
Property, plant and equipment from change in tax rate	(5,130)	-	-	-	(5,130)	(5,130)
Employee benefits	(1,211)	-	(118)	(1,329)	-	(1,329)
Forest	14,059	-	993	-	15,052	15,052
Forest from change in tax rate	(1,124)	-	-	-	(1,124)	(1,124)
Forest costs capitalised	7,960	-	346	-	8,306	8,306
Other Investments	122	23	-	(125)	270	145
Hedge reserve – foreign exchange contracts	82	267	-	-	349	349
Hedge reserve – interest rate swaps	261	(748)	134	(619)	266	(353)
Balance at the end of the year	73,160	(458)	1,950	(2,111)	76,763	74,652

Group, 2008, \$'000

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 capitalised costs	12,368	-	1,691	-	14,059	14,059
Forest	(1,124)	-	-	-	(1,124)	(1,124)
Forest from change in tax rate	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

Parent, 2009, \$'000

Revaluations of interest rate swaps	-	-	-	-	-	-
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Parent, 2008, \$'000

Revaluations of interest rate swaps	181	(181)	-	-	-	-
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Group **Group**
2009 **2008**
\$'000 **\$'000**

21. CONTINGENT LIABILITIES

Performance bonds	4,625	5,305
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The performance bonds issued are principally in favour of South Island local authorities for contract work. There is no indication that any of the above contingent liabilities will crystallise in the foreseeable future.

22. CAPITAL EXPENDITURE COMMITMENTS

Plant and equipment	8,599	12,529
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The parent company has no capital expenditure commitments. (2008 nil)

23. LEASE COMMITMENTS**(i) Minimum operating lease payments**

	Group 2009 \$'000	Group 2008 \$'000	Parent 2009 \$'000	Parent 2008 \$'000
Payable within one year	2,335	2,273	6	6
Payable between one to five years	6,203	5,004	-	12
Payable later than five years	840	987	-	-
	9,378	8,264	6	18

(ii) Minimum finance lease payments*Minimum future lease payments:*

Payable within one year	4	4	-	-
Payable between one to five years	1	5	-	-
Payable later than five years	-	-	-	-
	5	9	-	-

Finance leases are employed to finance some office photocopier equipment.

24. CASH AND CASH EQUIVALENTS

Cash and bank	13,002	22,756	44	7,968
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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	17,757	16,481	-	-
Estimated impairment	(207)	(61)	-	-
	17,550	16,420	-	-
Due from related parties:				
– Subsidiaries	-	-	1,729	1,686
– Other related parties	4,123	3,970	-	-
Other current receivables	16	1,652	-	-
	21,689	22,042	1,729	1,686

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

	Group	Group	Parent	Parent
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
26. INVENTORIES				
Raw materials and stores	3,170	2,974	-	-
Work in progress	2,025	2,341	-	-
Finished goods	780	897	-	-
	5,975	6,212	-	-
27. NON-CURRENT ASSETS HELD FOR SALE				
Land	-	670	-	-
Buildings and associated chattels	-	130	-	-
	-	800	-	-

At 30 June 2008, City Forests Limited held for sale a parcel of land which was no longer able to be used for the purpose for which it was purchased. No impairment loss was recognised on reclassification of the asset.

28. INVESTMENTS IN SUBSIDIARY COMPANY SHARES

<i>Shares in subsidiary companies</i>	-	-	178,326	178,326
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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
2009	2008
\$'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	30,772	32,166
Less total liabilities	(14,609)	(15,034)
Net assets	16,163	17,132

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

Revenue	5,483	4,627
Surplus for the period	(246)	(240)
Increase/(Decrease) in asset valuation reserve	(560)	5,743
Total recognised revenues and expenses	(806)	5,503
Opening carrying value	17,132	11,629
Dividends	(163)	-
Closing carrying value	16,163	17,132

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
Interest in associate companies	4,400	4,400

The associate companies have a balance date of 30 June.

	Group 2009 \$'000	Group 2008 \$'000
30. INVESTMENT IN JOINTLY CONTROLLED OPERATIONS		
Luggate Park Development	50.0	-
Long-term advance		
Long-term advance representing a 50% share in the land value of Luggate Park	5,288	-
Investment in development property		
Land purchase	49	-
House development	99	-
Land development in progress	169	-
Total investment in development property	317	-
Total investment in jointly controlled operations at Luggate Park	5,605	-
Interest in joint venture		
<i>Current assets</i>	13	-
<i>Non-current assets</i>		
Development property	317	-
Total assets	330	-
<i>Current liabilities</i>		
Westpac Banking Corporation loan	429	-
Other	48	-
<i>Retained earnings</i>	(147)	-
Total equity and liabilities	330	-
Revenue	-	-
Less expense	147	-
Net (deficit) for the year	(147)	-

31. INVESTMENTS – NON-CURRENT

Advances due from Dunedin City Council

Maturity 1-5 years

Maturity over 5 years

Group 2009 \$'000	Group 2008 \$'000	Parent 2009 \$'000	Parent 2008 \$'000
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25,251	20,273	-	-
142,042	86,303	-	-
167,293	106,576	-	-

Shares and units in other companies and funds

11	11	-	-
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Mortgage receivables

Maturity 1-5 years

Maturity over 5 years

510	1,497	-	-
1,096	-	-	-
1,606	1,497	-	-

Total other investments

168,910	108,084	-	-
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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 6.9% (2008:7.3%).

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
2009				
Assets of CT Associates Ltd	Metering services	July 2008	Metering equipment	127
Assets of GI Electrical	Metering services	March 2009	Metering equipment & stock	450
2008				
Assets of Lakes Contract Services Limited	Contractor	July 2007	Contracting assets	2,033

DELTA Utility Services Limited acquired the business assets of the entities listed and since has integrated these businesses into its other activities.

	Book value \$'000	Fair value adjustment \$'000	Fair value on acquisition \$'000
Net assets acquired 2009:			
CT & Associates Ltd			
Current assets	-	-	-
Non-current assets			
Property, plant and equipment	56	-	56
	56	-	56
(Profit)/Goodwill on acquisition			71

31. INVESTMENTS – NON-CURRENT – CONTINUED	Book value	Fair value adjustment	Fair value on acquisition
	\$'000	\$'000	\$'000
Net assets acquired 2009:			
GI Electrical			
Current assets			
Inventory	6	-	6
Non-current assets			
Property, plant and equipment	44	-	44
	50	-	50
(Profit)/Goodwill on acquisition			400
	Group	Group	
	2009	2008	
	\$'000	\$'000	
32. FORESTRY ASSETS			
Balance at the beginning of the year	90,614	85,327	
Add: Costs capitalised in establishing forests during the year	2,348	1,823	
Increase in forest from acquisition	-	-	
Revaluation	3,311	5,638	
Less: Value of logs harvested	(2,238)	(2,174)	
	94,035	90,614	
Gains/(Losses) arising from changes in fair value less point of sale costs;			
attributable to physical changes	5,013	5,349	
attributable to price changes	(1,592)	(61)	

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 \$25,534,000 value (see note 33). The NZ IFRS valuation rules require that the value is calculated under the assumption that a stand will not be replanted once felled irrespective of the sustainable forest policy of the directors. The change in the value of the forest from period to period is reflected in the Income Statement.

Fair value requires calculating the present value of expected net cash flows using a post-tax discount rate 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 2009 the company owned stands of trees on 16,044 hectares of a total land holding of approx 18,046 hectares. During the year the company harvested approx 210,803 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 35.4, 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.

33. PROPERTY, PLANT AND EQUIPMENT

Group 2009, \$'000	Land	Forest	Buildings	Roads & bridges	Network	Plant & equipment	Sub-Total
Cost or valuation							
Balance at beginning of period	4,130	25,533	15,130	4,737	347,918	21,013	418,461
Increase through acquisition	-	-	-	-	-	100	100
Purchases/revaluation	868	1	407	481	14,335	1,770	17,862
Sales	(516)	-	(168)	-	(1,152)	(1,040)	(2,876)
Transfer to assets held for sale	670	-	138	-	-	23	831
Balance at end of period	5,152	25,534	15,507	5,218	361,101	21,866	434,378
Accumulated depreciation							
Balance at beginning of period	-	-	1,386	2,715	37,438	8,894	50,433
Depreciation	-	-	237	115	12,460	1,741	14,553
Impairment	-	-	-	-	-	-	-
Sales	-	-	(24)	-	(839)	(656)	(1,519)
Transfer to assets held for sale	-	-	18	-	-	11	29
	-	-	1,617	2,830	49,059	9,990	63,496
Balance at end of period	5,152	25,534	13,890	2,388	312,042	11,876	370,882
Comprising							
– Cost	5,152	-	13,890	2,388	312,042	11,876	345,348
– Valuation	-	25,534	-	-	-	-	25,534
Group 2009, \$'000							
	Sub-Total	Motor vehicles	Office equipment	Locomotives	Railway track	Construction	Total
Cost							
Balance at beginning of period	418,461	41,826	1,827	2,262	409	3,184	467,969
Increase through acquisition	100	-	-	-	-	-	100
Purchases/revaluation	17,862	6,139	330	28	-	7,831	32,190
Impairment	-	-	(214)	-	-	-	(214)
Sales	(2,876)	(1,455)	(44)	-	-	(63)	(4,438)
Transfer to assets held for sale	831	-	-	-	-	-	831
Balance at end of period	434,378	46,510	1,899	2,290	409	10,952	496,438
Accumulated depreciation							
Balance at beginning of period	50,433	19,010	1,091	1,094	183	-	71,811
Depreciation	14,553	3,620	237	105	-	-	18,515
Impairment	-	-	(150)	-	-	-	(150)
Sales	(1,519)	(1,192)	(30)	-	-	-	(2,741)
Transfer to assets held for sale	29	-	-	-	-	-	29
	63,496	21,438	1,148	1,199	183	-	87,464
Balance at end of period	370,882	25,072	751	1,091	226	10,952	408,974
Comprising							
– Cost	345,348	25,072	751	1,091	226	10,952	383,440
– Valuation	25,534	-	-	-	-	-	25,534

33. PROPERTY, PLANT AND EQUIPMENT

Group 2008, \$'000		Land	Forest	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		-	-	-	-	-	-	-
Balance at end of period		4,130	25,533	13,744	2,022	37,438	8,894	50,433
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		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		-	-	-	-	-	-	-
Balance at end of period		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

	Parent 2009 \$'000	Parent 2008 \$'000
33. PROPERTY, PLANT AND EQUIPMENT – CONTINUED		
Office equipment at cost		
Balance at beginning of period	10	11
Increase through acquisition	-	-
Purchases	-	4
Sales	-	(5)
Balance at end of period	10	10
Accumulated depreciation		
Balance at beginning of period	6	9
Depreciation	1	1
Sales	-	(4)
Balance at end of period	7	6
Property plant and equipment at end of period	3	4

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

	Group 2009 \$'000	Group 2008 \$'000	Parent 2009 \$'000	Parent 2008 \$'000
34. RECONCILIATION OF NET SURPLUS FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES				
Net surplus/(deficit) for the year	8,704	8,638	7,353	9,082
Share of net surplus/(deficit) in associate companies	327	240	-	-
<i>Items not involving cash flows</i>				
Depreciation	18,436	17,028	1	1
Depletion of forest	2,238	2,174	-	-
Deferred tax	1,492	1,806	-	(180)
Amortisation expense	546	401	-	-
Forest revaluation	(3,311)	(5,638)	-	-
Ministry of Agriculture and Forestry suspensory loan	-	(1,435)	-	-
(Increase)/Decrease in derivative valuation	(589)	1,836	-	465
Other non-cash items	(66)	660	(134)	113
<i>Impact of changes in working capital items</i>				
(Increase)/Decrease in trade and other receivables	353	(2,210)	(43)	897
(Increase)/Decrease in inventories	237	(218)	-	-
(Increase)/Decrease in prepayments	13	(157)	-	-
(Increase)/Decrease in tax refund due	1,533	(194)	-	-
Increase/(Decrease) in trade and other payables	143	(3,865)	(72)	(7,789)
Increase/(Decrease) in provision for tax	(572)	(635)	-	-
Increase/(Decrease) in other current liabilities	(145)	(433)	(1)	2
<i>Items classified as investing or financing activities</i>				
Gain on sale of property, plant and equipment	(374)	(35)	-	-
Loss on sale of property, plant and equipment	296	66	-	-
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	29,261	25,567	7,104	11,699

35. 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.

35.1 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.

35.2 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 2009, \$'000	Maturity date 1 year or less	Maturity date over 1 year & less than or equal to five years	Maturity date over 5 years	Total
Financial assets				
Cash and cash equivalents	13,002	-	-	13,002
Trade and other receivables	21,689	-	-	21,689
Advances due from the DCC	5,771	25,251	142,042	173,064
Mortgage receivables	-	510	1,096	1,606
Derivative financial instruments	10,260	-	-	10,260
	50,722	25,761	143,138	219,621

Group 2009, \$'000	Maturity date 1 year or less	Maturity date over 1 year & less than or equal to five years	Maturity date over 5 years	Total
Financial liabilities				
Cash and cash equivalents	-	-	-	-
Trade and other payables	17,344	-	-	17,344
Borrowings	115,377	131,396	246,238	493,011
Derivative financial instruments	10,252	-	-	10,252
	<u>142,973</u>	<u>131,396</u>	<u>246,238</u>	<u>520,607</u>
Group 2008, \$'000				
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
	<u>61,177</u>	<u>21,770</u>	<u>86,303</u>	<u>169,250</u>
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
	<u>24,582</u>	<u>147,574</u>	<u>269,641</u>	<u>441,797</u>

35.3 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 2009 \$'000	Group 2008 \$'000
Maturing in less than one year	8,000	1,000
Maturing between one and five years	90,500	44,500
Maturing after five years	229,000	48,000
	<u>327,500</u>	<u>93,500</u>

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 \$6m above (2008: \$8.9m below) the carrying cost in the Balance Sheet.

Parent Interest Rate Risk

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

	Parent 2009 \$'000	Parent 2008 \$'000
Maturing in less than one year	-	-
Maturing between one and five years	5,000	-
Maturing after five years	-	-
	5,000	-

35.4 Currency market risk

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

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

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

	Group 2009 \$'000	Group 2008 \$'000
Forward foreign exchange contracts - fair value	1,089	279
- nominal value	18,075	6,200
(sale of USD and purchase of NZD)		
Forward foreign exchange contracts - fair value	58	-
- nominal value	1,307	-
(sale of NZD and purchase of USD)		
Forward foreign exchange contracts - fair value	2	(7)
- nominal value	312	300
(sale of AUD and purchase of NZD)		
Forward foreign exchange contracts - fair value	(4)	-
- nominal value	320	-
(sale of NZD and purchase of GBP)		

All contracts are current.

35.5 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 2009 %	Group 2008 %	Parent 2009 %	Parent 2008 %
Effectiveness	100	100	100	100

35.6 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:

	Group 2009 \$'000	Group 2008 \$'000	Parent 2009 \$'000	Parent 2008 \$'000
Past due receivables				
Age analysis: 30-60 days	586	738	138	154
60-90 days	171	447	138	154
90 days plus	418	1,591	1,244	1,249

35.7 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 0.6478. A parallel shift of +1%/-1% in the NZD market interest rate from the year-end 90day BBBR of 2.84% (2009: 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.

2009, \$'000	Carrying amount	Interest rate				FX			
		-100bp		+100bp		-10%		+10%	
		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Financial assets									
Derivatives	10,260	-	(5,413)	-	4,936	-	1,784	-	(1,459)
Other financial assets	209,361	(1,747)	(1,747)	1,747	1,747	(27)	(27)	22	22
	219,621								
Financial liabilities									
Derivatives	10,252	-	(7,768)	-	7,068	-	-	-	-
Other financial liabilities	510,199	3408	3,408	(3,408)	(3,408)	-	-	-	-
	520,451								
TOTAL INCREASE/(DECREASE)		1,661	(11,520)	(1,661)	10,343	(27)	1,757	22	(1,437)

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 \$0.32m of USD, \$0.23m of AUD and \$0.01m of EUR denominated receivables at year-end. All foreign exchange derivatives held by City Forests Limited 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.

36. 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.

36. RELATED PARTY TRANSACTIONS – CONTINUED**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 2009 \$'000	Group 2008 \$'000
Sales of services to the Dunedin City Council:		
Contracting services	13,158	16,439
Interest income	11,409	7,581
Transport services	542	436
	25,109	24,456
Purchases of goods and services from the Dunedin City Council:		
Interest	10,333	10,805
Dividends	9,468	11,210
Materials purchased	524	850
Rates and property rentals	989	966
Administration and office services	19	32
	21,333	23,863
As at balance date:		
Receivable from Dunedin City Council	177,187	124,108
Payable to Dunedin City Council (inclusive of shareholder's advance)	113,123	122,397

Transactions with associate companies

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

Received or receivable from associate companies:		
Forest products sold to chip mill	917	992
Dividends	163	-
	1,080	992
Paid or payable to associate companies:		
City Forests Limited purchases from chip mill	18	31
As at balance date:		
Receivable from associate companies	88	432
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 \$147,000 (2008: \$141,000) for materials and mechanical services to the Palmers Mechanical Limited, an organisation of which Mr R D Liddell is a director.
- > City Forests Limited, *DELTA* Utility Services Limited and Taieri Gorge Railway Limited paid \$572,000 (2008: \$393,000) for materials to Blackhead Quarries Limited, an organisation of which Mr R D Liddell is a director. Blackhead Quarries Limited paid \$4,000 (2008: \$3,000) to *DELTA* Utility Services Limited for contacting services.
- > *DELTA* Utility Services Limited paid \$3,000 (2008: nil) for consulting, accounting and financial services to Enabling Technologies Limited, an organisation of which Dr N Evans is a director.
- > *DELTA* Utility Services Limited purchased consulting services to a value of \$3,000 (2008: \$4,000) from Douglas Consultants Limited, an organisation of which Mr G D Douglas is a director.
- > *DELTA* Utility Services Limited and Taieri Gorge Railway Limited paid \$8,000 (2008: \$6,000) 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 and Aurora Energy Limited sold contracting services to a value of \$69,000 (2008: \$111,000) to Arith Holdings Limited, an organisation of which Mr M O Coburn was a director.
- > *DELTA* Utility Services Limited sold contracting services to a value of \$28,000 (2008: \$239,000) and purchased services to a value of \$28,000 (2008: \$8,000) to the University of Otago, an organisation of which Mr S J McLauchlan is the Pro-Chancellor.
- > *DELTA* Utility Services Limited and Aurora Energy Limited sold contracting services to a value of \$2,903,000 (2008: \$3,785,000) to Jacks Point Limited, an organisation of which Mr M O Coburn was a director. Jacks Point Limited provided services to the value of \$81,000 (2008: nil) to Aurora Energy Limited.
- > *DELTA* Utility Services Limited paid \$6,000 (2008: \$8,000) for services to Scott Technology Limited, an organisation of which Mr S J McLauchlan is a director. \$15,000 of contracting services were sold by *DELTA* Utility Services Limited to Scott Technology Limited.
- > *DELTA* Utility Services Limited sold contracting services to a value of \$7,000 (2008: \$21,000) and purchased services to a value of \$1,000 (2008: nil) to Lund South Limited, an organisation of which Mr S J McLauchlan is a director.
- > *DELTA* Utility Services Limited sold contracting services to a value of \$7,000 to a director Mr R D Liddell.
- > Citibus Limited paid \$58,000 (2008: \$66,000) for accounting services to Ms S Spiers, a close family member of a director.
- > Taieri Gorge Railway Limited paid \$18,000 (2008: \$17,000) to Mr J Chapman for train staffing and workshop services.
- > Mr S Wilson is an employee of *DELTA* Utility Services Limited. During the period covered by this report, contracting services of \$3,730 were provided to Mr Wilson (2008: \$1,667). \$635 was outstanding as at 30 June 2009 (2008: \$768).
- > Mr L McLennan is an employee of *DELTA* Utility Services Limited. During the period covered by this report, contracting services of \$3,569 were provided to Mr McLennan (2008 nil). No monies were outstanding as at 30 June 2009 (2008: nil).
- > Mr A Gramstrup is an employee of *DELTA* Utility Services Limited. During the period covered by this report, contracting services of \$7,344 were provided to Mr Gramstrup (2008: \$808). \$613 was outstanding as at 30 June 2009 (2008: \$37).
- > Mr J Walsh was an employee of *DELTA* Utility Services Limited. During the period covered by this report, contracting services of \$3,996 were provided to Mr Walsh (2008: \$808). No monies were outstanding as at 30 June 2009 (2008: nil).

Group	Group	Parent	Parent
2009	2008	2009	2008
\$'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	2,606	3,362	297	299
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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	9,468	11,210
Interest	10,333	9,514
Other	10	18
Subsidiaries	1,659	1,662
	21,470	22,404

Sales of goods and services, payments received

Dunedin City Council	-	-
Subsidiaries		
Dividends	17,554	18,290
Other	1,970	1,962
Associates		
Dividends	88	-
	19,612	20,252

37. 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) and NZIAS 23 Borrowing Costs (revised).

38. EVENTS AFTER BALANCE SHEET DATE

There were no significant events after balance date.



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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	Chairman Appointed by Dunedin City Council 1993
Michael O Coburn <i>F.N.Z.I.M., A.F.Inst.D.</i>	Company director Director, Arthur Barnett 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 Chairman, Enabling Pty Limited (Aus) Director, Upstart Angels Limited Director, Enabling NZ Limited Director, Halo Investment Management Limited Director, Halo Fund No 1 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 Chairman, James Maurice Properties Limited Chairman, Palmer & Son Limited Chairman, Palmers Mechanical Limited Chairman, Palmer M H Limited Chairman, Browns Barkly Limited Chairman, Victory Lime 2000 Limited Chairman, Viblock Limited Director, A B Lime Limited Director, Blackhead Quarries Limited	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 Chairman, Highlanders Rugby Trust Chairman, NZ Sports Hall of Fame Chairman, Scott Technology Limited Director, A D Instruments Pty Limited Director, Cargill Hotel 2002 Limited Director, Dunedin Casinos Limited Director, Scenic Circle Hotels Limited Director, Lund South Limited Director, Otago & Southland Employers Assn Director, Wagstaff Holdings Limited Director, Wavell Resources Limited Pro-Chancellor, 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 Hudson and McLauchlan 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	17,593	Dunedin City Holdings Limited
Norman G Evans	17,593	Dunedin City Holdings Limited
Ross D Liddell	17,593	Dunedin City Holdings Limited
Stuart J McLauchlan	17,593	Dunedin City Holdings Limited

Parent company total 101,811**Subsidiaries**

<i>Director</i>	<i>\$</i>	<i>Company</i>
Michael O Coburn	20,438	Aurora Energy Limited
	13,518	Citibus Limited
	19,012	City Forests Limited
	18,115	DELTA Utility Services Limited
George D Douglas	9,732	DELTA Utility Services Limited
Norman G Evans	22,888	Aurora Energy Limited
	13,518	Citibus Limited
	19,012	City Forests Limited
	21,115	DELTA Utility Services Limited
Paul R Hudson	20,438	Aurora Energy Limited
	18,918	Citibus Limited
	22,076	City Forests Limited
	18,115	DELTA Utility Services Limited
Ross D Liddell	32,501	Aurora Energy Limited
	13,518	Citibus Limited
	33,959	City Forests Limited
	34,232	DELTA Utility Services Limited
Stuart J McLauchlan	30,739	Dunedin City Treasury Limited
	20,438	Aurora Energy Limited
	13,518	Citibus Limited
	19,012	City Forests Limited
Raymond S Polson	18,490	DELTA Utility Services Limited
	42,875	Aurora Energy Limited
Bevan R N Dodds	42,231	DELTA Utility Services Limited
	nil	Citibus Limited
Athol J Stephens	nil	Dunedin City Treasury Limited
	nil	Dunedin City Treasury Limited
Stephen M Wilson	nil	Dunedin City Treasury Limited
	nil	Dunedin City Treasury Limited
Grant A Dodson	nil	Dunedin City Treasury Limited
John E Farry	11,300	Taieri Gorge Railway Limited
John M Chapman	7,740	Taieri Gorge Railway Limited
F John McCall	7,740	Taieri Gorge Railway Limited
Gary M Williams	7,740	Taieri Gorge Railway Limited
Kate Wilson	7,740	Taieri Gorge Railway Limited
Brian C Wolff	7,740	Taieri Gorge Railway Limited

Subsidiaries Total \$588,408**Group Total \$690,219****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 Limited, 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>
\$240,000-249,999	-	2
\$230,000-239,999	-	1
\$190,000-199,999	1	1
\$180,000-189,999	-	2
\$170,000-179,999	-	-
\$160,000-169,999	-	5
\$150,000-159,999	-	-
\$140,000-149,999	-	1
\$130,000-139,999	-	6
\$120,000-129,999	-	3
\$110,000-119,999	-	5
\$100,000-109,999	-	14

parent company statement of service performance

The performance targets established in the 2008/2009 Statement of Corporate Intent for Dunedin City Holdings Limited and the results achieved for the year ended 30 June 2009 are as follows:

<i>Performance targets</i>	<i>Outcome achieved</i>
1.0 Economic 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 2008/2009 and updated strategic plans for the group companies to be completed by 31 July 2008.	The review of the draft 2008/2009 Statements of Corporate Intent and the draft strategic plans was completed and reported to the Council for February 2008.
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-. Ongoing reviews of capital structures within the group were performed and the uncalled capital in Dunedin City Holdings Limited was increased to \$600,000,000.
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 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 2008/2009 Statement of Intent, presented to the shareholder in February 2008, projected that the parent company surplus after tax would be \$18.7m and that the shareholder's funds at year end would be \$56.5m 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 \$10.3m lower than expected due to the change in tax subvention policy within the Dunedin City Council tax group that dropped revenue by a similar amount. The surplus achieved of \$8.7m plus the \$10.3m interest payment to Council added together comes to \$19.0m and this is the figure that is comparable with the \$18.7m projected in early 2008. The shareholder's funds at the end of the period were well below the \$56m projected due to the policy change that altered the surplus. The dividends to the Dunedin City Council in February 2008 were projected to be \$18.84m. Actual dividends were \$9.46m, however as explained above \$10.33m was paid in interest so the total distribution to the shareholder was \$19.8m. The parent company has therefore paid in cash a higher amount than that anticipated in the Statement of Intent.

audit report

TO THE READERS OF DUNEDIN CITY HOLDINGS LTD AND GROUP'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2009

The Auditor-General is the auditor of Dunedin City Holdings Limited (the company) and group. The Auditor-General has appointed me, Ian Lothian, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the company and group for the year ended 30 June 2009.

Unqualified Opinion

In our opinion:

- The financial statements of the company and group on pages 32 to 70:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - > the company and group's financial position as at 30 June 2009; and
 - > the results of operations and cash flows for the year ended on that date.
- The performance information of the company and group on page 74 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 30 June 2009.
- Based on our examination the company and group kept proper accounting records.

The audit was completed on 9 September 2009, 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 2009 and the results of 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 2009. 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 Distribution (Information Disclosure) Requirements 2008. These assignments are compatible with those independence requirements.

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



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

company directory

Directors

Paul R Hudson (Chairman)
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

Bankers

National Bank of New Zealand Limited

Taxation Advisors

Deloitte

Solicitors

Anderson Lloyd

Auditor

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



