DUNEDIN CITY HOLDINGS LIMITED

ANNUAL REPORT 2010

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.

COVER – OUR COMMUNITY.
CARGILL MONUMENT, DUNEDIN

The gothic memorial in Dunedin's Exchange was "Erected by the People of Otago in the year of 1863 to the Memory of Captain William Cargill, the founder of this Settlement and the first Superintendent of the Province".

William Cargill, a former banker and distinguished officer in the British army, embarked with spiritual leader, Rev. Thomas Burns, to establish a New Edinburgh settlement in New Zealand – Dunedin. Cargill arrived on the migrant ship *John Wickliffe* in 1848. He was described by Governor Sir George Grey as possessing "not only great sagacity but extraordinary wisdom".

The memorial was first located in the Octagon and was moved to its present site in 1872. The Exchange was the commercial hub of Dunedin; the site of the Dunedin Stock Exchange, Central Post Office and many New Zealand head offices of commercial banks and financial companies.

The memorial also served as a drinking fountain and it commemorates the location where the Salvation Army commenced its work in New Zealand in 1883.

dunedin city holdings limited
ANNUAL REPORT 2010

WHAT WE DO

Dunedin City Holdings Limited is an investment company and our purpose is to earn cash from our subsidiary companies to provide a steady flow of payments to the shareholder 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 sixteen 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 $14.9m was paid to the Council in dividends. Together with the $8.2m in interest that has been paid to the Council over and above dividends this matches the overall distribution figure signalled in our Statement of Intent.

Cash payments to the Council over the last four years exceed $83m and as a result progress towards the long-term goal of growth in shareholder's funds has slowed. This high level of distribution is strongly supported by our shareholder and is expected to continue in 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. In this current year it has been the recovery in forestry returns that has allowed an increased surplus despite a soft contracting market.

Financially, the strongest company in our portfolio is Aurora Energy Limited, which has created the majority of our cash to date. If this is to continue then the company must continue to receive strong support in its capital expenditure programme.

Given the high level of distributions to support the capital expenditure of the Dunedin City Council any goal of increasing the level of shareholder's funds in the group becomes impossible. The goal of the group, therefore, is to balance both adequate strength in the balance sheet and payment to the shareholder.

OUR CHALLENGE

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

contents

dunedin city holdings limited
our performance

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

To do this, we must earn enough to:

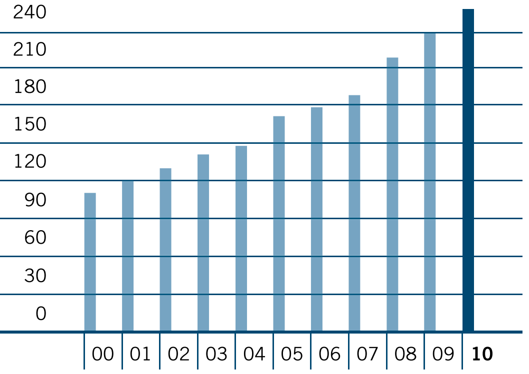
> **Pay cash to the Council regularly;**

> **Maintained an adequate level of shareholder's funds**

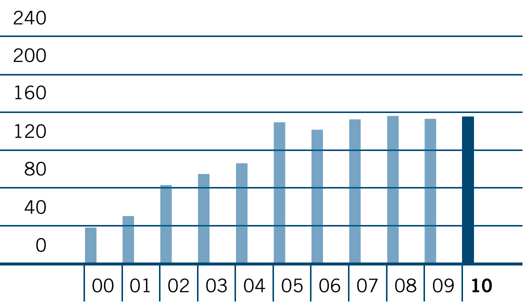
> **Create cash for dividends and reinvestment**

WE HAVE:

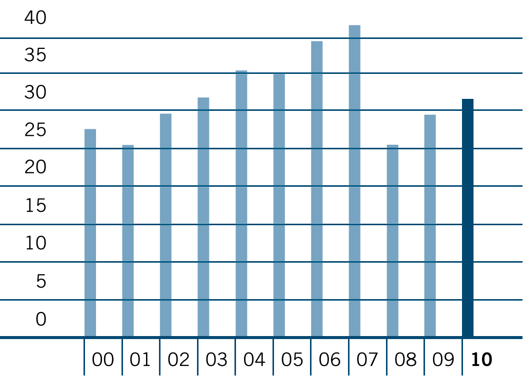
> **Paid cash to Council regularly:**
Cumulative dividends, interest and debt repayment from DCHL since 1993 $m



> **Maintained an adequate level of shareholder's funds.**
Growth in shareholder's funds $m



> **Created cash for dividends and reinvestment:**
Annual cash flow from operating activities $m



dunedin city holdings limited
our highlights 2009-10

WE HAVE:

> **Achieved record group revenue of $233.6m**

> **More than doubled the net profit to $18.11m**

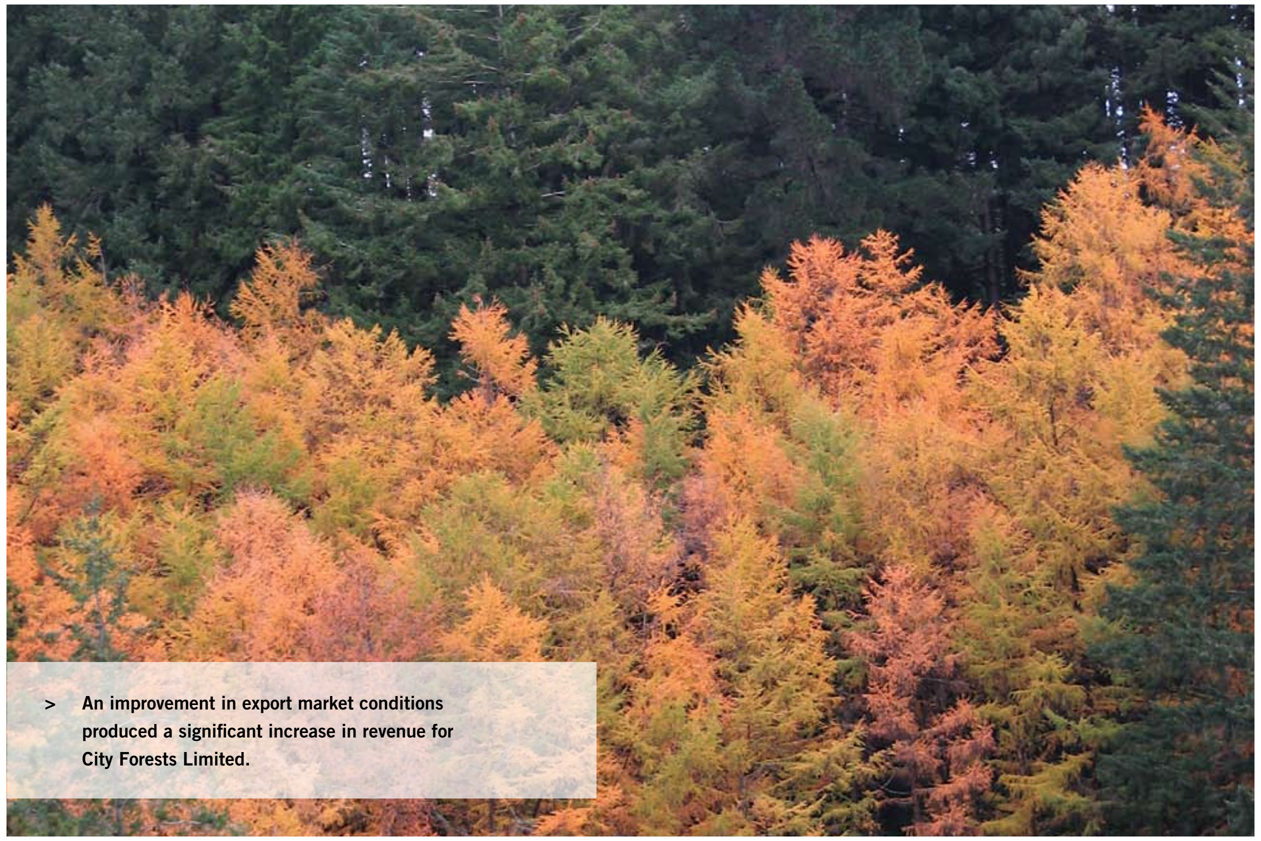
> **Improved cash flow from group operations from $29.3m to $32.1m**

> **Paid cash from the parent company to the Dunedin City Council of $24.16m**

> **Heavily reduced the number of lost-time accidents at *DELTA* Utility Services Limited**

> **Increased annual revenue at City Forests Limited by 50%**

> **Sold carbon credits to the value of $3.26m**



> **An improvement in export market conditions produced a significant increase in revenue for City Forests Limited.**

chairman's report

Paul Hudson
Chairman

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, a year in which the total cash paid to Council in sixteen years exceeds a quarter of a billion dollars.

I am pleased to report that our business has been growing strongly, with revenue increasing by 8.9% to $233.6m. The net profit after tax, at $18.1m, has more than doubled due to increased margins from normal business, an improved forestry valuation, which now includes the impact of carbon credits, and a tax adjustment to allow for the reduced corporate tax rate. Directors are pleased with the considerably improved profit result from the export forestry business which has been the base of the profit improvement.

Cash flow is more important than the level of profit. This year, again thanks to improvements in the forestry business, the group increased its cash flow performance. Cash generated from operations rose from $29.3m to $32.1m. Part of this improvement is due to the improved export conditions of the forestry business and part from the sale of carbon credits. This cash flow gives the group the capacity to invest to maintain the competitive position of the companies in the future and, for a few years, to make combined dividend and interest payments to the Dunedin City Council that exceed profits.

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. However, this year with the need to support the shareholder's capital expenditure programme the group's capital expenditure has been down.

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 dividends, interest paid on the shareholder's advance and, this year, a reduction in the advance itself. The combined total paid this year was $24.1m which is higher than last year and meets the forecast in the Statement of Intent. It is interesting to note that the total cash paid by the companies to the Council since 1993 when the companies were formed now exceeds a quarter of a billion dollars being made up of $67m in loan repayment and $193m of interest and dividends.

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 flexible as they have reacted very positively to constant changes in the market. The performances of *DELTA* Utility Services Limited in continuing to maintain a high return on the investment made in the company, and the quick reaction by City Forests Limited to a marked change in economic conditions half-way through the year, are deserving of specific mention.

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 2010 financial year, and particularly for the intense efforts which were required to react to the demanding economic environment in which we operate.

Paul Hudson

directors' report

RESULTS FOR THE YEAR ENDED 30 JUNE 2010

	Group $'000	Parent $'000
Revenue	233,568	22,366
Operating surplus	23,754	12,213
Income tax	(5,644)	-
Net profit for the year	18,110	12,213

STATE OF AFFAIRS

The results for the group improved markedly over last year with the difference between the two years being the performance of City Forests Limited.

With the exception of forestry, business margins across the group have been constrained by a range of factors mostly associated with the poor international economic situation. Within the forestry business the key economic drivers of price, exchange rate and shipping charges have generally been more favourable than those we have seen for some years and in this year for the first time we have been able to sell excess carbon credits.

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 Limited and *DELTA* Utility Services Limited.

Even with improved cash generation the debt of the group has increased from $379.8m to $414.2m. A major contributing factor in such a large change was the increase of $59.4m in Dunedin City Council borrowing from Dunedin City Treasury Limited ($60.7m increase last year). The Council debt of $232.4m, owed to the central treasury company, will continue to be a sizeable factor in the group balance sheet in the foreseeable future.

At $18.11m the profit after tax is a significant improvement on last year.

One factor is the adjustment to deferred tax balances in the larger subsidiaries caused by the reduction in company tax rate to 28% from next year. The loss of the capacity to depreciate buildings caused a negative movement but the drop in the tax rate applied in the non-building deferred tax category was larger, resulting in an overall positive effect of $1.11m.

Another large factor is the $6.17m revaluation in the forestry assets. This is $2.86m higher than the revaluation last year as it now reflects an expectation of further carbon credit receipts over the next few years. As these receipts are realised there will be downwards pressure on the valuation. Both the deferred tax change and the increase in the forest revaluation are non-cash items.

Much more important were the cash elements in the surplus. The two most outstanding elements here were the sale of carbon credits which realised $3.26m pre-tax and the growth in the margins from the export log business which expanded profit by approximately $1m in the first six months of the 2010 calendar year.

At $26.3m the net surplus before interest payments to the Dunedin City Council is again an excellent improvement on the last two years. The performance is now comparable with the $29m-$30m level achieved in 2006 and 2007. A key difference compared to 2007 is the extra $41m of debt now carried by the three largest companies as part of our cash support to the Council. Without the interest cost on this extra debt the surplus achieved this year would have been close to the excellent 2006 and 2007 years.

Shareholder's funds have remained relatively stable as directors met the wish of the Dunedin City Council for distributions slightly in excess of earnings. The group doubled its return on shareholder's funds to 12.5% (5.7% last year).

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 shareholder's investment. This has slowed recently 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 three 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 Limited. Had the policy stayed the same Dunedin City Holdings Limited cash flow would have been higher by $8.2m. 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 $12.2m, compared to $7.4m last year.

> *DELTA* Utility Services Limited completed an upgrade of the Deep Creek pipeline critical to Dunedin's water supply.

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	14,877
Interest payments on shareholder's advance	8,223
Repayment of the shareholder's advance	1,060
Total cash distribution to Council	**24,160**

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 (pages 10 to 21).

ASSOCIATE COMPANIES

Dunedin International Airport Limited operates in a volatile environment with airlines constantly altering schedules and aircraft types in use. International passenger numbers have been slightly down, but domestic passenger numbers have improved leaving a net 1% increase overall in numbers compared to last year.

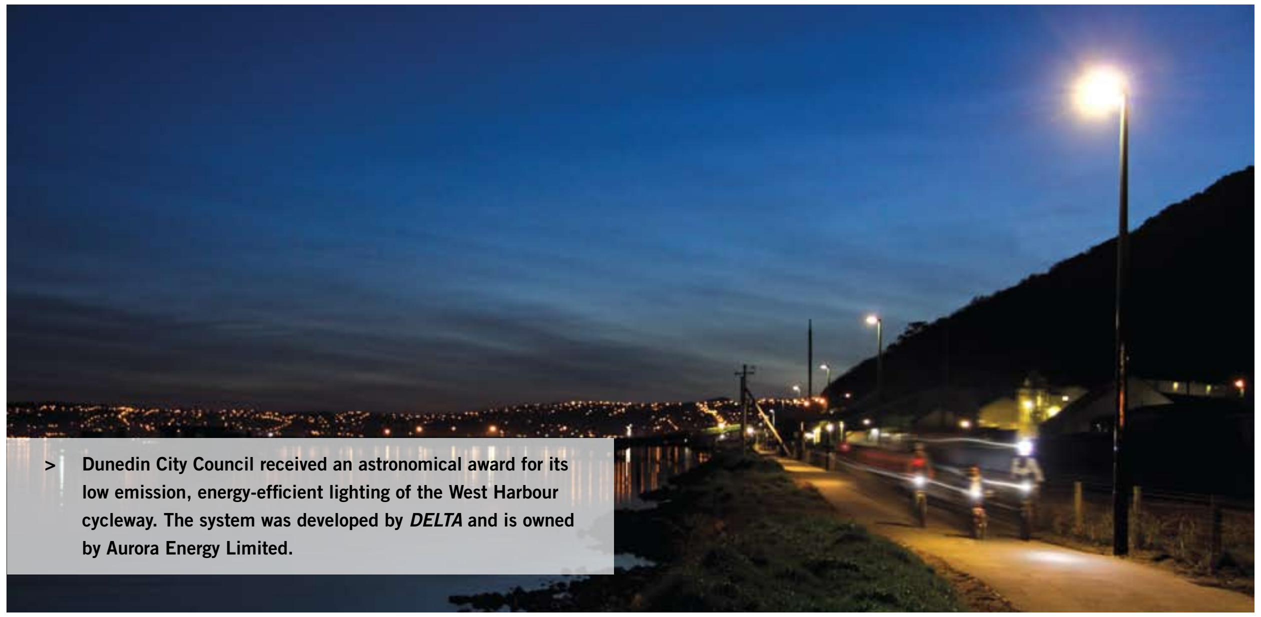
A new carpark management system was installed in November 2009 and rental car service depots were relocated from the main car park to a new site in May 2010.

The profit from the operation of the airport over the year exceeded budget. However, change to the tax regime as it relates to the ability to depreciate buildings affected the valuation of the airport terminal building and reduced shareholder's funds in the company by $4.3m. Half this fall in value, representing the 50% share of Dunedin City Holdings Limited, is reflected in the statement of comprehensive income.

OUTLOOK

Our region, largely through the good fortune of our relative proximity to Asia and the dominance of relatively strong Australian banks, has weathered the storm of the economic recession. Yet the world economy, which dictates our export prices and determines tourist numbers, continues to stutter. It is no longer at the bottom but neither is it showing much real strength. Around the developed world borrowing has been the answer – the road to growth and prosperity. But now it is the debt that is the problem. The nasty issue with debt being that it has to be repaid and/or reborrowed sometimes under slightly different terms.

We have seen plenty of instances in our immediate area where unsustainable levels of debt have caused the demise of construction projects and companies. We are now finding out if there is life after debt and just how much impact there will be on our daily business from the habit changes forced



> Dunedin City Council received an astronomical award for its low emission, energy-efficient lighting of the West Harbour cycleway. The system was developed by *DELTA* and is owned by Aurora Energy Limited.

by painful debt withdrawal symptoms. Changes in Reserve Bank regulations have forced up the cost of debt in New Zealand and this will remain. We have yet to see if capital is constrained to some extent for every day business and if that will slow the re-establishment of the economic growth that, particularly, Central Otago has so enjoyed in the past.

Directors are confident of the investments made in recent years to grow our core businesses. However, there remains a degree of caution as we work our way through the current economic cycle.

Our Statement of Intent submitted to the Council in February 2010 indicated that the group will maintain high cash payments with an increased commitment to pay a total of $23.2m next year. It is likely that this will be increased further to $23.4m.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2010 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 $244,000.

Paul Hudson

On behalf of the Board of Directors
Paul R Hudson, Chairman
8 September 2010

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.

subsidiary company reports

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:

Aurora

100%

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

Citibus

100%

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

TAIERI GORGE RAILWAY

72%

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

Dunedin City Treasury Ltd

100%

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

City Forests

100%

City Forests Limited manages approximately 16,000 hectares of land from which forest products are grown, harvested and marketed. It owns a mill at Milburn that produces dried sawn timber for export and domestic sales, plus a 49.9% share in Otago Chipmill Limited.

DELTA

100%

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

49.9%

Otago Chipmill LIMITED

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

50%

Dunedin International Airport

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

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.

FINANCIAL HIGHLIGHTS	**2010 $'000**	2009 $'000
Revenue	**78,799**	81,687
Net surplus for the year	**15,583**	15,431
Shareholder's funds	**175,753**	174,287
Total assets	**357,332**	346,104

WHAT WE DID THIS YEAR

Aurora Energy Limited is a highly consistent well-performing company. Revenue at $78.8m was down on last year as property development slowed in Central Otago and the volume of electricity transferred reduced slightly. The surplus after tax at $15.6m was up slightly on the $15.4m achieved last year.

Economic growth in the Otago area is slow but it has not prevented a strong management team from performing well. Growth in the area of the company's operations will be cyclical and the company must be able to maintain its very high standards of delivery to an expanded market once development picks up again.

To this end the company has continued its zone substation renewal programme. The large new The Commonage substation in Queenstown was commissioned earlier in the year and good progress has been made on the Ward Street and Frankton substation renewal projects. Also, the planning for the new Cardrona substation is progressing well and most of the key electrical components have been delivered ready for installation.

Last year the company acquired the fledgling Flute fibre network. The company has more than doubled the size of the Dunedin network which now runs from the Oval to the Botanic Gardens, via the central business district. The expectation for next year is that the growth rate will be maintained and that the number of customers will treble. A proposal for the government-sponsored Ultrafast Broadband roll out, that will see 75% of residential properties connected to fast broadband over the next ten years, has been submitted.

Growth can be reflected in the additional number of consumer connections to the network. In Central Otago we achieved 2.0% growth (last year 2.2%) and in Dunedin there was 0.5% growth (last year 0.4%). At year end the total number of connections in Dunedin was 53,489 and the figure in Central Otago was 28,274.

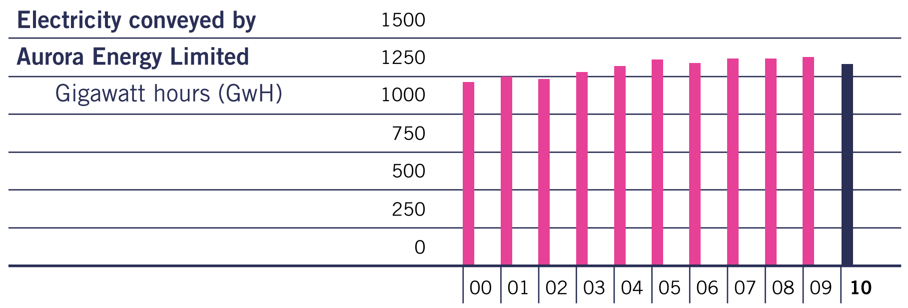
Considerable load control planning continues to optimally manage the total network. Success in this area allows maintenance of high standards of delivery while at the same time minimising capital expenditure. This year supply quality, measured by the SAIDI statistic (a measure of how many minutes supply is interrupted across the network), was satisfyingly nearly half the industry average.

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 total life of the group, Aurora has provided more than 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 $13.9m ($13.2m last 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



> Aurora's new enviro-friendly Substation at The Commonage was opened in 2010 to future-proof the electricity supply of Queenstown's CBD.

>> Installation of the Flute fibre optic network progressed in Dunedin, including outside Dunedin's famous railway station.

> The popular double-decker tour coach and commuter bus, outside Dunedin's Municipal Chambers.

>> Dunedin's commuter bus services were expanded and continue to play an important role for citizens.

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.

FINANCIAL HIGHLIGHTS

	2010 $'000	2009 $'000
Revenue	**8,985**	8,631
Net surplus/(deficit) for the year	**(394)**	(292)
Shareholder's funds	**4,849**	5,291
Total assets	**10,311**	11,118

WHAT WE DID THIS YEAR

The economic environment for the bus industry continues to be unsatisfactory. The local environment remains characterised by highly rigid regulatory structures while the tour industry and the local charter sector are awash with surplus buses and operators quoting at unsustainable levels.

It is unfortunate that directors must again report a trading loss for this company. Revenues in some key areas have expanded as targeted but margins on the local charter and tour businesses have shrunk considerably.

The South Island tourist industry is undergoing a period of change. Traditional markets, such as Japan which has in the past supported the coach tour business, have been in sharp decline and other markets reliant on direct air services into Christchurch have faced a reduction in flights. Meanwhile, some markets that provide free and independent travellers, such as Australia, have blossomed. Overall, tourism receipts have not fallen but the changes are having a marked effect on the tour bus fleet which now is significantly too large for the numbers of tour visitors. We have maintained the number of days on tour but this has been achieved only at much lower margins.

The strategy has been to expand in the Dunedin route services market and operationally this has been achieved. Otago Regional Council's tender rounds over the last two years have been successful and revenue from urban services this year has continued its growth trend.

Much more effort has gone into staff training this year and the results of that training are starting to materialise. Qualmark accreditation, the tourism industry standard, was achieved following a sizeable investment in systems, procedures and training. We have introduced GPS systems into our local bus fleet and now receive precise fleet management reports which will strongly assist our efforts to improve efficiency.

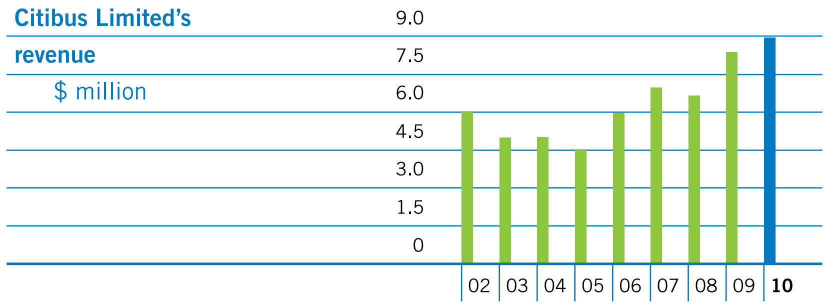
The Connexions business has also responded to an overhaul. The timetable was altered to meet changing customer demands and although the numbers of services have been reduced in some cases the total number of passengers carried has increased quite positively.

We continue to target growth in tourism-based income and will be offering more products for the market over the coming season. These products will specifically target the free and independent traveller. However, with the fall in tour traffic, the proportion of income from tourism will be below historic levels.

For more information visit *www.citibus.co.nz* and *www.connexions.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



WHAT WE DO

City Forests Limited is a forest grower that actively harvests and markets the products from the 15,997 hectares of forests that it owns. Products are sold in both the export and domestic markets. To diversify our business risk, we also have an investment in wood processing.

FINANCIAL HIGHLIGHTS	**2010**	2009
	$'000	$'000
Revenue	**51,074**	33,884
Net surplus for the year	**7,114**	365
Shareholder's funds	**75,961**	70,869
Total assets	**148,010**	138,571

WHAT WE DID THIS YEAR

The economic climate has improved for City Forests Limited over the last six months of the financial year. Export volumes to our key South Korean customers have increased to take advantage of the shift in Chinese demand that has improved margins from throughout the northern Asian region. For the first time this year we have received income from carbon trading under the New Zealand Emissions Trading Scheme.

Trading conditions continue to be volatile but since the beginning of the calendar year the combined effects of export log price, exchange rates and shipping costs have generally improved significantly.

The operation of our mill at Milburn has provided us with the capacity to process milled product from the best part of our pruned forest and this provides us with potential to add value in the longer term. During the year the plant has made excellent improvement in productivity. In respect of the product from the mill, lumber prices have also improved but this improvement is at a much lower level.

The commencement of carbon trading has had a major positive effect on the cash flows generated from the business. The company has executed approximately $3.27m of carbon sales to date and has contracted an additional $0.56m of future sales over the next three years. These sales to date represent only a small proportion of the potential value of the carbon in the company's forests and carbon trading is expected to continue to be a strong contributor to the company's performance over the next decade.

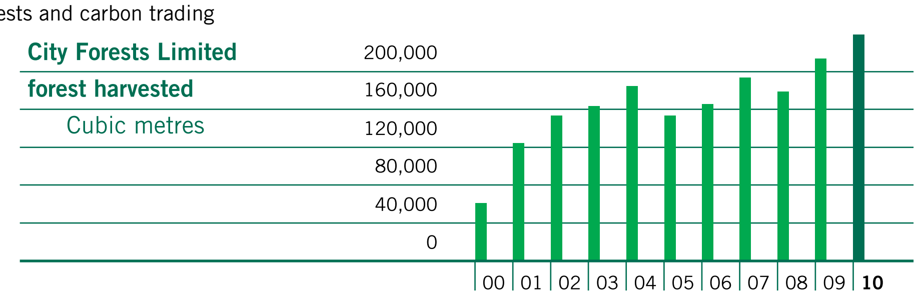
Under NZ IFRS accounting rules the value of the forest growth is brought directly into the annual income. Natural growth has led to a positive appreciation of $1.2m ($3.3m last year) in forest value. However, this element is much smaller than the $4.6m attributable to the recognition of post-1989 forest carbon over the remainder of Kyoto Commitment Period One, as prescribed by the New Zealand carbon legislation. No value has been attributed to pre-1990 carbon, or Kyoto Commitment Period Two, carbon as the values at balance date were still quite uncertain.

Looking to the future we believe that volatile economic conditions will exist for some time although several of the factors behind the increase in demand for New Zealand logs in China are expected to continue for a while. If we have a stable legislative environment then carbon trading will continue and the company expects to receive an allocation of carbon units to compensate for the loss of land use flexibility in our pre-1990 forest estate. The company will also continue to ensure a strong international market presence to allow it to anticipate, and take advantage of, the improvement in demand for sustainably produced wood products.

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



> The drying kiln is opened at dawn at City Forests' Milburn processing plant. A large proportion of the fuel used for the heating process comes from recycled wood waste.

>> The new 50 tonne 'Feller Buncher' in operation.

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's* giant 'Trencor' chews through schist rock to lay the new Deep Creek pipeline.

>> Installing residential water meters in Alexandra.

FINANCIAL HIGHLIGHTS

	2010	2009
	$'000	$'000
Revenue	**87,008**	87,891
Net surplus for the year	**2,929**	3,866
Shareholder's funds	**17,744**	18,482
Total assets	**57,221**	48,427

WHAT WE DID THIS YEAR

This company continues to grow strongly. During a period of economic hardship, sales at $87m were slightly down on last year but still in terms of revenue this continues to make it the largest company in the group. The profit after tax at $2.9m is down 24% on the $3.87m made last year.

The return to shareholder's on the value of the assets invested in *DELTA* is good. The return of 16.5% on equity achieved this year may be down on that achieved last year but it represents almost double the return that the ultimate shareholder, the Dunedin City Council, can expect on regulated electricity assets within Aurora Energy Limited.

This year the company was the head contractor on the upgrade of the Milton waste water treatment plant. The contract was an opportunity for the company to pull together its civil and electrical engineering capabilities, to manage an international product supplier, and to deliver a project that was on time and under budget. Most importantly, the performance exceeded our customer's expectations.

DELTA's business activities continue to expand to the north of Dunedin. Growth has occurred in Canterbury through an ongoing infrastructure development project at Noble Village and this work will continue through into 2012. The Waimakariri District Council parks and services maintenance contract has been won for a five year period and further north the company was awarded the Kaikoura District Council parks and reserves contract for a six year period. A permanent presence has been established in the Marlborough Sounds area.

Recognition of the work completed in waste management came through the award of Enviro-Mark Gold certification for the solid waste operations at Dunedin's Green Island landfill. This was the first landfill operation in New Zealand to achieve the award. Further recognition to an innovative recycling system proposal was received in the award of a seven year contract to operate the Waitaki District Council's rural transfer stations.

In Dunedin the company delivered a broad range of services to the Forsyth Barr Stadium at University Plaza, including utility and drainage work, pitch construction, electricity lines and fibre optics.

Health and safety issues are always important. The company has invested a lot of effort into decreasing staff accident rates and is very pleased to see significant improvement. The number of lost-time incidents fell to a new low for the company dropping from 1.25 incidents for every 100,000 hours worked to 0.73.

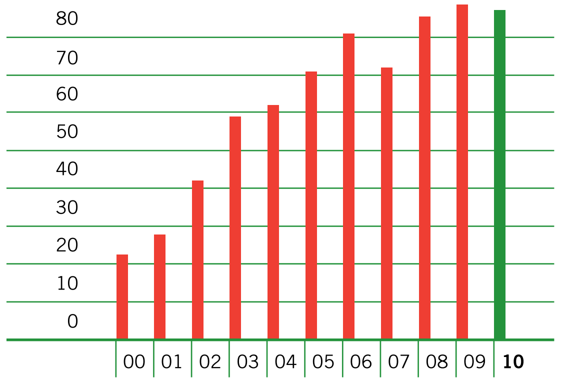
For more information visit *www.4delta.co.nz*

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.

Dunedin City Treasury Ltd

FINANCIAL HIGHLIGHTS	**2010**	2009
	$'000	$'000
Revenue	**32,181**	25,752
Net surplus for the year	**7**	11
Shareholder's funds	**198**	191
Total assets	**511,297**	384,159

WHAT WE DID THIS YEAR

For yet another year the financial markets have been under severe pressure both here in New Zealand and offshore. Some international markets have required considerable support from groups of governments to function and it is clear that that some markets are still far from being able to operate in a fully effective manner. Credit is in short supply and threatened tight banking regulations are creating uncertainty and a general reluctance to invest.

In such conditions credit rating and banking relationships are crucial. In this environment central banks have maintained low interest rates but risk premiums, and premiums reflecting a general shortage of a supply of cash, continue to climb. The New Zealand central bank has changed its regulations for banks to force them to borrow more of their funds for longer periods at higher interest rates and the cost of this policy has been passed on to the market.

We have operated in this volatile environment now for over two years. DCHL group, however, has never been short of cash or reliant on emergency funding lines. It has continued to operate as 'best in class' in the short-term money markets. Bonds it has issued into the New Zealand wholesale market have been at a very sharp premium.

Each year Standard & Poor's reviews the financial plans of the combined Dunedin City Council and Dunedin City Treasury Limited. The outcome of the 25 November 2009 review was to confirm our AA-(long term)/A1+(short term) rating.

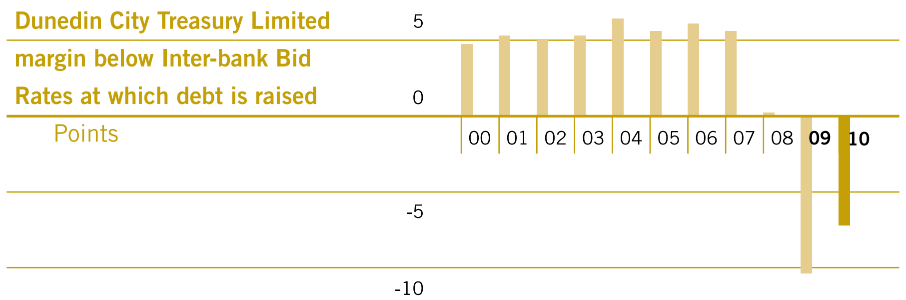
The group's external debt is managed through an appropriate mix of bonds, promissory notes, long-term government forestry debt and interest rate derivatives. As a matter of policy, the proportion of fixed rate debt is higher than variable rate debt. This is because the Council strikes its rates well 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 funds in this way as the size of the market remains quite small and our margins have bettered our peers. During the year the company secured borrowings at an average of 7 percentage points above the 90 day Inter-bank Bid Rate (compared to 10 points above last year). Tenders were oversubscribed by, on average, 2.9 times, compared to 1.9 times last year.

The company also manages the investment of the Dunedin City Council's Waipori Fund. This year a positive return of $4.8m was achieved compared to a loss of $1.6m last year. After a $4.07m payment ($3.98m last year) into the general funds of the Council, the value of the Waipori Portfolio improved to $67.6m from $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



\> The majestic top of Dunedin Railway Station.

\>> Dunedin CBD skyscape.

> DJ and DE locomotives waiting to depart Dunedin Railway Station with a Taieri Gorge train.

>> The Seasider high above Blueskin Bay.

WHAT WE DO

Taieri Gorge Railway Limited operates a tourist train on the Taieri Gorge Railway 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.

FINANCIAL HIGHLIGHTS

	2010 $'000	2009 $'000
Revenue	**5,057**	4,651
Net surplus for the year	**3**	14
Shareholder's funds	**1,701**	1,698
Total assets	**2,908**	2,537

WHAT WE DID THIS YEAR

At the beginning of the last season there was a great deal of uncertainty. Earlier strong growth had been interrupted by the global economic downturn and it was impossible to predict the likely reaction of potential visitors to the financial problems in their home countries. Now the season is over we are greatly relieved and pleased to be able to report that passenger numbers on our scheduled trains returned to the levels experienced two seasons ago. This has represented an excellent increase on the previous year.

The numbers of passengers carried on the daily scheduled trains increased 6.9% to 60,718 from 56,753. Cruise ship passengers were up 7.6% from 10,465 to 11,265, and the total number of customers carried across all market sectors was 79,931.

In the height of the season the company is busy but emphasis has also been placed on improving passenger numbers through the winter periods when the company has promoted such events as special dinner excursions to Middlemarch in close partnership with Middlemarch restaurants. In this current year bookings have again been strong. A highly successful rail event featuring a Vulcan railcar and heritage diesel locomotive was based around Middlemarch over Labour Weekend 2009.

Improving the quality of the customer experience is a crucial activity. Last year the company acquired twelve carriages from KiwiRail that had formerly operated on the Wellington to Wairarapa line. To date we are pleased to have refurbished two seating cars and one catering services car. Another two cars are almost complete and will be ready for use this spring.

The after-tax surplus of $3,000 compares to the $14,000 made last year. This was achieved after operational expenditure of $1.4m on workshop, carriages, locomotives and track – an increase on the $1.2m spent last year. In addition, a further capital expenditure $0.4m was invested in the commissioning of the new carriages.

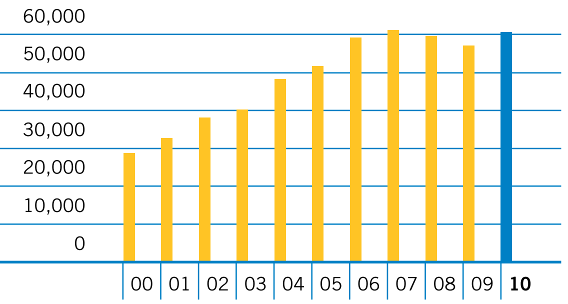
Dunedin is fortunate to have a company such as Taieri Gorge Railway Limited that is highly attractive to the large cruise ships now visiting Port Chalmers in greater numbers through the summer season. This trade has been steady and will remain beneficial for the city of Dunedin.

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

Taieri Gorge Railway Limited's annual passenger numbers on the daily Taieri River Gorge train service



environmental, social and economic performance, and corporate governance

> The Waipori Reserve, nurtured by City Forests Limited, supports a wide range of native flora and fauna.

>> Taieri Gorge Railway played a pivotal role in the Middlemarch Train Festival held on Labour Weekend 2009.

environmental, social and economic performance

For the year ended 30 June 2010

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 Energy Limited is committed over time to increasing its underground network in highly scenic areas. This year the company spent $784,000 eliminating the negative visual impact of power lines within Dunedin. Aurora also contributed $145,000 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 Limited 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

> Removing overhead lines in Kaikorai Valley Road, Dunedin.

>> Installing insulation in an elderly couples home as part of Aurora's contribution to Energy Smart.

> *DELTA* is a principal sponsor of Otago Rugby and its successful safety incentive programme leads to substantial donations to local charities.

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 shareholder's.

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.

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.

In total, group activity eliminated 81,200 tonnes of carbon dioxide from our environment. During the year the company's forests-stored carbon balance increased by 106,550 tonnes of CO_2 equivalent (84,120 tonnes last year). We have looked carefully at the diesel and electricity usage of our subsidiaries and have also tracked the CO_2 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 is heavily carbon positive.

SOCIAL – COMMUNITY INVOLVEMENT

Our community involvement continues to cover a wide range of civic, charitable, sporting and recreational activities. In 2010 this support comprised a combination of financial sponsorship or assistance, the provision of staff resources and other forms of non-financial donation from within the group's resources.

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

The promotion of sport and culture receives assistance from all companies across the group. The sponsorship of Otago Rugby by *DELTA* Utility Services Limited heads that list. The Otago Cricket Association, Otago Hockey Association, Fortune Theatre, Alexandra Rugby Club, Alexandra Blossom Festival, Sport Otago, Sevens with Attitude, Mountain Bike Otago, Otago Pipers Club and others have 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 Prostrate Cancer Foundation, United Way and the 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 $170,000.

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 and that 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.

The safety record across the four 'staffed' subsidiaries of *DELTA*, Citibus, City Forests and Taieri Gorge Railway improved. *DELTA* achieved record levels, from 0.15% down to 0.08% lost time injuries per 100,000 hours. Lost time accident numbers across the group were 1.18 per 100,000 hours worked.

> The coaches of Citibus provide an effective medium for promotive road safety messages (artist's impressions).

>> Taieri Gorge Railway's 'Ronald McDonald Train' to Hindon raised funds and provided a special outing for children.

Photo: Otago Daily Times

> Winter Waipori Forest.

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

group financial statistics

For the year ended 30 June

	2010 $'000	2009 $'000	2008 $'000	2007 $'000	2006 $'000	2005 $'000	2004 $'000	2003 $'000	2002 $'000	2001 $'000
Revenue	**233,568**	214,434	199,154	183,805	167,711	151,534	141,656	129,945	117,550	106,594
Operating surplus	**23,754**	13,914	14,057	22,290	26,334	28,155	25,585	27,860	24,479	19,875
Tax	**5,644**	5,210	5,419	(333)	(2,914)	11,821	11,825	11,827	10,656	4,275
Surplus after tax but before “one off” accounting adjustments	**18,110**	8,704	8,638	22,623	20,522	16,334	13,760	16,033	13,823	15,600
Net interest paid to Council on advance	**8,223**	10,333	9,514	7,000	1,000	1,000	1,000	1,215	1,000	1,500
Net surplus before shareholder interest	**26,333**	19,037	18,152	29,623	30,248	17,334	14,760	17,248	(32,050)	17,100
Cash flows from operating activities	**32,136**	29,261	25,567	42,652	39,473	34,857	35,314	32,471	29,566	26,084
Shareholder’s funds	**152,238**	151,743	154,167	150,887	138,068	147,010	104,215	93,537	83,808	51,717
Rate of return (on shareholder’s funds)	**11.9%**	5.7%	5.6%	15.0%	21.1%	11.1%	13.2%	17.1%	(39.4)%	30.2%
Shareholder’s advance	**112,000**	113,060	113,060	103,377	103,377	103,377	103,377	103,377	103,377	103,377
Dividend paid	**14,877**	9,468	11,210	12,500	9,000	19,000	8,500	8,000	5,000	7,000
Net interest paid to Council on advance	**8,223**	10,333	9,514	7,000	1,000	1,000	1,000	1,215	1,000	1,500
Total interest and dividends paid to Council	**23,100**	19,801	20,724	19,500	10,000	20,000	9,500	9,215	6,000	8,500
Total assets	**889,710**	753,146	683,764	609,973	575,016	551,982	474,783	447,524	443,871	366,018
Shareholder’s funds to total assets	**17.1%**	20.2%	22.5%	24.7%	24.0%	26.6%	21.9%	20.9%	18.9%	14.1%

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. Thereafter annual surpluses have been 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 $7.13m, a satisfactory improvement on the $1.79m recorded last year. This year the profit earned has been higher and it has been achieved on only a very marginal increase in the amount of capital invested.

Successful business involves generating a return for those who have provided capital for the business (shareholder's 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 $3.9m.

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.

	2010	2009	2008	2007	2006
	$'000	$'000	$'000	$'000	$'000
Economic valued added	**7,135**	1,792	(4,773)	994	3,800

statement of comprehensive income

For the year ended 30 June	Note	**Group 2010 $'000**	Group 2009 $'000	**Parent 2010 $'000**	Parent 2009 $'000
Profit and loss					
Revenue	3	**205,613**	196,869	**300**	300
Forest revaluation	32,3	**6,174**	3,311	**-**	-
Financial income	4	**21,781**	14,254	**22,066**	19,446
Total revenue		**233,568**	214,434	**22,366**	19,746
Less expenses					
Audit fees	5	**244**	205	**17**	17
Contractors		**25,244**	19,392	**-**	-
Depreciation		**18,276**	18,436	**1**	1
Directors fees		**728**	691	**109**	102
Employee expenses		**43,434**	40,554	**207**	195
Financial expenses	6	**39,400**	35,048	**9,734**	11,991
Raw materials and consumables used		**51,696**	53,711	**-**	-
Other expenses	5	**30,807**	32,156	**85**	87
Share of (profit)/loss of associates		**(15)**	327	**-**	-
Total expenditure		**209,814**	200,520	**10,153**	12,393
Profit before tax		**23,754**	13,914	**12,213**	7,353
Income tax expense	9	**5,644**	5,210	**-**	-
Net profit for the year		**18,110**	8,704	**12,213**	7,353
Other comprehensive income					
Forest land revaluation		**-**	162	**-**	-
Interest rate swap hedges gains/(losses) during period		**(1,093)**	(1,885)	**(290)**	(134)
Foreign exchange hedge gains/(losses) during period		**284**	623	**-**	-
Share of other comprehensive income of associates		**(1,929)**	(560)	**-**	-
Other comprehensive income		**(2,738)**	(1,660)	**(290)**	(134)
Total comprehensive income for the year, net of tax		**15,372**	7,044	**11,923**	7,219
Profit attributable to:					
Equity holders of the parent		**18,084**	8,700	**12,213**	7,353
Minority Interest		**26**	4	**-**	-
Net profit for the year		**18,110**	8,704	**12,213**	7,353
Earnings per share (cents)		**3.01**	1.83		
Total comprehensive income attributable to:					
Equity holders of the parent		**15,346**	7,040		
Minority Interest		**26**	4		
Total comprehensive income		**15,372**	7,044		

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

DUNEDIN CITY HOLDINGS 2010

statement of changes in equity

For the year ended 30 June	Note	Share Capital $'000	Reserves $'000	Retained Earnings $'000	Minority Interest $'000	Total Equity $'000
GROUP						
Balance at 1 July 2009		100	21,743	129,450	450	151,743
Comprehensive income						
Profit for the year		-	4,322	13,762	26	18,110
Other comprehensive income						
Forest land revaluation		-	-	-	-	-
Interest rate swap hedges gains/(losses) during period		-	(1,093)	-	-	(1,093)
Foreign exchange hedge gains/(losses) during period		-	284	-	-	284
Share of other comprehensive income of associates		-	(1,929)	-	-	(1,929)
Total comprehensive income for the year		-	15,840	13,762	26	15,372
Less distribution to owners	8	-	-	(14,877)	-	(14,877)
Equity at 30 June 2010		100	23,327	128,335	476	152,238

For the year ended 30 June	Note	Share Capital $'000	Reserves $'000	Retained Earnings $'000	Minority Interest $'000	Total Equity $'000
GROUP						
Balance at 1 July 2008		100	21,085	132,536	446	154,167
Comprehensive income						
Profit for the year		-	2,318	6,382	4	8,704
Other comprehensive income						
Forest land revaluation		-	162	-	-	162
Interest rate swap hedges gains/(losses) during period		-	(1,885)	-	-	(1,885)
Foreign exchange hedge gains/(losses) during period		-	623	-	-	623
Share of other comprehensive income of associates		-	(560)	-	-	(560)
Total comprehensive income for the year		-	658	6,382	4	7,044
Less distribution to owners	8	-	-	(9,468)	-	(9,468)
Equity at 30 June 2009		100	21,743	129,450	450	151,743

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

For the year ended 30 June	Note	Share Capital $'000	Reserves $'000	Retained Earnings $'000	Total Equity $'000
PARENT					
Balance at 1 July 2009		100	150	46,102	46,352
Comprehensive income					
Profit for the year		-	-	12,213	12,213
Other comprehensive income					
Interest rate swap hedges gains/(losses) during period		-	(290)	-	(290)
Total comprehensive income		-	(290)	12,213	11,923
Dividends	8	-	-	(14,877)	(14,877)
Equity at 30 June 2010		100	(140)	43,438	43,398

For the year ended 30 June	Note	Share Capital $'000	Reserves $'000	Retained Earnings $'000	Total Equity $'000
PARENT					
Balance at 1 July 2008		100	284	48,217	48,601
Comprehensive income					
Profit for the year		-	-	7,353	7,353
Other comprehensive income					
Interest rate swap hedges gains/(losses) during period		-	(134)	-	(134)
Total comprehensive income		-	(134)	7,353	7,219
Dividends	8	-	-	(9,468)	(9,468)
Equity at 30 June 2009		100	150	46,102	46,352

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

balance sheet

As at 30 June	Note	**Group 2010 $'000**	Group 2009 $'000	**Parent 2010 $'000**	Parent 2009 $'000
Equity					
Share capital	10	**100**	100	**100**	100
Associate company asset revaluation reserve	29, 11	**3,254**	5,183	**-**	-
Forest revaluation reserve	11	**20,160**	15,838	**-**	-
Cash flow hedge reserve	11	**(87)**	722	**(140)**	150
Retained earnings	12	**128,335**	129,450	**43,438**	46,102
Total equity attributable to Dunedin City Council		**151,762**	151,293	**43,398**	46,352
minority interest in subsidiary company		**476**	450	**-**	-
Total equity		**152,238**	151,743	**43,398**	46,352
Current liabilities					
Short-term borrowings	13	**8,985**	7,353	**-**	-
Trade and other payables	14	**22,840**	17,344	**1,527**	1,814
Derivative financial instruments	15	**12,750**	10,252	**216**	-
Other current liabilities	16	**1,006**	1,084	**5**	4
Provisions	17	**4,749**	4,235	**9**	12
Provisions for tax		**2,171**	-	**-**	-
Current portion of term borrowings		**91,634**	156	**-**	-
Total current liabilities		**144,135**	40,424	**1,757**	1,830
non-current liabilities					
Shareholder's advance – DCC	18	**112,000**	113,060	**112,000**	113,060
Term borrowings	19	**405,222**	372,442	**27,200**	23,260
Other liabilities	16	**320**	320	**-**	-
Provisions	17	**522**	505	**-**	-
Deferred tax liability	20	**75,273**	74,652	**(61)**	-
Total non-current liabilities		**593,337**	560,979	**139,139**	136,320
Total liabilities		**737,472**	601,403	**140,896**	138,150
TOTAL EQUITY AND LIABILITIES		**889,710**	753,146	**184,294**	184,502

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

As at 30 June	Note	**Group 2010 $'000**	Group 2009 $'000	**Parent 2010 $'000**	Parent 2009 $'000
Current assets					
Cash and cash equivalents	24	**47,903**	13,002	**41**	44
Trade and other receivables	25	**30,894**	21,689	**1,525**	1,729
Derivative financial instruments	15	**11,988**	10,260	**-**	-
Inventories	26	**5,711**	5,975	**-**	-
Prepayments		**726**	599	**-**	-
Tax refund due		**375**	99	**-**	-
Investments		**5,946**	5,771	**-**	-
Assets classified as held for sale	27	**10,603**	-	**-**	-
Total current assets		**114,146**	57,395	**1,566**	1,773
Non-current assets					
Investments in subsidiary company shares	28	**-**	-	**178,326**	178,326
Investments in associate companies	29	**14,224**	16,163	**4,400**	4,400
Investments in jointly controlled operations	30	**5,809**	5,605	**-**	-
Other investments	31	**234,078**	168,910	**-**	-
Forestry assets	32	**99,840**	94,035	**-**	-
Property, plant and equipment	33	**419,844**	408,974	**2**	3
Intangible asset		**1,769**	2,064	**-**	-
Total non-current assets		**775,564**	695,751	**182,728**	182,729
TOTAL ASSETS		**889,710**	753,146	**184,294**	184,502

For and on behalf of the board of directors

Director
Paul R Hudson
8th September 2010

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 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Cash flows from operating activities					
Cash was provided from					
Receipts from customers		**203,309**	187,359	**393**	274
Interest received		**1,284**	10,975	**-**	28
Dividends received from an associate		**-**	-	**-**	88
Dividends from other equity investments		**25**	-	**19,335**	17,554
Subvention payments		**-**	-	**2,744**	1,662
		204,618	198,334	**22,472**	19,606
Cash was disbursed to					
Payments to suppliers and employees		**142,049**	140,452	**437**	428
Interest paid		**28,646**	24,160	**10,022**	12,055
Income tax paid		**1,668**	4,340	**-**	-
Net GST paid		**119**	121	**19**	19
		172,482	169,073	**10,478**	12,502
net cash inflows/(outflows) from operating activities	34	**32,136**	29,261	**11,994**	7,104
cash flows from investing activities					
Cash was provided from					
Sale of property, plant and equipment		**333**	1,497	**-**	-
Investments realised		**-**	366	**-**	-
		333	1,863	**-**	-
Cash was disbursed to					
Purchase of property, plant and equipment		**31,179**	33,158	**-**	-
Purchase of investments		**75,675**	58,586	**-**	-
		106,854	91,744	**-**	-
Net cash inflows/(outflows) from investing activities		**(106,521)**	(89,881)	**-**	-

For the year ended 30 June	Note	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Cash flows from financing activities					
Cash was provided from					
Proceeds from borrowings		**125,226**	70,948	**3,940**	3,650
		125,226	70,948	**3,940**	3,650
Cash was disbursed to					
Repayment of borrowings		**1,063**	1,404	**1,060**	-
Dividends paid		**14,877**	18,678	**14,877**	18,678
		15,940	20,082	**15,937**	18,678
Net cash inflows/(outflows) from financing activities		**109,286**	50,866	**(11,997)**	(15,028)
Net increase/(decrease) in cash, cash equivalents and bank overdraft		**34,901**	(9,754)	**(3)**	(7,924)
Cash and cash equivalents at the beginning of the year		**13,002**	22,756	**44**	7,968
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**47,903**	13,002	**41**	44
Composition of cash					
Cash and cash equivalents		**47,903**	13,002	**41**	44
Bank overdraft		**-**	-	**-**	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**47,903**	13,002	**41**	44

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 2010.

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 8 September 2010.

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 shareholder's 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.

Goods and Service Tax (GST)

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

Taxation

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

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

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

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

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

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

Property, plant and equipment

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

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

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

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

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

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

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

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

Assets held under finance leases are depreciated.

Depreciation rates and methods used 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.

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 2010 $'000	Group 2009 $'000	**Parent 2010 $'000**	Parent 2009 $'000
3.	**OPERATING REVENUE**				
	Sales revenue	**205,575**	196,495	**300**	300
	Gain on sale of assets	**38**	374	**-**	-
	Forest revaluation	**6,174**	3,311	**-**	-
		211,787	200,180	**300**	300
4.	**FINANCIAL INCOME**				
	Subvention income	**-**	-	**2,597**	1,659
	Interest on advances to related parties	**18,369**	11,410	**-**	11
	Interest on other investments	**1,392**	2,322	**-**	-
	Dividends	**-**	-	**19,335**	17,642
	Net gain on foreign currency transactions	**1,886**	388	**-**	-
	Gain on interest rate swap settlement	**134**	134	**134**	134
		21,781	14,254	**22,066**	19,446

No interest was earned on impaired or restructured assets.

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
5. OTHER EXPENSES				
Audit fees – for audit of financial statements	**202**	189	**17**	17
– for other audit services	**42**	16	**-**	-
Total audit fees	**244**	205	**17**	17
Bad debts written off	**100**	72	**-**	-
Impairment of intangible assets	**296**	546	**-**	-
Increase/(Decrease) in impairment provision for receivables	**(81)**	147	**-**	-
Donations	**15**	41	**-**	-
Loss on sale of assets	**38**	489	**-**	-
Rental expense on operating leases	**2,497**	2,520	**6**	6
Research expenditure	**78**	66	**-**	-
Other expenses	**27,864**	28,275	**79**	81
Total other expenses	**30,807**	32,156	**85**	87
6. FINANCIAL EXPENSES				
Interest – related parties	**8,223**	10,333	**9,734**	11,991
Interest – term loans	**31,177**	25,170	**-**	-
Fair value loss/(gains) on interest rate hedges transferred from equity	**-**	(455)	**-**	-
Total financial expenses	**39,400**	35,048	**9,734**	11,991

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.

Number of shares		
Shares at year end	**600,000,000**	600,000,000
Weighted average number of ordinary shares	**600,000,000**	475,000,000
Basic earnings per share	**3.01 cents**	1.83 cents

Diluted earnings per share

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

8. DIVIDENDS

			Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Interim dividend	Dec	0.25cents /share	**1,500**	1,500	**1,500**	1,500
Final dividend	June	2.22cents/share	**13,377**	7,968	**13,377**	7,968
			14,877	9,468	**14,877**	9,468

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
9. INCOME TAX				
Operating surplus – continuing operations	**23,754**	13,914	**12,213**	7,353
– discontinued operations	**-**	-	**-**	-
Operating surplus before income tax	**23,754**	13,914	**12,213**	7,353
Tax thereon at 30%	**7,126**	4,174	**3,664**	2,206
Plus/(Less) the tax effect of differences				
Revenue not liable for taxation	**(866)**	1,019	**(3,664)**	(2,206)
Expenditure not deductible for taxation	**354**	189	**-**	-
Under/(Over) tax provision in prior years	**145**	(172)	**-**	-
Tax effect of change to building depreciation	**2,442**	-	**-**	-
Tax effect of rate change	**(3,557)**	-	**-**	-
Tax effect of differences	**(1,482)**	1,036	**(3,664)**	(2,206)
Tax expense	**5,644**	5,210	**-**	-
Effective tax rate	**23.8%**	37.4%	**0%**	0%
Represented by				
Current tax provision	**5,350**	3,041	**-**	-
Deferred tax provision	**395**	2,336	**-**	-
Under/(Over) tax provision in prior years	**(101)**	(167)	**-**	-
Income tax	**5,644**	5,210	**-**	-
Imputation credit account				
Balance at the beginning of the year	**6,832**	8,350	**7,539**	8,680
Credits attached to dividends received	**11**	-	**-**	2,917
Taxation payments made	**1,617**	2,531	**-**	-
Credits attached to dividends paid	**(6,376)**	(4,049)	**(6,376)**	(4,058)
Balance at the end of the year	**2,084**	6,832	**1,163**	7,539

In this last financial year Dunedin City Holdings Limited, certain of its subsidiaries and the Dunedin City Council have formed an income tax consolidated group. What this means is that the Council and the other companies within the group will be taxed as a single entity and will each be jointly and severally liable for the groups' income tax liability.

At 30 June 2010 Dunedin City Holdings Limited had direct access to consolidated group imputation credits totalling $0.7m and direct access to individual imputation credit account balances (that predates the joining of the income tax consolidated group) of $1.16m.

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
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 Limited has issued additional shares of $1 each in favour
of the Dunedin City Council. The shares carry equal voting rights and are uncalled. The amounts and dates of issue are:

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

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
11. RESERVES				
Forest revaluation reserve				
Balance at beginning of the year	**15,838**	13,358		
Net revaluations of forest	**4,322**	2,318		
Net revaluation of forest land	**-**	162		
Balance at the end of the year	**20,160**	15,838		
Hedging reserve				
Balance at beginning of the year	**722**	1,984	**150**	284
Gain/(Loss) recognised on cash flow hedges:				
Interest rate swaps/fx forwards	**(1,156)**	(1,746)	**-**	(134)
Deferred tax arising on hedges (note 20)	**347**	484	**-**	-
Gain on settlement of interest rate swaps to equity	**-**	-	**-**	-
Balance at the end of the year	**(87)**	722	**0**	150

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to interest payments and foreign exchange transactions that have not yet occurred.

	Group 2010 $'000	Group 2009 $'000
Associate company asset revaluation reserve		
Balance at beginning of the year	**5,183**	5,743
Gain/(Loss) recognised on cash flow hedges/assets	**(1,929)**	(560)
Balance at end of year	**3,254**	5,183

The reserve comprises assets within Dunedin International Airport Limited.

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
12. RETAINED EARNINGS				
Balance at the beginning of the year				
Group companies	**123,015**	125,774	**46,102**	48,217
Associate companies	**6,435**	6,762	**-**	-
	129,450	132,536	**46,102**	48,217
Net profit for the year	**18,110**	8,704	**12,213**	7,353
Dividend distributions	**(14,877)**	(9,468)	**(14,877)**	(9,468)
Minority share of surplus	**(26)**	(4)	**-**	-
Transfer to reserves – forest (note 11)	**(4,322)**	(2,318)	**-**	-
Balance at the end of the year	**128,335**	129,450	**43,438**	46,102
Represented by				
Group companies	**121,885**	123,015	**43,438**	46,102
Associate companies	**6,450**	6,435	**-**	-
Balance at the end of the year	**128,335**	129,450	**43,438**	46,102
13. SHORT TERM BORROWINGS				
Consolidated Group				
Bank loans repayable within one year	**8,985**	7,353	**-**	-

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 7.2% (2009: 4.2%).

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
14. TRADE AND OTHER PAYABLES				
Trade payables	**22,639**	17,236	**10**	11
Due to related parties – subsidiaries	**-**	-	**1,517**	1,784
– Dunedin City Council	**93**	63	**-**	-
Accruals	**108**	45	**-**	19
	22,840	17,344	**1,527**	1,814

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

	2010 $'000 Asset	2010 $'000 Liability	2009 $'000 Asset	2009 $'000 Liability
15. DERIVATIVE FINANCIAL INSTRUMENTS – GROUP				
Fair value				
Forward foreign exchange contracts	**1,649**	**57**	1,184	17
Interest rate swaps	**10,339**	**12,593**	9,076	10,235
	11,988	**12,750**	10,260	10,252
Analysed as:				
Non-current	**-**	**-**	-	-
Current	**11,988**	**12,750**	10,260	10,252
	11,988	**12,750**	10,260	10,252
DERIVATIVE FINANCIAL INSTRUMENTS – PARENT				
Fair value				
Interest rate swaps	**-**	**216**	-	-
Analysed as:				
Non-current	**-**	**-**	-	-
Current asset	**-**	**216**	-	-
	-	**216**	-	-

For the year ended 30 June	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
16. OTHER LIABILITIES				
(i) Current liabilities				
GST payable	**510**	955	**5**	4
Other current liabilities	**496**	129	**-**	-
	1,006	1,084	**5**	4
(ii) Non-current liabilities				
Other non-current liabilities	**320**	320	**-**	-
	320	320	**-**	-
17. PROVISIONS				
(i) Current liabilities				
Long service leave	**254**	124	**-**	-
Annual leave	**3,679**	3,514	**9**	12
Gratuities	**197**	224	**-**	-
Sick leave	**158**	90	**-**	-
Other provisions	**461**	283	**-**	-
	4,749	4,235	**9**	12
(ii) Non-current liabilities				
Long service leave	**280**	265	**-**	-
Gratuities	**242**	240	**-**	-
	522	505	**-**	-

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
18. SHAREHOLDER'S ADVANCE				
Consolidated Group and Parent Company				
Balance at the end of the year	**112,000**	113,060	**112,000**	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 the cash payment to Council was 7.29% ($8.2m) on the advance. In 2009 the gross interest on the debt averaged 9.14% ($10.3m).

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
19. TERM BORROWINGS (secured)				
Multi-option note facility	**394,408**	361,869	**-**	-
Forestry loans	**10,814**	10,572	**-**	-
Finance lease (refer to note 23)	**-**	1	**-**	-
Due to subsidiaries	**-**	-	**27,200**	23,260
	405,222	372,442	**27,200**	23,260

The term borrowings are secured against certain assets and undertakings of the group.
The Dunedin City Treasury Limited multi-option note facility was increased by $250 million to $600 million in September 2008. Three independent banks have underwritten the facility to the amount of $65 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 3 years, maturing 14/6/13 at a coupon rate of 5.55%
d) $40m issued for 8 years, maturing 15/11/13 at a coupon rate of 7.07%
e) $75m issued for 5 years, maturing 25/11/14 at a coupon rate of 6.40%
f) $50m issued for 10 years, maturing 15/11/16 at a coupon rate of 6.79%
g) $60m issued for 10 years, maturing 15/10/17 at a coupon rate of 7.81%
h) $15m issued for 10 years, maturing 17/12/18 at a coupon rate of 6.85%

The forestry loans are from the Ministry of Forestry. They are fixed rate loans secured by registered first mortgage over certain land assets and are covered by repayment insurance. Each loan is associated with an individual stand of trees and is repayable on the harvesting of the stand.

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
19. TERM BORROWINGS (SECURED) CONTINUED				
The repayment period on the term borrowings is as follows:				
Repayable between one to two years	**115,185**	107,868	**-**	-
Repayable between two to five years	**156,526**	131,396	**27,200**	23,260
Repayable later than five years	**133,511**	133,178	**-**	-
	405,222	372,442	**27,200**	23,260

The weighted average interest rate for the multi-option note facility at year end, inclusive of any current portion, was 6.0% (2009: 6.0%).

The weighted average interest rates for the forestry loans ranged between 4.5% and 6.5%, (2009: between 4.5% and 6.5%).

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:

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Multi-option note facility	**498,407**	366,857	**-**	-
Forestry loans	**10,814**	10,575	**-**	-

20. DEFERRED TAX

Group, 2010, $'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	53,606	-	(733)	-	52,873	52,873
Employee benefits	(1,329)	-	(98)	(1,427)	-	(1,427)
Forest	13,928	-	801	-	14,729	14,729
Forest costs capitalised	8,306	-	(54)	-	8,252	8,252
Other Investments	145	-	932	(52)	1,129	1,077
Hedge reserve – foreign exchange contracts	349	86	-	-	435	435
Hedge reserve – interest rate swaps	(353)	(392)	79	(666)	-	(666)
Balance at the end of the year	74,652	(306)	927	(2,145)	77,418	75,273
Group, 2009, $'000						
Property, plant and equipment	53,011	-	595	(38)	53,644	53,606
Employee benefits	(1,211)	-	(118)	(1,329)	-	(1,329)
Forest	12,935	-	993	-	13,928	13,928
Forest capitalised costs	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
Parent, 2010, $'000						
Revaluations of interest rate swaps	-	61	-	61	-	(61)
Parent, 2009, $'000						
Revaluations of interest rate swaps	-	-	-	-	-	-

	Group 2010 $'000	Group 2009 $'000
21. CONTINGENT LIABILITIES		
Performance bonds	**4,423**	4,625

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.

	Group 2010 $'000	Group 2009 $'000
22. CAPITAL EXPENDITURE COMMITMENTS		
Plant and equipment	**10,056**	8,599

The parent company has no capital expenditure commitments. (2009 nil)

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
23. LEASE COMMITMENTS				
(i) Minimum operating lease payments				
Payable within one year	**2,283**	2,335	**6**	6
Payable between one to five years	**4,496**	6,203	**-**	-
Payable later than five years	**485**	840	**-**	-
	7,264	9,378	**6**	6
(ii) Minimum finance lease payments				
Minimum future lease payments:				
Payable within one year	**-**	4	**-**	-
Payable between one to five years	**-**	1	**-**	-
Payable later than five years	**-**	-	**-**	-
	-	5	**-**	-

Finance leases are employed to finance some office photocopier equipment.

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
24. CASH AND CASH EQUIVALENTS				
Cash and bank	**47,903**	13,002	**41**	44

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.

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
25. TRADE AND OTHER RECEIVABLES				
Trade receivables	**24,185**	17,757	**-**	-
Estimated impairment	**(126)**	(207)	**-**	-
	24,059	17,550	**-**	-
Due from related parties:				
– Subsidiaries	**-**	-	**1,525**	1,729
– Other related parties	**6,749**	4,123	**-**	-
Other current receivables	**86**	16	**-**	-
	30,894	21,689	**1,525**	1,729

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

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
26. INVENTORIES				
Raw materials and stores	**2,966**	3,170	**-**	-
Work in progress	**1,811**	2,025	**-**	-
Finished goods	**934**	780	**-**	-
	5,711	5,975	**-**	-
27. CURRENT ASSETS HELD FOR SALE				
Development property	**8,820**	-	**-**	-
Development in progress	**1,579**	-	**-**	-
New Zealand carbon credits	**204**	-	**-**	-
	10,603	-	**-**	-
28. INVESTMENTS IN SUBSIDIARY COMPANY SHARES				
Shares in subsidiary companies	**-**	-	**178,326**	178,326

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.

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)	**44.6**	37.7
Waitaki Wind Limited (energy)	**25.0**	-

For the purpose of applying the equity method of accounting, the financial statements of Dunedin International Airport Limited, Otago Chipmill Limited and the 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:

	Group 2010 $'000	Group 2009 $'000
Associates net assets (group share)		
Total assets	**29,914**	30,772
Less total liabilities	**(15,690)**	(14,609)
Net assets	**14,224**	16,163
Associates surplus/(deficit) for the period (group/share)		
Revenue	**5,787**	5,483
Surplus for the period	**15**	(246)
Increase/(Decrease) in asset valuation reserve	**(1,929)**	(560)
Total recognised revenues and expenses	**(1,914)**	(806)
Opening carrying value	**16,163**	17,132
Dividends	**(25)**	(163)
Closing carrying value	**14,224**	16,163

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)	**44.6**	37.7
Interest in associate companies	**4,400**	4,400

The associate companies have a balance date of 30 June.

30. INVESTMENT IN JOINTLY CONTROLLED OPERATIONS

	Percentage Interest Held	
Luggate Park Development	**50.0**	50.0

	Group 2010 $'000	Group 2009 $'000
Long-term advance		
Long-term advance representing a 50% share in the land value of Luggate Park	**5,298**	5,288
Investment in development property		
Land purchase	**-**	49
House development	**-**	99
Land development in progress	**511**	169
Total investment in development property	**511**	317
Total investment in jointly controlled operations at Luggate Park	**5,809**	5,605
Interest in joint venture		
Current assets	**16**	13
Non-current assets		
Development property	**516**	317
Total assets	**532**	330
Current liabilities		
Westpac Banking Corporation loan	**477**	429
Other	**283**	48
Retained earnings	**(228)**	(147)
Total equity and liabilities	**532**	330
Revenue	**2**	-
Less expense	**84**	147
Net (deficit) for the year	**(82)**	(147)

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
31. INVESTMENTS – NON-CURRENT				
Advances due from Dunedin City Council				
Maturity 1-5 years	**34,155**	25,251	**-**	-
Maturity over 5 years	**198,256**	142,042	**-**	-
	232,411	167,293	**-**	-
Shares and units in other companies and funds	**36**	11	**-**	-
Mortgage receivables				
Maturity 1-5 years	**1,631**	510	**-**	-
Maturity over 5 years	**-**	1,096	**-**	-
	1,631	1,606	**-**	-
Total other investments	**234,078**	168,910	**-**	-

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 6.8% (2009: 6.9%).

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.

Acquisition of business

Name of business acquired	Principal activity	Date of acquisition	Assets acquired	Cost of acquisition
2010				
Nil	-	-	-	-
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

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

Net assets acquired 2009:	Book value $'000	Fair value adjustment $'000	Fair value on acquisition $'000
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
Net assets acquired 2009:	**$'000**	**$'000**	**$'000**
GI Electrical			
Current assets			
Inventory	6	-	6
Non-current assets			
Property, plant and equipment	44	-	44
	50	-	50
(Profit)/Goodwill on acquisition			400

32. FORESTRY ASSETS

	Group 2010 $'000	Group 2009 $'000
Balance at the beginning of the year	**94,035**	90,614
Add: Costs capitalised in establishing forests during the year	**2,164**	2,348
Increase in forest from acquisition		-
Revaluation	**6,174**	3,311
Less: Value of logs harvested	**(2,533)**	(2,238)
	99,840	94,035
Gains/(Losses) arising from changes in fair value less point of sale costs:		
Attributable to physical changes	**2,714**	5,013
Attributable to price changes	**(1,524)**	(1,592)
Attributable to carbon value change	**4,615**	-

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 2010 the company owned stands of trees on 15,997 hectares of a total land holding of approx 19,935 hectares.

During the year the company harvested approx 241,961 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.

New Zealand Carbon Credits

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

A forest owner with forests established after 31st December 1989, under the Act, may opt to join the Emissions Trading Scheme. Post 1989 forests will earn carbon credits (NZU's) from 1st January 2008 and these may be traded within New Zealand or converted into Assigned Amount Units (AAU's) and sold internationally. City Forests Limited completed registration of the Post 1989 forests under the Emissions Training Scheme in January 2010. These forests have been sequestering carbon under the scheme since 1st January 2008.

Subsequent to our registration, the New Zealand Government allocated City Forests Limited 161,487 NZU's being the carbon sequested by these forests during the 2008 and 2009 calendar years. 150,000 credits have been sold during the year.

33. PROPERTY, PLANT AND EQUIPMENT

Group 2010, $'000	Land	Forest land	Buildings	Roads & bridges	Network	Plant & equipment	Sub-total
Cost or valuation							
Balance at beginning of period	5,152	25,534	15,507	5,218	361,101	21,866	434,378
Increase through acquisition	-	-	-	-	-	-	-
Purchases/Revaluation	150	-	1,426	334	24,208	1,367	27,485
Sales	-	-	-	-	-	(288)	(288)
Transfer to assets held for sale	-	-	-	-	-	(10)	(10)
Balance at end of period	5,302	25,534	16,933	5,552	385,309	22,935	461,565
Accumulated depreciation							
Balance at beginning of period	-	-	1,617	2,830	49,059	9,990	63,496
Depreciation	-	-	276	127	11,662	1,760	13,825
Impairment	-	-	-	-	-	-	-
Sales	-	-	-	-	-	(254)	(254)
Transfer to assets held for sale	-	-	-	-	-	-	-
	-	-	1,893	2,957	60,721	11,496	77,067
Balance at end of period	5,302	25,534	15,040	2,595	324,588	11,439	384,498
Comprising – Cost	5,302	-	15,040	2,595	324,588	11,439	358,964
– Valuation	-	25,534	-	-	-	-	25,534

Group 2010, $'000	Sub-total vehicles	Motor equipment	Office	Locomotives track	Railway	Construction	Total Cost
Cost							
Balance at beginning of period	434,378	46,510	1,899	2,290	409	10,952	496,438
Increase through acquisition	-	-	-	-	-	-	-
Purchases/Revaluation	27,485	4,089	64	432	-	-	32,070
Sales	(288)	(1,155)	(22)	-	-	(2,674)	(4,139)
Transfer to assets held for sale	(10)	-	-	-	-	-	(10)
Balance at end of period	461,565	49,444	1,941	2,722	409	8,278	524,359
Accumulated depreciation							
Balance at beginning of period	63,496	21,438	1,148	1,199	183	-	87,464
Depreciation	13,825	4,173	149	128	1	-	18,276
Impairment	-	-	-	-	-	-	-
Sales	(254)	(950)	(21)	-	-	-	(1,225)
Transfer to assets held for sale	-	-	-	-	-	-	-
	77,067	24,661	1,276	1,327	184	-	104,515
Balance at end of period	384,498	24,783	665	1,395	225	8,278	419,844
Comprising – Cost	358,964	24,783	665	1,395	225	8,278	394,310
– Valuation	25,534	-	-	-	-	-	25,534

33. PROPERTY, PLANT AND EQUIPMENT

Group 2009, $'000	Land	Forest land	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	-	-	-	-	-	10
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	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 – CONTINUED

	Parent 2010 $'000	Parent 2010 $'000
Office equipment at cost		
Balance at beginning of period	**10**	10
Increase through acquisition	**-**	-
Purchases	**-**	-
Sales	**-**	-
Balance at end of period	**10**	10
Accumulated depreciation		
Balance at beginning of period	**7**	6
Depreciation	**1**	1
Sales	**-**	-
Balance at end of period	**8**	7
Property plant and equipment at end of period	**2**	3

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

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
34. RECONCILIATION OF NET SURPLUS FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES				
Net surplus/(deficit) for the year	**18,110**	8,704	**12,213**	7,353
Share of net surplus/(deficit) in associate companies	**(15)**	327	**-**	-
Items not involving cash flows				
Depreciation	**18,276**	18,436	**1**	1
Depletion of forest	**2,533**	2,238	**-**	-
Deferred tax	**621**	1,492	**-**	-
Amortisation expense	**462**	546	**-**	-
Forest revaluation	**(6,174)**	(3,311)	**-**	-
Other non-cash items	**(266)**	(655)	**(134)**	(134)
Impact of changes in working capital items				
(Increase)/Decrease in trade and other receivables	**(9,205)**	353	**203**	(43)
(Increase)/Decrease in inventories	**264**	237	**-**	-
(Increase)/Decrease in prepayments	**(127)**	13	**-**	-
(Increase)/Decrease in tax refund due	**(276)**	1,533	**-**	-
Increase/(Decrease) in trade and other payables	**5,603**	143	**(289)**	(72)
Increase/(Decrease) in provision for tax	**2,171**	(572)	**-**	-
Increase/(Decrease) in other current liabilities	**232**	(145)	**-**	(1)
Items classified as investing or financing activities				
Gain on sale of property, plant and equipment	**(76)**	(374)	**-**	-
Loss on sale of property, plant and equipment	**3**	296	**-**	-
Net cash inflows/(outflows) from operating activities	**32,136**	29,261	**11,994**	7,104

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 2010, $'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	47,903	-	-	47,903
Trade and other receivables	30,894	-	-	30,894
Advances due from the DCC	5,946	34,156	198,255	238,357
Mortgage receivables	-	1,497	-	1,631
Derivative financial instruments	11,988	-	-	11,988
NZ carbon credits	204	-	-	204
	96,935	35,787	198,255	330,977

Group 2010, $'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	22,840	-	-	22,840
Borrowings	100,619	271,710	245,512	617,841
Derivative financial instruments	12,750	-	-	12,750
	136,209	271,710	245,512	653,431

Group 2009, $'000				
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
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
	142,973	131,396	246,238	520,607

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 2010 $'000	Group 2009 $'000
Maturing in less than one year	**32,500**	8,000
Maturing between one and five years	**61,500**	90,500
Maturing after five years	**225,500**	229,000
	319,500	327,500

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 multi–option facility debt is now $93m above (2009: $6m 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 2010 $'000	Parent 2009 $'000
Maturing in less than one year	**-**	-
Maturing between one and five years	**5,000**	5,000
Maturing after five years	**-**	-
	5,000	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 2010 $'000	Group 2009 $'000
Forward foreign exchange contracts	– fair value	**1,517**	1,089
	– nominal value	**25,202**	18,075
(sale of USD and purchase of NZD)			
Forward foreign exchange contracts	– fair value	**13**	58
	– nominal value	**425**	1,307
(sale of NZD and purchase of USD)			
Forward foreign exchange contracts	– fair value	**37**	2
	– nominal value	**1,135**	312
(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 2010 %	Group 2009 %	Parent 2010 %	Parent 2009 %
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 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Past due receivables					
Age analysis:	30-60 days	**1,219**	586	**127**	138
	60-90 days	**396**	171	**127**	138
	90 days plus	**1,882**	418	**1,143**	1,244

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 the year end rate of 0.690. A parallel shift of +1%/-1% in the NZD market interest rate from the year end 90 day 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.

2010, $'000	Carrying amount	Interest rate				FX			
		-100bp		+100bp		-10%		+10%	
		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Financial assets									
Derivatives – designated as cash flow hedges (interest rate swaps, forward currency deals separately disclosed)	11,998	-	(12,736)	-	11,763	-	(1,386)	-	1,695
Other financial assets	286,025	(2,798)	(2,798)	2,798	2,798	-	(564)	-	1,689
	298,023								
Financial liabilities									
Derivatives – designated as cash flow hedges (interest rate swaps, forward currency deals separately disclosed)	12,750	-	(14,170)	-	13,111	-	-	-	-
Other financial liabilities	617,841	3,524	3,524	(3,524)	(3,524)	-	-	-	-
	630,591								
TOTAL INCREASE/(DECREASE)		726	(26,180)	(726)	24,148	-	(1,950)	-	3,384

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 $4.0m of USD, and up to $0.3m of AUD 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 $112m from the Dunedin City Council in Dunedin City Holdings Limited is variable rate debt that is not hedged.

35.8 Fair value of financial instruments

Fair value measurements recognised in the statement of financial position

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

Level 1 Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2010, NZ $'000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	12,750	-	12,750
New Zealand carbon credits	204	-	-	204
	204	12,750	-	12,954
Financial assets				
Derivative financial assets	-	11,988	-	11,988
	-	11,988	-	11,988

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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.

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 2010 $'000	Group 2009 $'000
Sales of services to the Dunedin City Council:		
Contracting services	**12,813**	13,158
Interest income	**18,369**	11,409
Transport services	**391**	542
	31,573	25,109
Purchases of goods and services from the Dunedin City Council:		
Interest	**8,223**	10,333
Dividends	**14,877**	9,468
Materials purchased	**654**	524
Rates and property rentals	**976**	989
Administration and office services	**39**	19
	24,769	21,333
As at balance date:		
Receivable from Dunedin City Council	**244,812**	177,187
Payable to Dunedin City Council (inclusive of shareholder's advance)	**112,079**	113,123

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	**169**	917
Dividends	**25**	163
	194	1,080
Paid or payable to associate companies:		
City Forests Limited purchases from chip mill	**-**	18
As at balance date:		
Receivable from associate companies	**26**	88
Payable to associate companies	**14**	-

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, Taieri Gorge Railway Limited and *DELTA* Utility Services Limited paid $125,000 (2009: $147,000) for materials and mechanical services to 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 $886,000 (2009: $572,000) for materials to Blackhead Quarries Limited, an organisation of which Mr R D Liddell is a director. Blackhead Quarries Limited paid $3,000 (2009: $4,000) to *DELTA* Utility Services Limited for contacting services.

> *DELTA* Utility Services Limited paid $17,000 (2009: $3,000) for consulting, accounting and financial services to Enabling Technologies Ltd, an organisation of which Dr N Evans is a director.

> *DELTA* Utility Services Limited and Taieri Gorge Railway Limited paid $47,000 (2009: $8,000) 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 no contracting services (2009: $69,000) 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 $168,000 (2009:$28,000) and purchased services to a value of $17,000 (2009:$28,000) 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 no contracting services (2009: $2,903,000) to Jacks Point Limited an organisation of which Mr M O Coburn was a director. Jacks Point Limited provided no services (2009:$81,000l) to Aurora Energy Limited.

> *DELTA* Utility Services Limited sold contracting services to a value of $18,000 (2009:nil) to Lake Hayes Estate Limited an organisation of which Mr M O Coburn was a director.

> *DELTA* Utility Services Limited purchased services to a value of $85,000 (2009:nil) from Ruboc Holdings Limited an organisation of which Mr M O Coburn was a director. $7,000 of contracting services was sold by *DELTA* Utility Services Limited to Ruboc Holdings Limited.

> *DELTA* Utility Services Limited purchased no services from Scott Technology Limited (2009: $6,000), an organisation of which Mr S J McLauchlan is a director. $15,000 of contracting services was sold by *DELTA* Utility Services Limited to Scott Technology Limited in 2009.

> Aurora Energy Limited and *DELTA* Utility Services Limited sold contracting services to a value of $200,000 (2009: $7,000) to Lund South Limited, an organisation of which Mr S J McLauchlan is a director. *DELTA* Utility Services purchased services to a value of $24,000 (2009: $1,000)

> *DELTA* Utility Services Limited and Taieri Gorge Railway Limited purchased services to a value of $5,000 from Scenic Circle Hotels Limited an organisation of which Mr S J McLauchlan is a director.

> *DELTA* Utility Services Limited and Taieri Gorge Railway Limited purchased services to a value of $5,000 (2009:$5,000) from Cargill Hotel 2002 Limited an organisation of which Mr S J McLauchlan is a director.

> In the 2009 year *DELTA* Utility Services Limited sold contracting services to a value of $7,000 to a director Mr R D Liddell. No monies were outstanding as at 30 June 2010 (2009: nil).

> Citibus Limited paid $64,000 (2009: $58,000) for accounting services to Ms S Spiers, a close family member of a director.

> Taieri Gorge Railway Limited paid $17,000 (2009: $18,000) to Mr J Chapman for train staffing and workshop services.

> Mr S Wilson is an employee of *DELTA* Utility Services Limited. In the 2010 year, contracting services of $3,814 (2009:$3,730) were provided to Mr Wilson. $1,968 was outstanding as at 30 June 2010 (2009: $635).

> Mr L McLennan is an employee of *DELTA* Utility Services Limited. In the 2009 year, contracting services of $3,569 were provided to Mr McLennan. No monies were outstanding as at 30 June 2010 (2009: nil).

> Mr N Harwood is an employee of *DELTA* Utility Services Limited. In the 2010 year, contracting services of $1,110 were provided to Mr Harwood (2009:$30,023). No monies were outstanding as at 30 June 2010 (2009:$50).

> Mr J Walsh was an employee of *DELTA* Utility Services Limited. In the 2009 year contracting services of $3,996 were provided to Mr Walsh. No monies were outstanding as at 30 June 2010 (2009: nil).

	Group 2010 $'000	Group 2009 $'000	Parent 2010 $'000	Parent 2009 $'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	**2,748**	2,606	**316**	297

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

Parent company

The parent company has executed transactions with the Dunedin City Council (its owner) and its subsidiaries and associates (as listed in Notes 28 and 29). 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.

	Parent 2010 $'000	Parent 2009 $'000
Purchases of goods and services, payments made		
Dunedin City Council		
Dividends	**14,877**	9,468
Interest	**8,223**	10,333
Other	**10**	10
Subsidiaries	**1,512**	1,659
	24,622	21,470
Sales of goods and services, payments received		
Dunedin City Council	**-**	-
Subsidiaries		
Dividends	**19,335**	17,554
Other	**2,896**	1,970
Associates		
Dividends	**-**	88
	22,231	19,612

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. The standard to be applied to future financial statements is NZ IFRS 9. NZ IAS 39 is being replaced by NZ IFRS 9 through three phases: phase 1 classification and measurement, phase 2 impairment methodology and phase 3 hedge accounting. The new standard is required to be adopted for the year ended December 2013.
Amendments to NZ IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk.
The company has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

38. EVENTS AFTER BALANCE SHEET DATE

Change in company tax rate: The bill introducing tax changes announced in the 2010 budget passed its final stages on the 27th May 2010. The changes include the drop in company tax rate from 30% to 28% which applies for the 2011/2012 income year. It should be noted that the new tax rate will be used in deferred tax calculations for 2010/2011 and in some tax deferred tax calculations for 2009/10.

statutory information

statutory information on directors

RESPONSIBILITIES AND EXPERIENCE

Director	*Experience*	*Responsibilities*
Paul R Hudson	Company director, councillor	Chairman
J.P., B.Com., C.A.		Appointed 1993
Michael O Coburn	Company director	Non-executive director
F.N.Z.I.M., A.F.Inst.D.	Director, Arthur Barnett Limited	Appointed 2003
	Director, Lake Hayes Estate Limited	
	Director, New Zealand Land Trust Limited	
Norman G Evans	Company director	Non-executive director
D.B.A., M.B.A.,	Chairman, Enabling Pty Limited (Aus)	Appointed 2005
N.Z.C.E, M.Inst.D	Director, Upstart Angels Limited	
	Director, Enabling NZ Limited	
	Director, Halo Investment Management Limited	
	Director, Halo Fund No 1 Limited	
Ross D Liddell	Company director	Non-executive director
B Com, C.A.(P.P),	Chairman, James Maurice Properties Limited	Appointed 1999
A.C.I.S., A.F.Inst.D	Chairman, Palmer & Son Limited	
	Chairman, Palmer M H Limited	
	Chairman, Browns Barkly Limited	
	Chairman, Victory Lime 2000 Limited	
	Chairman, Viblock Limited	
	Director, A B Lime Limited	
	Director, Hunterfields Investments Limited	
	Director, Blackhead Quarries Limited	
	Director, McMahon Investments Limited	
Stuart J McLauchlan	Partner, G S McLauchlan & Co	Non-executive director
B Com, C.A.(P.P).,	Chairman, Highlanders Rugby Trust	Appointed June 2007
A.F.Inst.D.	Chairman, NZ Sports Hall of Fame	
	Chairman, Scott Technology Limited	
	Deputy Chairman, Pharmac	
	Director, A D Instruments Pty Limited	
	Director, Cargill Hotel 2002 Limited	
	Director, Dunedin Casinos Limited	
	Director, Scenic Circle Hotels Limited and subsidiaries	
	Director, Helicopters (NZ) Limited	
	Director, Hornchurch Limited	
	Director, Lund South Limited	
	Director, Otago & Southland Employers Assn	
	Director, South Canterbury Finance Limited and subsidiaries	
	Director, Southbury Corporation Limited	
	Director, University of Otago Foundation Studies Limited	
	Director, USC Investments Limited	
	Pro-Chancellor, University of Otago	

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

DIRECTORS' REMUNERATION AND BENEFITS

Parent company

Director	*$*	*Company*
Paul R Hudson	31,439	Dunedin City Holdings Ltd
Michael O Coburn	17,593	Dunedin City Holdings Ltd
Norman G Evans	17,593	Dunedin City Holdings Ltd
Ross D Liddell	17,593	Dunedin City Holdings Ltd
Stuart J McLauchlan	17,593	Dunedin City Holdings Ltd
Parent company total	**101,811**	

Subsidiaries

Director	*$*	*Company*
Michael O Coburn	21,750	Aurora Energy Ltd
	15,418	Citibus Ltd
	19,590	City Forests Ltd
	19,079	*DELTA* Utility Services Ltd
Norman G Evans	21,750	Aurora Energy Ltd
	15,418	Citibus Ltd
	19,590	City Forests Ltd
	20,579	*DELTA* Utility Services Ltd
Paul R Hudson	21,750	Aurora Energy Ltd
	21,008	Citibus Ltd
	22,750	City Forests Ltd
	19,079	*DELTA* Utility Services Ltd
Ross D Liddell	34,813	Aurora Energy Ltd
	15,418	Citibus Ltd
	35,000	City Forests Ltd
	36,169	*DELTA* Utility Services Ltd
	31,125	Dunedin City Treasury Ltd
Stuart J McLauchlan	24,625	Aurora Energy Ltd
	15,418	Citibus Ltd
	19,590	City Forests Ltd
	22,079	*DELTA* Utility Services Ltd
Raymond S Polson	45,625	Aurora Energy Ltd
	44,158	*DELTA* Utility Services Ltd
Bevan R N Dodds	nil	Citibus Ltd
	nil	Dunedin City Treasury Ltd
Athol J Stephens	nil	Dunedin City Treasury Ltd
Stephen M Wilson	nil	Dunedin City Treasury Ltd
Grant A Dodson	nil	Dunedin City Treasury Ltd
John E Farry	13,210	Taieri Gorge Railway Ltd
John M Chapman	8,858	Taieri Gorge Railway Ltd
F John McCall	8,858	Taieri Gorge Railway Ltd
Gary M Williams	8,858	Taieri Gorge Railway Ltd
Kate Wilson	8,858	Taieri Gorge Railway Ltd
Brian C Wolff	8,858	Taieri Gorge Railway Ltd
Subsidiaries Total	$619,281	
Group Total	$721,092	

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INSURANCE

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

DIRECTORS' BENEFITS

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

EVENTS SUBSEQUENT TO BALANCE DATE

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

EMPLOYEE REMUNERATION

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

Remuneration Range	*Parent Company*	*Subsidiaries*
$320,000-329,999	-	1
$230,000-239,999	-	1
$220,000-229,999	-	1
$210,000-219,999	-	-
$200,000-209,000	1	-
$190,000-199,999	-	-
$180,000-189,999	-	4
$170,000-179,999	-	2
$160,000-169,999	-	2
$150,000-159,999	-	-
$140,000-149,999	-	1
$130,000-139,999	-	4
$120,000-129,999	-	6
$110,000-119,999	-	6
$100,000-109,999	-	23

DUNEDIN CITY HOLDINGS 2010

parent company statement of service performance

The performance targets established in the 2009/2010 Statement of Corporate Intent for Dunedin City Holdings Limited and the results achieved For the Year Ended 30 June 2010 are as follows:

	Performance targets	*Outcome achieved*
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 2009/2010 to be completed by 31 July 2009.	The review of the draft 2009/2010 Statements of Corporate Intent reported to the Council for February 2009.
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 DCHL will be subject to change.
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 2009/2010 Statement of Intent, presented to the shareholder in February 2009, projected that the parent company surplus after tax would be $8.9m and that the shareholder's funds at year end would be $42.9m 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 $12.2m and higher than expected due to lower interest rates than anticipated. The shareholder's funds at the end of the period, at $43.4m, were slightly ahead of estimate. The dividends plus the interest on the shareholder's advance to the Dunedin City Council in February 2009 were projected to be $23.1m and this was the amount that was paid.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

audit report

TO THE READERS OF DUNEDIN CITY HOLDINGS LTD AND GROUP'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2010

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 on her behalf. The audit covers the financial statements and performance information included in the annual report of the company and group for the year ended 30 June 2010.

Unqualified Opinion

In our opinion:

- The financial statements of the company and group on pages 31 to 70:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
    - > the company and group's financial position as at 30 June 2010; 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 2010.
- Based on our examination the company and group kept proper accounting records.

The audit was completed on 8 September 2010, 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 2010 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 2010. 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

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