



DUNEDIN CITY HOLDINGS LIMITED

ANNUAL REPORT 2011





dunedin city holdings limited

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WHAT WE DO

We are an investment company and our purpose is to earn cash from our subsidiary companies to provide a steady flow of payments to the 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 seventeen years and will continue to do so into the future, responding to the needs of the Council and its ratepayers.

This financial year a total of \$15.6m was paid to the Council in dividends. Together with the \$7.6m 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 five years exceed \$106.3m and, as a result, progress towards the long-term goal of growth in shareholders' funds has stopped. This high level of distribution, requested by our shareholder, will continue for one more year.

OUR STRATEGY

Our strategy of 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 the current year it has been the recovery in forestry returns that has allowed an increased surplus.

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 to increase the level of shareholder's funds in the group becomes very difficult to achieve. 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 maintain investment in our businesses without interrupting the longer term strength in our cash flows.

our mission

COVER – OUR COMMUNITY.
ROSS CREEK RESERVOIR, DUNEDIN

The dam forming the Ross Creek Reservoir is New Zealand's oldest surviving dam, built in 1867. The water scheme was New Zealand's first major urban water supply, built to supply 20,000 people, and it still serves the city today.

The valve tower, dam and reservoir – originally called the Royal Albert Reservoir – have a New Zealand Historic Places Trust Level 1 classification.

The surrounding native forest hosts a number of popular walking tracks and a myriad of mountain bike tracks located higher in the catchment. A notable feature of the area is the impressive School Falls, a 20 metre cascade which carries waters from the creek's flood channel.

A large part of the water catchment is planted in forest owned by Dunedin City Holdings subsidiary company, City Forests Limited.

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



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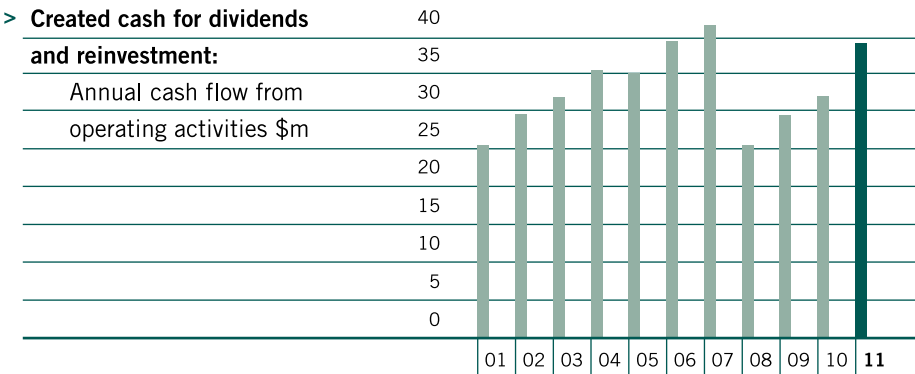
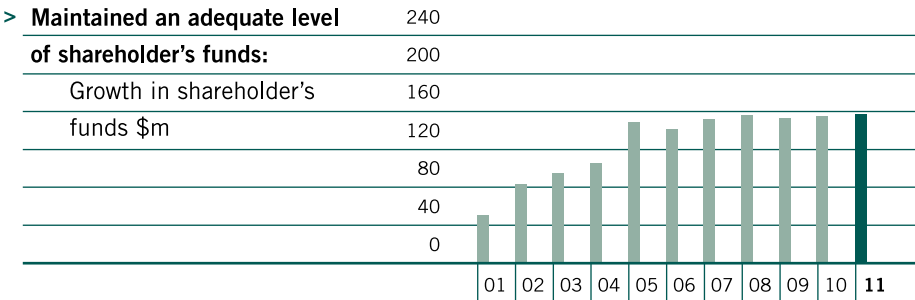
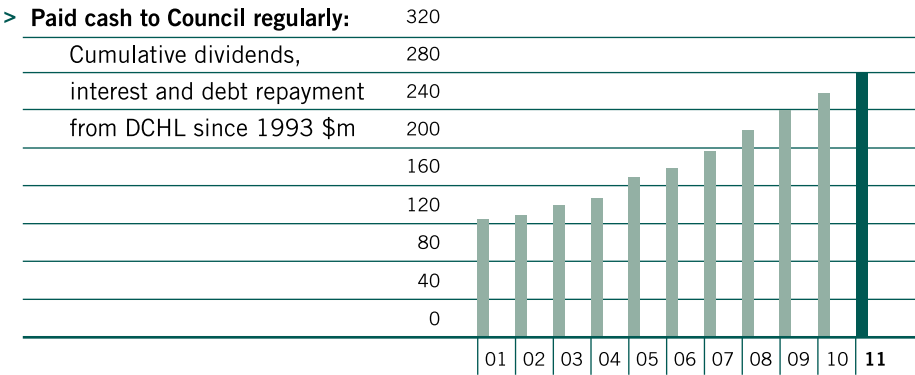
dunedin city holdings limited

our performance

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

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

WE HAVE:

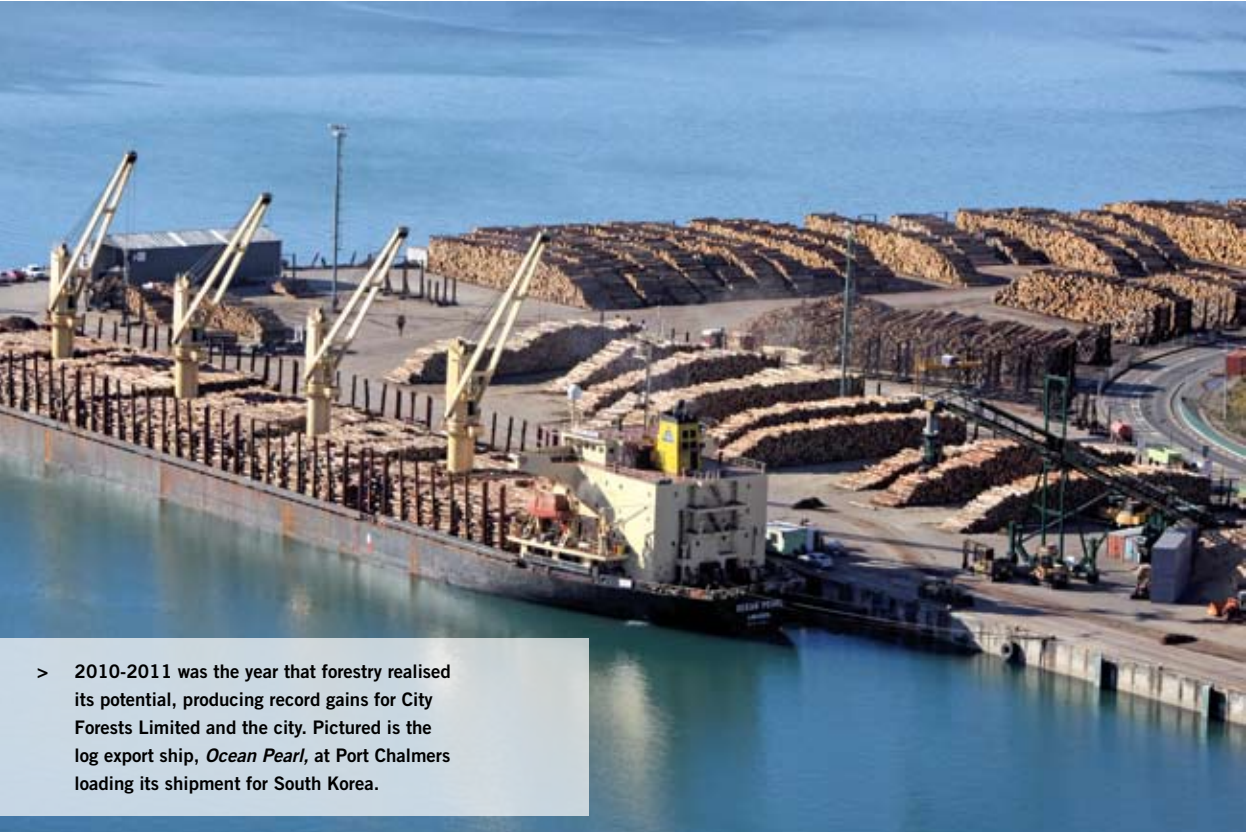


dunedin city holdings limited

our highlights 2010-11

WE HAVE:

- > Record group revenue from continuing businesses up 9.4% to \$245.8m
- > Improved cash flow from group operations up from \$32.1m to \$39.2m
- > Paid cash from the parent company to the Dunedin City Council of \$23.2m
- > Increased net profit after tax from continuing businesses to \$18.8m
- > Sold carbon credits, through City Forests Limited, to the value of \$6.85m
- > Improved annual revenue in DELTA Utility Services Limited by 19% to \$103.7m
- > Stemmed ongoing losses to the group by the sale of Citibus Limited
- > Made a substantial contribution to the region's social and environmental wellbeing



> 2010-2011 was the year that forestry realised its potential, producing record gains for City Forests Limited and the city. Pictured is the log export ship, *Ocean Pearl*, at Port Chalmers loading its shipment for South Korea.

chairman’s review

I am pleased to report another year of improved performance during which we have seen both revenues and cash flows exceed last year’s.

Despite a lacklustre economy, revenue from our continuing businesses has increased by 9.4% to \$245.8m. The net profit after tax from the continuing businesses, at \$18.85m, is also an improvement on last year.

One of the dominant characteristics of the world economy over the last year was the strengthening of commodity prices, and our forestry business has been a direct beneficiary of this. Growth in operational forestry returns and good carbon credit receipts have been the key factors in generating the improvement in group earnings. Elsewhere, in the contracting business, we have managed the same gross margin as last year but on a much higher turnover with the result that our return on capital has improved substantially. The after tax return achieved by *DELTA* Utility Services Limited this year was a staggering 30% on average shareholder’s equity.

But cash flow is more important than the level of profit and this year, thanks to improvements in the forestry business, the group markedly increased its cash flow performance. Part of this improvement was due to the improved export conditions of the forestry business and part from the sale of carbon credits. Cash generated from group operations rose from \$32.1m to \$39.2m and this is important to the group as enhanced cash flow lessens the amount of debt taken on during a period of high distributions to the shareholder.

The strategy of the Dunedin City Holdings Limited board has been to pursue opportunities for growth and there is no doubt that this strategy has been successful when you see the example of the returns from *DELTA* Utility Services Limited that has improved sales by 377% since 2001.

The underlying reason for our existence is to produce a reliable cash benefit to the Dunedin City Council. The cash that is paid to the Council is made up of dividends and interest paid on the shareholder’s advance. The combined total paid this year was \$23.2m and this meets the forecast in the Statement of Intent. The dividend element alone of this payment represents 96% of tax paid profit from both continuing and discontinued activity.

The board applies a constant focus on achieving an appropriate return from the overall investment portfolio. That focus has been highly successful and has allowed the DCHL group to return a considerable \$284m in cash to the Dunedin City Council over its life.

This focus also led us to sell the assets and business of Citibus Limited as it was our view that a higher return on assets could be achieved in the future by an exit from this investment that had been significantly impacted by changes in the tourism market.

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 2011 financial year, and for their understanding as we reacted to demanding market conditions.

Paul Hudson



Paul Hudson
Chairman

directors’ report

RESULTS FOR THE YEAR ENDED 30 JUNE 2011

	Group \$’000	Parent \$’000
Revenue	245,784	18,476
Operating surplus	26,554	4,982
Income tax	(7,704)	–
Net profit for the year	18,850	4,982
Loss from discontinued operations net of tax	(2,606)	–
Profit for the year	\$16,244	\$4,982

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.

Margins in the forestry business are very volatile. The key economic drivers of price, exchange rate and shipping charges, are constantly on the move and are out of the control of the board, but have generally been favourable. Positive economic drivers for good forestry performance have been with us since half-way through the last financial year and for the first time, in a long time, we have had relatively good conditions for a full trading year.

Margins in the electricity distribution business are controlled by regulation and, in general terms, the only way to achieve an increased profit after tax is to increase new capital investment. On the other hand, margins in the unregulated contracting and asset management market are more volatile, but a strong performance this year allowed the company to maintain last year’s gross margin on much increased sales, markedly improving the profit after tax.

The statement of cash flows records higher levels of cash generation from operating activities. The most welcome improvement in performance in this area came from City Forests Limited. The higher returns received from forest production and the sales of carbon credits transformed the performance of this company.

Even with improved cash generation, the term debt of the group has increased from \$405.2m to \$534.2m. The major contributing factor in such a large change was again the increase of \$85.8m in Dunedin City Council borrowing from Dunedin City Treasury Limited (\$59.4m increase last year). The Council debt of \$319.8m, owed to the central treasury company, will continue to be a sizeable factor in the group’s balance sheet in the foreseeable future.

This year the income statement is presented a little differently due to the sale of Citibus Limited. The profit

for the year from continuing operations is up slightly on last year. We also have other material items such as large changes in forestry valuation, carbon receipts, no deferred tax adjustments from the change in company tax rate and the effect of Citibus Limited. With each of these factors affecting the result, it is difficult to establish the change in profitability from normal trading. The table below isolates these factors and demonstrates the general trading improvement of more than \$4m made this year. This is more clearly evident from the cash flow statement.

	Group \$’000	Parent \$’000
Net profit for the year before forest revaluation, carbon credit revenue, deferred tax and Citibus Limited	13,317	8,978
Effect of material changes net of tax:		
Carbon trading receipts in		
City Forests Limited	4,795	2,285
Forest revaluation	738	6,174
Deferred tax effect from		
reducing corporate tax rate	–	1,067
Citibus Limited	(2,606)	(394)
Profit for the year	\$16,244	\$18,110

Shareholders’ funds have remained relatively stable as directors met the wish of the Dunedin City Council for distributions slightly in excess of earnings. The rate of return on shareholder’s funds at 10.6% (11.9% last year) fell slightly due to a negative effect from the sale of Citibus Limited.

In page two of this report three graphs record how directors intend to manage the affairs of the group to meet their objective of maximising returns 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. This has been the preference of the Council but could only ever be a temporary activity. The need to pull back distributions to a sustainable level has been clear to all readers of these statements over many years. A reduction has been signalled by the board for the 2012/13 financial year.

The Group Financial Statistics chart in this report, on page 27 just before statutory accounts, shows the increase in distributions to the Council that started in 2007. At the



> Aurora Energy tailors its energy network to provide for specific business and project demands, including Dunedin's new Forsyth Barr Stadium and the Remarkables Ski Field (pictured).

end of the 2006 financial year the term debt of the group was \$149m. Now, five years later, it is \$234m. Part of the reason for this has been the increased distribution and part the increased investment made in the businesses. However, it is a sign of strength within these businesses that this year we are able to sustain the extra \$5m interest on the increase in debt over the five-year period and still be able to show an increase in profit from the continuing businesses. The group would not perform to this level if the media claims of poor governance were accurate.

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. The increase in cash generation this year is extremely pleasing but next year we are aware that carbon credit receipts will be well below those received this year.

Late in 2010 the boards of Dunedin City Holdings Limited and Citibus Limited agreed that the group of businesses as a whole could achieve a greater return on their capital employed if that capital was withdrawn from Citibus Limited and applied elsewhere in the group. The business and assets of Citibus Limited were subsequently sold on 31st May to Invercargill Passenger Transport Limited, on the basis that all staff would be offered the opportunity to continue their employment in the new company. The corporate entity still remains and all the debt of the company has been settled. The cash remaining will return to the parent company at some time in the 2011/2012 financial year.

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 Limited, as the parent company of the group, earned a net profit after tax of \$4.98m compared to \$12.2m last year. Profit was down due to the loss recognised on the sale of the investment in Citibus Limited and the change in tax policy. The company has now joined a tax consolidated group with the Dunedin City Council, Aurora Energy Limited and DELTA Utility Services Limited. Now that the parent is in the same consolidated tax group it is no longer necessary to make subvention payments between the tax group companies in order to receive the benefit of the parent company losses. With the cessation of the subvention income parent company income is down on the previous year.

PARENT COMPANY PAYMENTS TO THE DUNEDIN CITY COUNCIL

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

	\$'000
Dividends	15,584
Interest payments on shareholder's advance	7,616
Total cash distribution to Council	23,200

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.



> DELTA was at the forefront of providing infrastructural remedial work after the series of Christchurch earthquakes, here outside The Palms shopping centre in Shirley.

SUBSIDIARY COMPANIES

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

ASSOCIATE COMPANIES

Dunedin International Airport Limited operates in a volatile environment and this year has been no exception. International services increased by 31% with international passenger numbers being up 33%. The alliance between Pacific Blue and Air New Zealand unfortunately resulted in significant passenger capacity being reduced between Auckland and Dunedin, and a drop of 2.4% in domestic passenger numbers was the outcome. That lack of capacity to and from Auckland has now been addressed by the entry of Jetstar but their operation did not commence until after the end of this financial year.

The profit from the operation of the airport over the year exceeded budget.

OUTLOOK

The world continues to try to recover from the global financial crisis. However, the path back to recovery has looked quite different from the normal way back from major recessions with those who have chosen to live in excess of their means affecting those who are showing strong signs of economic growth. Our proximity to Asia has hugely assisted Australia to lessen the impact on the NZ economy but the strength in commodity prices, reflected very positively this year in the group result, is by no means guaranteed to continue.

We have just experienced a rare period of strength in the timber market, slightly higher than expected New Zealand GDP growth, and a very poorly performing US dollar that

has pushed up the NZD to undermine forestry returns in the early part of the 2011/2012 year. Hopefully, continuing excellence in food commodity prices will eventually generate an improvement in national investor confidence. Strong confidence is required not only across the Otago region but also in Christchurch as there is no doubt that the impact of the earthquakes over the last six months has affected the returns from our tourism assets.

Our Statement of Intent submitted to the Council in February 2011 indicated that the group will maintain high cash payments with a commitment to pay a total of \$23.2m next year. It is likely that this will be met.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2011 are attached to this report.

AUDITORS

The principal auditor is Audit New Zealand, on behalf of the Controller and Auditor-General. Fees were paid to other audit service providers. The total of the audit fees for the group's continuing businesses for the year was \$222,000 and for the group including Citibus Limited \$245,000.

Paul Hudson

On behalf of the Board of Directors
Paul R Hudson, Chairman
15 September 2011

subsidiary
company
reports

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principal activities of the group

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

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

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

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

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



WHAT WE DO

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



FINANCIAL HIGHLIGHTS	2011 \$'000	2010 \$'000
Revenue	80,293	78,799
Net surplus for the year	12,791	15,583
Shareholder's funds	176,512	175,753
Total assets	368,165	357,332

WHAT WE DID THIS YEAR

Aurora Energy Limited is a highly consistent well-performing company. Revenue at \$80.3m was up slightly on the \$78.8m achieved last year. The surplus after tax at \$12.8m was down on last year's \$15.6m as the tax provision returned to normal levels. Last year tax was uncharacteristically small due to a substantial reduction in deferred tax generated by the corporate tax rate changing from next year to 28%.

Economic growth in the Otago area has slowed noticeably but infrastructure for those sectors of the economy that are growing must be provided. Capital expenditure is not always consistent when you have situations where electricity loads that have been gradually increasing over several years get to the point that a substation enhancement is needed for future security of supply. Further capital expenditure will always be required when a large commercial user undertakes an expansion of its activities and requires the supporting infrastructure.

To this end the company has been extremely busy in its substation renewal and expansion programmes. In and around Queenstown two new substations were commissioned primarily to future-proof energy supplies for the Remarkables and Cardrona ski fields. The Remarkables substation also supplies a dozen local homes and the Cardrona substation supplies over 130 properties at the foot of the mountain and the historic Cardrona Hotel. In Frankton another substation was developed to add to the reliability of supply in that area.

In Dunedin capital expenditure is more about the replacement of aged sections of the network than new builds to cater for future growth. In Dunedin the Ward Street substation, constructed in 1938, was largely rebuilt. At the same time the old building was carefully preserved as a fine example of art deco industrial architecture.

Growth can be reflected in the additional number of consumer connections to the network. The pattern over the years has been consistent. In Central Otago we achieved 2.0% growth (last year 2.0%) and in Dunedin there was 0.4% growth (last year 0.5%). At year end the total number of connections in Dunedin was 53,713 and in Central Otago was 28,849.

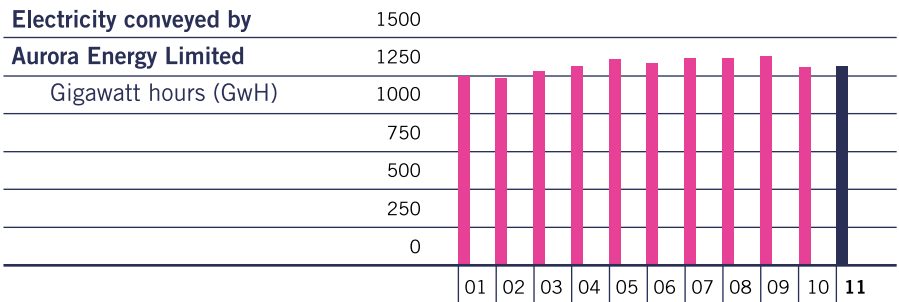
The cash generation performance of the company continues to be very strong and supports a high level of dividend to the parent company. This year the cash flow from operations improved from \$24.7m, last year to \$26.1m.

Looking forward there remains an unresolved issue with the industry regulator in respect of pricing. Considerable activity has been directed at providing information to the Commerce Commission in respect of the new five year regulatory regime, but the outcome is still to be determined. The company will continue to invest heavily in this process at it seeks to ensure that shareholder interests are protected.

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



- > The newly commissioned zone substation which supplies the Remarkables Ski Field near Queenstown.
- >> Dunedin's new Forsyth Barr Stadium is a significant new energy consumer on the Aurora network.

WHAT WE DO

City Forests Limited is a forest grower that actively harvests and markets the products from the 16,011 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	2011 \$'000	2010 \$'000
Revenue	53,454	51,074
Net surplus for the year	9,534	7,114
Shareholder's funds	83,838	75,961
Total assets	147,893	148,010

WHAT WE DID THIS YEAR

For the first time in many years the economic climate was both relatively stable and favourable throughout the year. Export log prices paid by our key South Korean customers increased to reflect the upward shift in Chinese demand that occurred and the NZD had yet to reach July 2011 highs. In order to take advantage of the improved market over the period the company increased forest production.

In addition the company sold carbon credits both for the current period and executed contracts in respect of future years. Cash flows from all activities fully funded dividends and lowered debt.

Trading conditions will continue to be volatile but many economic commentators are predicting that Asian infrastructure development will continue in the medium term to provide support to commodity prices. On the other hand demand in China sets the price level for northern Asia as a whole and demand fluctuates quickly in response to central economic policy adjustment. The weakness of the USD against the NZD is currently depressing returns but how long that may continue is unknown.

During the year the Milburn processing plant made further improvements in productivity and market development. However the timber market has not responded as strongly as the log market and timber demand in Australasia has been weak, reflecting the general economies on both sides of the Tasman. Demand in the USA has also been depressed and the weakness of the US dollar has further constrained returns from this market.

The commencement of carbon trading has had a major positive effect on the cash flows generated from the business. The company executed \$6.8m of carbon sales this year which is a significant boost to the annual result. These sales to date do not represent the total 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. This year, the adjustment has been minor and the gain in forest value is \$0.7m compared to \$6.2m last year.

Looking to the future, we believe that the only correct outlook is that volatile economic conditions will exist for some time.

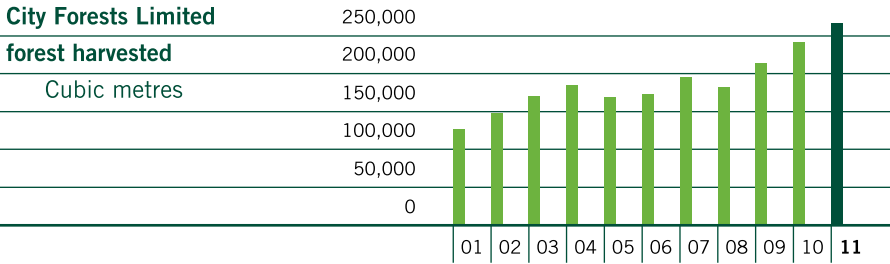
For more information visit www.cityforests.co.nz

THE PEOPLE

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

> Loading City Forests' logs en route for markets in South Korea.

>> Grading processed timber boards at City Forests' plant at Milburn, South Otago.



WHAT WE DO

DELTA Utility Services Limited is a multi-utility service contractor providing 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.



FINANCIAL HIGHLIGHTS (Consolidated)

	2011 \$'000	2010 \$'000
Revenue	103,708	87,008
Net surplus for the year	5,423	2,929
Shareholder's funds	19,167	17,744
Total assets	77,792	57,221

WHAT WE DID THIS YEAR

This company continues to grow rapidly. The economy has not been strong yet sales for the year advanced 19% to \$103.7m pushing through the \$100m barrier for the first time.

Not only did the company improve sales but return to shareholders on the value of the assets invested in *DELTA* is extremely high. The return of 16% on average equity achieved last year was good but the 30% achieved this year is nothing short of outstanding.

One of the key achievements of the year was winning two five year contracts in the Nelson region to provide electricity network fault repair services, capital works and maintenance to the local network owners Network Tasman Limited and Nelson Electricity Limited. These contracts now serve 44,800 consumers and will operate out of the four centres of Nelson city, Hope, Takaka and Murchison. The contract effectively doubles the size of the company's existing electrical services catchment in Dunedin and Lakes/Central Otago.

Much further south in Invercargill the company finally consolidated all its Southland operations into a new depot.

In Dunedin two high profile projects have involved the hi-tech application to the growing of grass. With the demolition of part of the former art gallery the boundaries of the University Oval were able to be extended so the venue can now be considered for more international cricket matches. The highly successful upgrade to the ground involved the laying of the new wicket and outfield, steelwork to expand the media centre and sightcreens, civil contracting for drainage and electrical services for new transformers and cabling.

Not far from the Oval was the extremely sensitive "ground breaking" contract for the growing of the turf under the roof of the new Forsyth Barr Stadium. This complex and very time critical operation involved sub-grade preparation, the application of sand, soil and compost in three separate

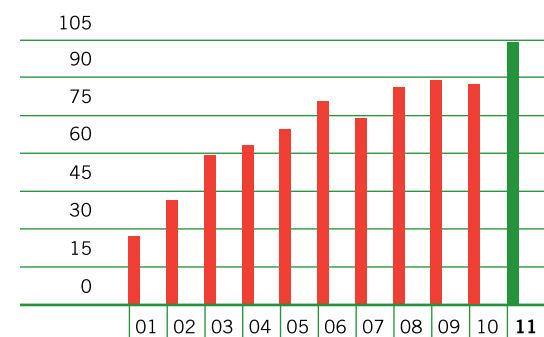
layers to within 5mm of level, 2500m of drainage, 400m of concrete dish channels, 40 sprinkler heads 15,700m of dripper irrigation, 1,300 square metres of artificial perimeter turf and an environmental monitoring system. The natural turf outcome, now reinforced by polyethylene fibres, is an outstanding surface that has pleased all who have had the good fortune to play on it.

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



- > *DELTA* showed tremendous initiative to propagate the world-first turf grown under a permanent stadium roof at Dunedin's Forsyth Barr Stadium.
- >> Major road works and subdivision development were undertaken by *DELTA* at Noble Village in Yaldhurst, Christchurch.



chairman's report

WHAT WE DO

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



Dunedin City Treasury Ltd

FINANCIAL HIGHLIGHTS

	2011 \$'000	2010 \$'000
Revenue	33,799	32,181
Net surplus for the year	9	7
Shareholder's funds	207	198
Total assets	586,631	511,297

WHAT WE DID THIS YEAR

For yet another year the financial markets have been under pressure as a number of northern hemisphere governments struggle with high levels of debt and the reaction to these struggles impact global markets. Credit is in short supply and banks are finding difficulties meeting new stress tests that are being imposed on them.

In such conditions credit rating, reputation and banking relationships remain crucial.

We have now operated in this volatile environment now for over three years. The DCHL group, however, has never been short of cash or reliant on emergency funding lines. It has continued to operate as "best in class" in the short-term money markets.

The company has been very active in the bond market. One \$90m issue reached maturity in April 2011 and this has been replaced and added to by a further \$60m. All bonds that it has issued into the NZ wholesale market have been at a very sharp price reflecting the respect that the company carries within the market.

Each year Standard & Poor's reviews the financial plans of the combined Dunedin City Council and Dunedin City Treasury Limited. The outcome of the September 2010 review was to revise upwards our AA-(long term)/A1+(short term) rating to a AA(long term)/A1+(short term). This upward revision was

made after a global review of local government credit.

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.

An historic benchmark for the company is the relative price at which the company can access funds from the promissory note market on its 90 day borrowing programme. 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 been better than our peers. During the year the company secured borrowings at an average of 6 percentage points above the 90 day Inter-bank Bid Rate (compared to 7 points above last year). Tenders were oversubscribed by, on average, 2.5 times, compared to 2.9 times last year.

The company also manages the investment of the Dunedin City Council's Waipori Fund. This year a positive return of \$6.2m was achieved compared to a profit of \$4.8m last year. After a \$4.07m payment (\$4.07m last year) into the general funds of the council, the value of the Waipori Portfolio improved to \$69.8m from \$67.6m.

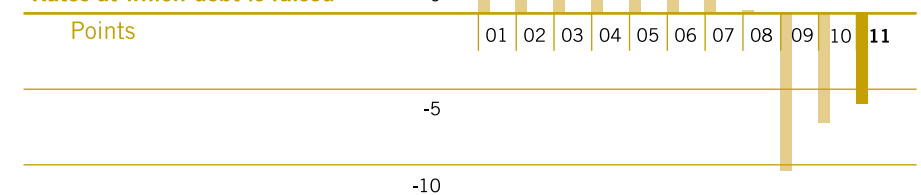
THE PEOPLE

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

Dunedin City Treasury Limited

margin below Inter-bank Bid

Rates at which debt is raised



> The foyer of the Dunedin City Council's Municipal Chambers, home of Dunedin City Treasury Limited.

>> Lake Mahinerangi, part of the Waipori power scheme and the origins of the Dunedin City Council's Waipori Fund.

WHAT WE DO

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



FINANCIAL HIGHLIGHTS

	2011 \$'000	2010 \$'000
Revenue	5,306	5,057
Net surplus for the year	3	3
Shareholder's funds	1,704	1,701
Total assets	3,293	2,908

WHAT WE DID THIS YEAR

The tourism market has been mixed with significant signs of weakness in some places and considerable strength in others. The traditional northern hemisphere markets have declined heavily as changes in currency, news of earthquakes and volcanic activity affected the perception of the value of a holiday in New Zealand in comparison with the alternatives available. Also, many Australian visitors were put off coming to the South Island by the earthquake activity in Christchurch. On the other hand traffic from China has increased. The character of the typical visitor and the requirements of that visitor are definitely changing and the trend is expected to continue.

The market sector that continues to go from strength to strength is the cruise sector as more ships visit Dunedin every year. Fortunately the outlook for this sector is also strong.

Reflecting the changes that have been happening in the marketplace the numbers of passengers carried on the daily scheduled trains decreased 4.3% to 58,097 from 60,718. However cruise ship passengers were up 12.8% from 11,265 to 12,704, and the total number of customers carried across all market sectors was 77,511, a reduction on last year's overall total figure of 79,931.

Improving the quality of the customer experience is an ongoing task. Carriage upgrades have again been one of the main tasks undertaken at our workshop. Several former KiwiRail carriages have been in place over the last season and a further two will be available for the next season. These carriages improve both the financial yield from a train and the safety of the passengers carried.

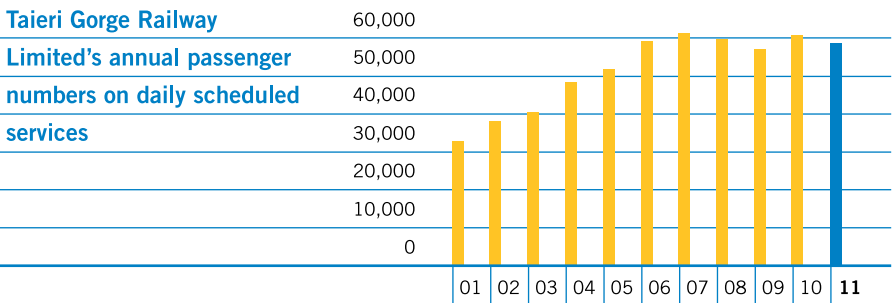
The after-tax surplus of \$3,000 is coincidentally the same as last year. This was achieved after operational expenditure of \$1.4m on workshop, carriages, locomotives and track. In addition, a further capital expenditure of \$0.5m was invested in the commissioning of the new carriages.

Taieri Gorge Railway remains highly attractive to visiting cruise ships who are come to Dunedin because of the variety and quality of the shore excursions available. The company looks forward to receiving visitors over the period of the Rugby World Cup 2011 and is very pleased to alter its schedules to offer more choices to these visitors.

For more information visit www.taieri.co.nz

THE PEOPLE

Directors	J E Farry (Chairman) J M Chapman F J McCall Hon. S Rodger G M T Williams K Wilson
Chief Executive	M J Bond



- > Taieri Gorge Railway above Three O'Clock Stream, an attractive tributary of the Taieri River.
- >> Snow provides a novel attraction in the Taieri River Gorge, causing a spike in passenger numbers.

- > City Forests actively monitors the quality of water within its forest estates, much of which is taken up as part of the Dunedin's City water reticulation scheme. Pictured is Ross Creek.
- >> Taieri Gorge Railway provides fundraising opportunities for community groups, including the Lion's Club 'Walk the Gorge' initiative.



environmental, social and economic performance, and corporate governance

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environmental, social and economic performance

For the year ended 30 June 2011

SUMMARY

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

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



Photo: Otago Daily Times

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 is committed, over time, to increasing its underground network in highly scenic areas. This year, the company spent \$950,000 eliminating the negative visual impact of power lines in Kaikorai Valley, Dunedin. Aurora Energy also contributed to Energy Smart projects that are committed to home insulation and increasing the efficiency of clean energy use.

City Forests was the first major forest owner in the South Island to achieve Forest Stewardship Council certification. Following an annual audit this certification continues and as part of the effort the company continues to improve its knowledge and management of environmental and cultural issues within the forest. In the past, this has included the identification of potential archaeological sites and areas of significant conservation value. This year there has been continued support for the research on the native South Island robin/kakarua population in Flagstaff Forest.



- > Mercy dash – Taieri Gorge Railway was the only means for getting food and essential supplies to Strath Taieri communities during heavy snows in 2011.
- >> The undergrounding of the power network on Dunedin's Kaikorai Valley Road continues. The redundant power poles on the centre island will be removed when the new system is commissioned. Network owner, Aurora Energy, contracts DELTA Utility Services to carry out this work.



- > City Forests assisted the University of Otago Zoology Department and Department of Conservation to translocate a population of South Island robin/kakarua from its Silverpeaks Forest to the Orokonui Ecosanctuary.

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.

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.

ECONOMIC COMMITMENT

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

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

We will achieve financial projections.

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



- > Aurora Energy chief executive, Grady Cameron, presents a \$5,000 Aurora Energy New Zealand Education and Scholarship Trust Award to Rosie Whiting of Dunstan High School.

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

The group has committed to recording its electricity and liquid fuels energy usage in terms of the carbon dioxide that is emitted to the environment.

In total, group activity eliminated 39,300 tonnes of carbon dioxide from our environment. This is less than last year as economic conditions favoured increased production from the forest. As Citibus Limited has now been sold, we would expect to reduce the usage of the group by approximately 2,500 tonnes per annum. During the year the company's forest-stored carbon balance increased by 48,000 tonnes of CO2 equivalent. We have looked carefully at the diesel and electricity usage of our subsidiaries and have also tracked the CO2 emitted by our forestry contractors, timber mill and log export ships.

Over a 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 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 2011 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. The Aurora Energy New Zealand Education and Scholarship Trust Award and Otago Science Fair have been beneficiaries of Aurora Energy's 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 heads that list. The Sport Otago 'Innovation in Sport' Award, Wanaka Festival of Colour, Queenstown Summerdaze Festival, Otago Festival of Arts, Alexandra Blossom Festival, Alexandra Ice in Line, Fortune Theatre, Alexandra Rugby Club, Riverton Racing

Club, Otago Cricket Association, Sevens with Attitude, Mountainbiking Otago Inc and others have also benefited from contributions during the year.

Finally there has been focus on the assistance of at risk people in the community through support to the Prostate Cancer Foundation, Diabetes Youth Otago, Salvation Army, Order of St John, IHC NZ, Make a Wish NZ, Red Cross, United Way, The Kids Foundation, Angels for Children Charitable Trust, Outram Volunteer Fire Brigade and Alexandra Rotary Club.

The total value of these contributions is difficult to calculate as many of the costs are not directly measured but overall, across the group, the value this year exceeded \$240,000.

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 over the medium term it has improved.

It is sad to report that during the year a DELTA Utility Services employee was killed while working and considerable management focus in all companies is being spent to attempt to ensure this does not happen again.

Across the four subsidiaries employing staff – DELTA Utility Services, Citibus, Taieri Gorge Railway and City Forests – the accident record failed to maintain the improvement achieved last year. Lost time accident numbers across the group increased to 1.43 incidents per 100,000 hours worked from last year's figure of 1.18 per 100,000 hours worked.



- > DELTA staff dedicated their annual volunteers' day to landscape and repaint the Otago Community Salmon Hatchery Trust's facility at Sawyers Bay.

- >> DELTA is a principal sponsor of Otago Rugby, part of which involves supporting the 'Super Coach' programme. Pictured is Otago NPC player, Glenn Dickson, sharing tips with the Pirates under-tens team.

- >>> Dunedin International Airport will celebrate the 50th anniversary of Momoa airport in 2012.





> Dawn breaks over the Milburn dry wood processing plant owned and operated by City Forests Limited.

corporate governance

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

THE ROLE OF DUNEDIN CITY HOLDINGS LIMITED

Dunedin City Holdings Limited is a Council Controlled Trading Organisation, or CCTO, 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 Best Practice for Directors, approved and adopted by the Institute of Directors in New Zealand (Incorporated). Where conflicts of interest do exist in law, directors 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 the Council. From time to time the company boards consider their composition and the range of skills represented. In terms of nominations, the boards have previously considered the suitability of possible new directors based

on a range of factors, including the candidate's background, experience, professional skills, personal qualities and availability to commit themselves to the board's activities.

Directors are appointed following approval by the Dunedin City Council, 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.



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.

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 CCTO must be made pursuant to the authority of the directorate of the CCTO and its Statement of Intent.

Strategic issues and management's detailed budget and five year business plans are reviewed annually by the boards 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 appropriately maintained
- > the employment of quality people
- > supervision and development of staff; and
- > regulatory compliance.

financial statements

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group financial statistics

For the years ended 30 June

	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000
Revenue	245,784	224,598	214,434	199,154	183,805	167,711	151,534	141,656	129,945	117,550
Operating surplus	26,554	24,422	13,914	14,057	22,290	26,334	28,155	25,585	27,860	24,479
Tax	7,704	5,918	5,210	5,419	(333)	(2,914)	11,821	11,825	11,827	10,656
Surplus after tax	16,244	18,110	8,704	8,638	22,623	20,522	16,334	13,760	16,033	13,823
Net interest paid to council on advance	7,616	8,223	10,333	9,514	7,000	1,000	1,000	1,000	1,215	1,000
Net surplus before shareholder interest	23,860	26,333	19,037	18,152	29,623	30,248	17,334	14,760	17,248	(32,050)
Cash flows from operating activities	39,206	32,136	29,261	25,567	42,652	39,473	34,857	35,314	32,471	29,566
Shareholder's funds	153,175	152,238	151,743	154,167	150,887	138,068	147,010	104,215	93,537	83,808
Rate of return (on shareholder's funds)	10.6%	11.9%	5.7%	5.6%	15.0%	21.1%	11.1%	13.2%	17.1%	(39.4)%
Shareholder's advance	112,000	112,000	113,060	113,060	103,377	103,377	103,377	103,377	103,377	103,377
Dividend paid	15,584	14,877	9,468	11,210	12,500	9,000	19,000	8,500	8,000	5,000
Net interest paid to council on advance	7,616	8,223	10,333	9,514	7,000	1,000	1,000	1,000	1,215	1,000
Total interest and dividends paid to council	23,200	23,100	19,801	20,724	19,500	10,000	20,000	9,500	9,215	6,000
Total assets	965,829	889,710	753,146	683,764	609,973	575,016	551,982	474,783	447,524	443,871
Shareholder's funds to total assets	15.8%	17.1%	20.2%	22.5%	24.7%	24.0%	26.6%	21.9%	20.9%	18.9%

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 \$6.0m 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 \$12.0m, a satisfactory improvement on the \$7.1m 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 (shareholders and financiers). This return on the amount of the capital must fully reflect the commercial risks associated with that business and the type of capital invested.

When a business is generating returns that exceed its cost of capital, economic value has been added. Conversely, if the company cannot meet its cost of capital, economic value is lost.

The economic value added (EVA) concept has been applied to the group, both at the individual subsidiary level and at group level, to benchmark performance. Interest rates at the end of the year were significantly lower than at the start of the year but the risk associated with an investor in equities in New Zealand has increased. Overall the cost of capital has declined slightly due to the substantial fall in interest rates.

The EVA figure is quite sensitive to interest rate changes. A 1% change in the cost of capital of the group, on the current investment, changes the EVA figure by \$3.9m.

The table below demonstrates that the group, over time, has overwhelmingly added value to the investment.

	2011	2010	2009	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000
Economic valued added	12,073	7,135	1,792	(4,773)	994

statement of comprehensive income

For the year ended 30 June	Note	Group 2011 \$'000	Group 2010 \$'000	Parent 2011 \$'000	Parent 2010 \$'000
Continuing operations					
Revenue	3	220,971	196,628	325	300
Forest revaluation	32, 3	738	6,174	-	-
Financial income	4	23,664	21,781	18,151	22,066
Share of profit of associates		411	15	-	-
Total revenue		245,784	224,598	18,476	22,366
Less expenses					
Audit fees	5	222	223	17	17
Contractors		31,899	25,244	-	-
Depreciation		18,341	17,383	1	1
Directors' fees		647	645	105	109
Employee expenses		45,333	39,294	216	207
Financial expenses	6	40,469	39,216	9,342	9,734
Raw materials and consumables used		52,475	48,851	-	-
Other expenses	5	29,844	29,320	113	85
Impairment in value of investment		-	-	3,700	-
Total expenditure		219,230	200,176	13,494	10,153
Profit before tax		26,554	24,422	4,982	12,213
Income tax expense	9	7,704	5,918	-	-
Net profit for the year from continuing operations		18,850	18,504	4,982	12,213
Discontinued operations					
Loss for the year from discontinued operation net of tax		(2,606)	(394)	-	-
Profit for the year		16,244	18,110	4,982	12,213
Other comprehensive income					
Forest land revaluation		(10)	-	-	-
Interest rate swap hedges gains/(losses) during period		(340)	(1,481)	(70)	(351)
Foreign exchange hedge gains/(losses) during period		697	405	-	-
Share of other comprehensive income of associates		8	(1,929)	-	-
Income tax on other comprehensive income		(88)	267	15	61
Other comprehensive income		267	(2,738)	(55)	(290)
Total comprehensive income for the year, net of tax		16,511	15,372	4,927	11,923
Profit attributable to:					
Equity holders of the parent		16,243	18,084	4,927	12,213
Minority Interest		1	26	-	-
Net profit for the year		16,244	18,110	4,927	12,213
Total comprehensive income attributable to:					
Equity holders of the parent		16,510	15,346		
Minority Interest		1	26		
Total comprehensive income		16,511	15,372		
Shares issued	10	850,000,000	600,000,000		
Earnings per share from continuing and discontinued operations (cents)		1.91	3.01		
Earnings per share from continuing operations (cents)		2.22	3.08		
Earnings per paid up share from continuing operations		\$188.50	\$185.04		

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

statement of changes in equity

For the year ended 30 June	Note	Share Capital \$'000	Reserves \$'000	Retained Earnings \$'000	Minority Interest \$'000	Total Equity \$'000
GROUP						
Balance at 1 July 2010		100	23,327	128,335	476	152,238
Comprehensive income						
Profit for the year		-	1,583	14,660	1	16,244
Other comprehensive income						
Forest land revaluation		-	(10)	-	-	(10)
Interest rate swap hedges gains/(losses) during period		-	(254)	-	-	(254)
Foreign exchange hedge gains/(losses) during period		-	533	-	-	533
Share of other comprehensive income of associates		-	8	-	-	8
Total comprehensive income for the year		-	1,860	14,660	1	16,521
Less distribution to owners	8	-	-	(15,584)	-	(15,584)
Equity at 30 June 2011		100	25,187	127,411	477	153,175
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		-	1,584	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

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 2010		100	(140)	43,438	43,398
Comprehensive income					
Profit for the year		-	-	4,982	4,982
Other comprehensive income					
Interest rate swap hedges gains/(losses) during period		-	(55)	-	(55)
Total comprehensive income		-	(55)	4,982	4,927
Dividends	8	-	-	(15,584)	(15,584)
Equity at 30 June 2011		100	(195)	32,836	32,741
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

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

balance sheet

For the year ended 30 June	Note	Group 2011 \$'000	Group 2010 \$'000	Parent 2011 \$'000	Parent 2010 \$'000
Equity					
Share capital	10	100	100	100	100
Associate company asset revaluation reserve	11	3,262	3,254	-	-
Forest revaluation reserve	11	21,733	20,160	-	-
Cash flow hedge reserve	11	193	(87)	(195)	(140)
Retained earnings	12	127,410	128,335	32,836	43,438
Total equity attributable to Dunedin City Council		152,698	151,762	32,741	43,398
Minority interest in subsidiary company		477	476	-	-
Total equity		153,175	152,238	32,741	43,398
Current liabilities					
Short-term borrowings	13	4,316	8,985	-	-
Trade and other payables	14	22,448	22,840	238	1,527
Derivative financial instruments	15	20,665	12,750	271	216
Other current liabilities	16	2,029	1,006	9	5
Provisions	17	4,829	4,749	6	9
Provisions for tax		2,813	2,171	-	-
Current portion of term borrowings		31,826	91,634	-	-
Total current liabilities		88,926	144,135	524	1,757
Non-current liabilities					
Shareholder's advance – Dunedin City Council	18	112,000	112,000	112,000	112,000
Term borrowings	19	534,220	405,222	34,030	27,200
Other liabilities	16	334	320	-	-
Provisions	17	492	522	-	-
Deferred tax liability	20	76,682	75,273	(76)	(61)
Total non-current liabilities		723,728	593,337	145,954	139,139
Total liabilities		812,654	737,472	146,478	140,896
TOTAL EQUITY AND LIABILITIES		965,829	889,710	179,219	184,294

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

For the year ended 30 June	Note	Group 2011 \$'000	Group 2010 \$'000	Parent 2011 \$'000	Parent 2010 \$'000
Current assets					
Cash and cash equivalents	23	11,913	47,903	25	41
Trade and other receivables	24	32,026	30,894	168	1,525
Derivative financial instruments	15	20,562	11,988	-	-
Inventories	25	7,423	5,711	-	-
Prepayments		945	726	-	-
Tax refund due		142	375	-	-
Investments		6,656	5,946	-	-
Assets classified as held for sale	26	11,497	10,603	-	-
Total current assets		91,164	114,146	193	1,566
Non-current assets					
Investments in subsidiary company shares	27	-	-	174,625	178,326
Investments in associate companies	28, 29	14,644	14,224	4,400	4,400
Investments in jointly controlled operations	30	5,753	5,809	-	-
Other investments	31	319,832	234,078	-	-
Forestry assets	32	100,335	99,840	-	-
Property, plant and equipment	33	432,407	419,844	1	2
Intangible asset		1,694	1,769	-	-
Total non-current assets		874,665	775,564	179,026	182,728
TOTAL ASSETS		965,829	889,710	179,219	184,294

For and on behalf of the board of directors



Director
Paul R Hudson
15th September 2011



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 2011 \$'000	Group 2010 \$'000	Parent 2011 \$'000	Parent 2010 \$'000
Cash flows from operating activities					
<i>Cash was provided from</i>					
Receipts from customers		236,925	203,309	293	393
Interest received		1,233	1,284	-	-
Dividends from other equity investments		-	25	18,135	19,335
Subvention payments		-	-	1,511	2,744
		238,158	204,618	19,939	22,472
<i>Cash was disbursed to</i>					
Payments to suppliers and employees		158,961	142,049	550	437
Interest paid		35,477	28,646	10,632	10,022
Income tax paid		4,537	1,668	-	-
Net GST paid		(23)	119	20	19
		198,952	172,482	11,202	10,478
Net cash inflows/(outflows) from operating activities	34	39,206	32,136	8,737	11,994
Cash flows from investing activities					
<i>Cash was provided from</i>					
Sale of property, plant and equipment		4,967	333	-	-
Investments realised		11	-	-	-
		4,978	333	-	-
<i>Cash was disbursed to</i>					
Purchase of property, plant and equipment		42,835	31,179	-	-
Purchase of investments		87,580	75,675	-	-
		130,415	106,854	-	-
Net cash inflows/(outflows) from investing activities		(125,437)	(106,521)	-	-

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

For the year ended 30 June	Note	Group 2011 \$'000	Group 2010 \$'000	Parent 2011 \$'000	Parent 2010 \$'000
Cash flows from financing activities					
<i>Cash was provided from</i>					
Proceeds from borrowings		69,145	125,226	6,831	3,940
		69,145	125,226	6,831	3,940
<i>Cash was disbursed to</i>					
Repayment of borrowings		3,320	1,063	-	1,060
Dividends paid		15,584	14,877	15,584	14,877
		18,904	15,940	15,584	15,937
Net cash inflows/(outflows) from financing activities		50,241	109,286	(8,753)	(11,997)
Net increase/(decrease) in cash, cash equivalents and bank overdraft		35,990	34,901	(16)	(3)
Cash and cash equivalents at the beginning of the year		47,903	13,002	41	44
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		11,913	47,903	25	41
Composition of cash					
Cash and cash equivalents		11,913	47,903	25	41
Bank overdraft		-	-	-	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		11,913	47,903	25	41

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

notes to the financial statements

For the year ended 30 June 2011

1. REPORTING ENTITY

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

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

The financial statements of Dunedin City Holdings Limited are for the year ended 30 June 2011.

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 15 September 2011.

Basis of accounting

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

The accounting policies have been applied consistently by group entities.

Basis of consolidation

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

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

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

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

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

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

Associate entities

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the consolidated balance sheet at cost as adjusted by post-acquisition changes in the group's share of the net assets of the associate, less any

impairment in the value of individual investments. Losses of the associates in excess of the group's interest in those associates are not recognised.

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

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

Investment in associates

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

Non-current assets held for sale

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

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least at each reporting date. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

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

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

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

Revenue recognition

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

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

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

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

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

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not

2. SIGNIFICANT ACCOUNTING POLICIES — continued

be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

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

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

Leasing

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

The group as lessor

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

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

The group as lessee

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

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign currencies

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

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

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

Borrowing costs

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

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

Government loans

Forestry term liabilities include Ministry of Agriculture and Forestry Suspensory Loans and Ministry of Agriculture and Forestry Repayable Loans. Interest is calculated annually on the suspensory loans. However, the interest and principal may be forgiven when the loan conditions are met. Interest is also calculated annually on the repayable loans. The interest and principal is not repayable on repayable loans until harvesting of the trees, planted with the loan monies, occurs.

Employee entitlements

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

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

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

Good and Service Tax (GST)

Revenues, expenses, 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.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES — continued

Depreciation is charged so as to write off the cost or valuation of assets, other than land, forestry land, properties under construction and capital work in progress, on the straight-line basis. Rates used have been calculated to allocate the assets cost or valuation less estimated residual value over their estimated remaining useful lives. Depreciation of these assets commences when the assets are ready for their intended use. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Depreciation on revalued assets, excluding land, is charged to the profit and loss. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the appropriate property revaluation reserve is transferred directly to retained earnings. Assets held under finance leases are depreciated.

Depreciation rates and methods used are as follows:

	Rate	Method
Buildings	1% to 5%	Straight line
Roads and bridges	2% to 16%	Straight line
Metering equipment	5% to 20%	Straight line
Electricity network assets	2 % to 20%	Straight line
Sawmill assets	3% to 10%	Straight line
Plant and equipment	5% to 50%	Straight line
Motor vehicles	5% to 25%	Straight line
Railway assets	1% to 20%	Straight line
Office equipment and fittings	5% to 25%	Straight line
Construction in progress	no depreciation charged	
Software	20% to 100%	Straight line

Forests

The fair value of the forest, exclusive of the forest land, is determined at each reporting date. Fair value is equivalent to the NZIF Forest Valuation Standards definition of market value. Fair value is determined using the discounted cash flow methodology and in using this method 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 logs, are stated at the lower of cost and net realisable value. Log inventories are valued at net realisable value less estimated point of sale costs. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Cash and cash equivalents

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

Financial instruments

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

Trade and other receivables

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

2. SIGNIFICANT ACCOUNTING POLICIES — continued

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.

Prior period comparatives

Prior period comparatives have been restated as appropriate to comply with current reporting.

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.

3. OPERATING REVENUE

	Group 2011 \$'000	Group 2010 \$'000	Parent 2011 \$'000	Parent 2010 \$'000
Sales revenue	220,762	196,590	325	300
Gain on sale of assets	209	38	-	-
Forest revaluation	738	6,174	-	-
	221,709	202,802	325	300

4. FINANCIAL INCOME

Subvention income	-	-	-	2,597
Interest on advances to related parties	18,490	18,369	-	-
Interest on other investments	1,569	1,392	-	-
Dividends	-	-	18,135	19,335
Net gain on foreign currency transactions	3,570	1,886	-	-
Gain on interest rate swap settlement	35	134	16	134
	23,664	21,781	18,151	22,066

No interest was earned on impaired or restructured assets.

	Group 2011 \$'000	Group 2010 \$'000	Parent 2011 \$'000	Parent 2010 \$'000
5. OTHER EXPENSES				
Audit fees – for audit of financial statements	171	181	17	17
– for other audit services	51	42	-	-
Total audit fees	222	223	17	17
Bad debts written-off	174	100	-	-
Impairment of intangible assets	237	296	-	-
Increase/(Decrease) in impairment provision for receivables	(26)	(92)	-	-
Donations	34	15	-	-
Loss on sale of assets	-	51	-	-
Rental expense on operating leases	2,111	2,314	6	6
Research expenditure	94	78	-	-
Other expenses	27,220	26,558	107	79
Total other expenses	29,844	29,320	113	85
6. FINANCIAL EXPENSES				
Interest – related parties	7,616	8,223	9,342	9,734
Interest – term loans	32,853	30,993	-	-
Total financial expenses	40,469	39,216	9,342	9,734
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	850,000,000	600,000,000		
Weighted average number of ordinary shares	725,000,000	600,000,000		
Basic earnings per share				
Continuing and discontinued operations	1.91 cents	3.01 cents		
Earnings per paid up share from continuing operations	\$188.50	\$185.04		
Diluted earnings per share				
The group had no dilutive potential ordinary shares during the current or previous period.				
8. DIVIDENDS				
Interim dividend	December	0.25cents /share	1,500	1,500
Final dividend	June	1.94 cents/share	14,084	13,377
			15,584	14,877

	Group 2011 \$'000	Group 2010 \$'000	Parent 2011 \$'000	Parent 2010 \$'000
9. INCOME TAX				
Operating surplus – continuing operations	26,554	24,422	4,982	12,213
– discontinued operations	(3,675)	(668)	-	-
Operating surplus before income tax	22,879	23,754	4,982	12,213
Tax thereon at 30%	6,864	7,126	1,395	3,664
<i>Plus/(Less) the tax effect of differences</i>				
Revenue not liable for taxation	1,063	(866)	(1,395)	(3,664)
Expenditure not deductible for taxation	219	354	-	-
Under/(Over) tax provision in prior years	(1,293)	(101)	-	-
Tax effect of change to building depreciation	(119)	2,442	-	-
Other/tax effect of rate change	(99)	(3,311)	-	-
Tax effect of differences	(229)	(1,482)	(1,395)	(3,664)
Tax expense	6,635	5,644	-	-
Effective tax rate	29.0%	23.8%	0%	0%
Tax expense continuing activity	7,704	5,938	-	-
Tax expense discontinued activity	(1,069)	(274)	-	-
<i>Represented by</i>				
Current tax provision	6,518	5,350	-	-
Deferred tax provision	1,410	395	-	-
Under/(Over) tax provision in prior years	(1,293)	(101)	-	-
Income tax	6,635	5,644	-	-
Imputation credit account				
Balance at the end of the year	6,876	2,084	5,836	1,163

Dunedin City Holdings Limited, Aurora Energy Limited, DELTA Utility Services Limited 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 2011 Dunedin City Holdings Limited as parent had direct access to the tax consolidated group imputation credits totalling \$5.836m. From the point of view of the DCHL group of companies it is necessary to add the total of imputation credits available within the subsidiaries of DCHL to the balance available within the tax consolidated group.

	Group 2011 \$'000	Group 2010 \$'000	Parent 2011 \$'000	Parent 2010 \$'000
10. EQUITY – share capital				
Issued capital				
850,000,000 ordinary shares	100	100	100	100

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

May 1996	75,000,000 ordinary shares
March 1999	100,000,000 ordinary shares
June 2002	75,000,000 ordinary shares
September 2008	250,000,000 ordinary shares
April 2011	250,000,000 ordinary shares

11. RESERVES**Forest revaluation reserve**

Balance at beginning of the year	20,160	15,838
Net revaluations of forest	1,583	4,322
Net revaluation of forest land	(10)	-
Balance at the end of the year	21,733	20,160

Hedging reserve

Balance at beginning of the year	(87)	722	(140)	150
<i>Gain/(Loss) recognised on cash flow hedges:</i>				
Interest rate swaps/ fx forwards	388	(1,156)	(55)	(290)
Deferred tax arising on hedges (note 20)	(108)	347	-	-
Gain on settlement of interest rate swaps to equity	-	-	-	-
Balance at the end of the year	193	(87)	(195)	(140)

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

Associate company asset revaluation reserve

Balance at beginning of the year	3,254	5,183
Gain/(Loss) recognised on cash flow hedges/assets	8	(1,929)
Balance at end of year	3,262	3,254

The reserve comprises assets within Dunedin International Airport Limited.

12. RETAINED EARNINGS

Balance at the beginning of the year				
Group companies	121,885	123,015	43,438	46,102
Associate companies	6,450	6,435	-	-
	128,335	129,450	43,438	46,102
Net profit for the year	16,244	18,110	4,982	12,213
Dividend distributions	(15,584)	(14,877)	(15,584)	(14,877)
Minority share of surplus	(1)	(26)	-	-
Transfer to reserves – forest (note 11)	(1,583)	(4,322)	-	-
Balance at the end of the year	127,410	128,335	32,836	43,438

Represented by

Group companies	120,549	121,885	32,836	43,438
Associate companies	6,861	6,450	-	-
Balance at the end of the year	127,410	128,335	32,836	43,438

13. SHORT TERM BORROWINGS**Consolidated group**

Bank loans repayable within one year	4,316	8,985	-	-
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The group's bank loans are unsecured, short term, and are arranged at floating interest rates thus exposing the group to cash flow interest rate risk. The weighted average interest rate was 3.4% (2010: 4.2%).

14. TRADE AND OTHER PAYABLES

Trade payables	22,198	22,639	31	10
Due to related parties – subsidiaries	-	-	207	1,517
– Dunedin City Council	126	93	-	-
Accruals	124	108	-	-
	22,448	22,840	238	1,527

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

	2011 \$'000 Asset	2011 \$'000 Liability	2010 \$'000 Asset	2010 \$'000 Liability
15. DERIVATIVE FINANCIAL INSTRUMENTS – GROUP				
<i>Fair value</i>				
Forward foreign exchange contracts	2,324	60	1,649	157
Interest rate swaps	18,238	20,605	10,339	12,593
	20,562	20,665	11,988	12,750
Analysed as:				
Non-current	-	-	-	-
Current	20,562	20,665	11,988	12,750
	20,562	20,665	11,988	12,750
DERIVATIVE FINANCIAL INSTRUMENTS – PARENT				
<i>Fair value</i>				
Interest rate swaps	-	271	-	216
Analysed as:				
Non-current	-	-	-	-
Current asset	-	271	-	216
	-	271	-	216
	Group 2011 \$'000	Group 2010 \$'000	Parent 2011 \$'000	Parent 2010 \$'000
For the year ended 30 June				
16. OTHER LIABILITIES				
(i) Current liabilities				
GST payable	287	510	9	5
Other current liabilities	1,742	496	-	-
	2,029	1,006	9	5
(ii) Non-current liabilities				
Other non-current liabilities	320	320	-	-
	320	320	-	-
17. PROVISIONS				
(i) Current liabilities				
Long service leave	259	254	-	-
Annual leave	3,872	3,679	6	9
Gratuities	250	197	-	-
Sick leave	96	158	-	-
Other provisions	352	461	-	-
	4,829	4,749	6	9
ii) Non-current liabilities				
Long service leave	285	280	-	-
Gratuities	207	242	-	-
	492	522	-	-

	Group 2011 \$'000	Group 2010 \$'000	Parent 2011 \$'000	Parent 2010 \$'000
18. SHAREHOLDER'S ADVANCE				
Consolidated group and parent company				
Balance at the end of the year	112,000	112,000	112,000	112,000

The shareholder's advance owing to 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. This year the cash payment to Council was \$7.6m (\$8.2m) on the advance. In 2011 the gross interest on the debt averaged 6.8% (7.29%).

19. TERM BORROWINGS (secured)				
Multi-option note facility	523,745	394,408	-	-
Forestry loans	10,475	10,814	-	-
Finance lease (refer to note 23)	-	-	-	-
Due to subsidiaries	-	-	34,030	27,200
	534,220	405,222	34,030	27,200

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 \$850 million in April 2011.

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:

- \$30m floating rate notes, maturing 17/10/11 at a margin of 90bp over BKBM
- \$40m issued for 3 years, maturing 14/6/13 at a coupon rate of 5.55%
- \$50m issued for 8 years, maturing 15/11/13 at a coupon rate of 7.07%
- \$75m issued for 5 years, maturing 25/11/14 at a coupon rate of 6.40%
- \$90m floating rate notes, maturing 15/04/16 at a margin of 107bp over BKBM
- \$50m issued for 10 years, maturing 15/11/16 at a coupon rate of 6.79%
- \$60m issued for 10 years, maturing 15/10/17 at a coupon rate of 7.81%
- \$50m issued for 7.5 years, maturing 15/07/18 at a coupon rate of 6.57%
- \$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 2011 \$'000	Group 2010 \$'000	Parent 2011 \$'000	Parent 2010 \$'000
19. TERM BORROWINGS (secured) – continued				
The repayment period on the term borrowings is as follows:				
Repayable between one to two years	40,000	115,185	-	-
Repayable between two to five years	315,285	156,526	34,030	27,200
Repayable later than five years	178,935	133,511	-	-
	534,220	405,222	34,030	27,200

The weighted average interest rate for the multi-option note facility at year end, inclusive of any current portion, was 6.37% (2010: 6.0%).

The weighted average interest rates for the forestry loans ranged between 4.5% and 6.5%, (2010: 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:

Multi-option note facility	573,800	498,407	-	-
Forestry loans	10,475	10,814	-	-

20. DEFERRED TAX
Group, 2011, \$'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	52,873	-	(408)	-	52,465	52,465
Employee benefits	(1,427)	-	26	(1,401)	-	(1,401)
Forest	14,729	-	206	-	14,935	14,935
Forest costs capitalised	8,252	-	335	-	8,587	8,587
Other investments	1,077	-	1,047	(150)	2,274	2,124
Hedge reserve – foreign exchange contracts	435	199	-	-	634	634
Hedge reserve – interest rate swaps	(666)	(67)	71	(662)	-	(662)
Balance at the end of the year	75,273	132	1,277	(2,213)	78,895	76,682

Group, 2010, \$'000

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 capitalised costs	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

Parent, 2011, \$'000

Revaluations of interest rate swaps	61	15	-	76	-	76
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Parent, 2010, \$'000

Revaluations of interest rate swaps	-	61	-	61	-	61
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	Group 2011 \$'000	Group 2010 \$'000
21. CONTINGENT LIABILITIES		
Performance bonds	4,194	4,423

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

22. DISCONTINUED OPERATIONS

On 15th April 2011 the board of directors of Citibus Limited entered into a sale agreement to dispose of the operating assets and the business of the company. That sale was settled on the 31st May 2011 on which date the control of the business went to the acquirer. The proceeds for the sale did not exceed the book value of the asset and the loss is reflected in the note below.

Loss from discontinued operations

Revenue	7,897	8,985
Less expenses	8,696	9,653
Loss before income tax expense	(799)	(668)
Less attributable income tax expense	(240)	(274)
	(559)	(394)
Loss on disposal of operation	(2,876)	-
Less attributable income tax expense	(829)	-
Loss from discontinued operations	(2,606)	(394)

Cash flows from discontinued operations

Net cash flows from operating activities	(110)	101
Net cash flows from investing activities	5,943	(158)
Net cash flows from financing activities	(3,525)	(16)
Net cash flows	2,308	(73)

22. LEASE COMMITMENTS

(i) Minimum operating lease payments

Payable within one year	1,127	2,283	6	6
Payable between one to five years	1,774	4,496	6	-
Payable later than five years	166	485	-	-
	3,067	7,264	12	6

(ii) Minimum finance lease payments

Minimum future lease payments:

Payable within one year	-	-	-	-
Payable between one to five years	-	-	-	-
Payable later than five years	-	-	-	-
	-	-	-	-

	Group 2011 \$'000	Group 2010 \$'000	Parent 2011 \$'000	Parent 2010 \$'000
23. CASH AND CASH EQUIVALENTS				
Cash and bank	11,913	47,903	25	41

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

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

24. TRADE AND OTHER RECEIVABLES

Trade receivables	26,716	24,185	-	-
Estimated impairment	(87)	(126)	-	-
	26,629	24,059	-	-
Due from related parties:				
– Subsidiaries	-	-	168	1,525
– Other related parties	5,332	6,749	-	-
Other current receivables	65	86	-	-
	32,026	30,894	168	1,525

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

25. INVENTORIES

Raw materials and stores	3,130	2,966	-	-
Work in progress	2,696	1,811	-	-
Finished goods	1,597	934	-	-
	7,423	5,711	-	-

26. CURRENT ASSETS HELD FOR SALE

Development property	8,820	8,820	-	-
Development in progress	2,311	1,579	-	-
New Zealand carbon credits	366	204	-	-
	11,497	10,603	-	-

27. INVESTMENTS IN SUBSIDIARY COMPANY SHARES

<i>Shares in subsidiary companies</i>	-	-	174,625	178,326
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Parent company

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

All subsidiary companies have balance dates of 30 June.

	Group 2011 \$'000	Group 2010 \$'000
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28. INVESTMENTS IN ASSOCIATE COMPANIES**Consolidated group**

Name of entity (principal activities)	Percentage Interest Held	
Dunedin International Airport Limited (transport)	50.0	50.0
Otago Chipmill Limited (forestry)	49.9	49.9
The Street NZ Limited (internet)	44.2	44.6
Waitaki Wind Limited (energy)	25.0	25.0

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

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

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

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

Associates net assets (group share)

Total assets	29,330	29,914
Less total liabilities	(14,686)	(15,690)
Net assets	14,644	14,224

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

Revenue	4,852	5,787
Surplus for the period	544	15
Increase/(Decrease) in asset valuation reserve	8	(1,929)
Total recognised revenues and expenses	552	(1,914)
Opening carrying value	14,224	16,163
Dividends	(132)	(25)
Closing carrying value	14,644	14,224

29. INVESTMENTS IN ASSOCIATE COMPANIES**Parent company**

Name of entity (principal activities)	Percentage Interest Held	
Dunedin International Airport Limited (transport)	50.0	50.0
The Street NZ Limited (internet)	44.2	44.6

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

	Group 2011 \$'000	Group 2010 \$'000
30. INVESTMENT IN JOINTLY CONTROLLED OPERATIONS		
	Percentage Interest Held	
Luggate Park Development	50.0	50.0
Long-term advance		
Long-term advance representing a 50% share in the land value of Luggate Park	5,299	5,298
Investment in development property		
Land purchase	-	-
House development	-	-
Land development in progress	454	511
Total investment in development property	454	511
Total investment in jointly controlled operations at Luggate Park	5,753	5,809
Interest in joint venture		
<i>Current assets</i>	41	16
<i>Non-current assets</i>		
Development property	465	516
Total assets	506	532
<i>Current liabilities</i>		
Westpac Banking Corporation loan	801	477
Other	13	283
Retained earnings	(308)	(228)
Total equity and liabilities	506	532
Revenue	37	2
Less expense	110	84
Net (deficit) for the year	(73)	(82)

	Group 2011 \$'000	Group 2010 \$'000	Parent 2011 \$'000	Parent 2010 \$'000
31. INVESTMENTS NON-CURRENT				
Advances due from Dunedin City Council				
Maturity 1-5 years	32,437	34,155	-	-
Maturity over 5 years	285,792	198,256	-	-
	318,229	232,411	-	-
Shares and units in other companies and funds	35	36	-	-
Mortgage receivables				
Maturity 1-5 years	1,568	1,631	-	-
Maturity over 5 years	-	-	-	-
	1,568	1,631	-	-
Total other investments	319,832	234,078	-	-

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% (2010: 6.8%).

Shares and units in other companies and funds

The investments included above represent investments in listed equity securities that offer the group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate.

	Group 2011 \$'000	Group 2010 \$'000
32. FORESTRY ASSETS		
Balance at the beginning of the year	99,840	94,035
Add: Costs capitalised in establishing forests during the year	2,782	2,164
Revaluation	738	6,174
Less: Value of logs harvested	(3,025)	(2,533)
	100,335	99,840
Gains/(Losses) arising from changes in fair value less point of sale costs:		
attributable to physical changes	(1,976)	7,330
attributable to price changes	2,470	(1,524)

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 \$25,524,000 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.

32. FORESTRY ASSETS – continued

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 2011 the company owned stands of trees on 16,011 hectares of a total land holding of approx 19,935hectares. 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 post-1989 registration, the New Zealand Government allocated City Forests Limited 249,928 post-1989 derived NZU's being the carbon sequestered by these forests during the 2009 and 2010 calendar years. In 2011 91,487 post-1989 NZU's (2010: 150,000) have been sold during the financial year to Emitters with New Zealand interests.

City Forests also completed registration of our forests established pre 1st January 1990 under the Emissions Trading Scheme during the financial year. The New Zealand Government has allocated City Forests Limited 257,000 Pre-1990 derived NZU's. Of these 245,450 NZU's have been sold to Emitters with New Zealand interests.

As at 30th June 2011, 19,991 units were unsold (2010 11,487). Under the accrual principle, the unsold credits have been valued based on the current market prices and recognised in the financial statements. The value has been carried in the financial statements as follows:

	As at 30 June 2011 \$'000	As at 30 June 2010 \$'000
New Zealand carbon credits	366	204

33. PROPERTY, PLANT AND EQUIPMENT

Group 2011, \$'000	Land	Forest land	Buildings	Roads & bridges	Network	Plant & equipment	Sub-total
Cost or valuation							
Balance at beginning of period	5,302	25,534	16,933	5,552	385,309	22,935	461,565
Increase through acquisition	-	-	-	-	-	-	-
Purchases/revaluation	5,864	(10)	2,363	666	23,625	2,213	34,721
Sales	-	-	(1)	-	(52)	(1,154)	(1,207)
Transfer to assets held for sale	-	-	-	-	-	-	-
Balance at end of period	11,166	25,524	19,295	6,218	408,882	23,994	495,079
Accumulated depreciation							
Balance at beginning of period	-	-	1,893	2,957	60,721	11,496	77,067
Depreciation	-	-	282	147	11,976	1,834	14,239
Impairment	-	-	-	-	-	-	--
Sales	-	-	-	-	(71)	(1,019)	(1,090)
Transfer to assets held for sale	-	-	-	-	-	-	-
	-	-	2,175	3,104	72,626	12,311	90,216
Balance at end of period	11,166	25,524	17,120	3,114	336,256	11,683	404,863
Comprising – Cost	11,166	-	17,120	3,114	336,256	11,683	379,339
– Valuation	-	25,524	-	-	-	-	25,524
Group 2011, \$'000							
	Sub-total	Motor vehicles	Office equipment	Locomotives	Railway track	Construction	Total
Cost							
Balance at beginning of period	461,565	49,444	1,941	2,722	409	8,278	524,359
Increase through acquisition	-	-	-	-	-	-	-
Purchases/revaluation	34,721	6,539	131	522	-	5	41,918
Sales	(1,207)	(17,366)	(339)	-	-	(1,488)	(20,400)
Transfer to assets held for sale	-	-	-	-	-	-	-
Balance at end of period	495,079	38,617	1,733	3,244	409	6,795	545,877
Accumulated depreciation							
Balance at beginning of	77,067	24,661	1,276	1,327	184	-	104,515
Depreciation	14,239	3,615	116	136	-	-	18,106
Impairment	-	-	-	-	-	-	-
Sales	(1,090)	(7,792)	(269)	-	-	-	(9,151)
Transfer to assets held for sale	-	-	-	-	-	-	-
	90,216	20,484	1,123	1,463	184	-	113,470
Balance at end of period	404,863	18,133	610	1,781	225	6,795	432,407
Comprising – Cost	379,339	18,133	610	1,781	225	6,795	406,883
– Valuation	25,524	-	-	-	-	-	25,524

33. PROPERTY, PLANT AND EQUIPMENT – continued

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	Motor vehicles	Office equipment	Locomotives	Railway track	Construction	Total
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 – continued

	Parent 2011 \$'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	8	7
Depreciation	1	1
Sales	-	-
Balance at end of period	9	8
Property plant and equipment at end of period	1	2

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

	Group 2011 \$'000	Group 2010 \$'000	Parent 2011 \$'000	Parent 2010 \$'000
34. RECONCILIATION OF NET SURPLUS FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES				
Net surplus/(deficit) for the year	16,244	18,110	4,982	12,213
Share of net surplus/(deficit) in associate companies	(411)	(15)	-	-
<i>Items not involving cash flows</i>				
Depreciation	19,001	18,276	1	1
Depletion of forest	3,025	2,533	-	-
Deferred tax	1,409	621	-	-
Amortisation expense	19	462	-	-
Forest revaluation	(738)	(6,174)	-	-
Other non-cash items	(271)	(266)	(15)	(134)
<i>Impact of changes in working capital items</i>				
(Increase)/Decrease in trade and other receivables	(1,132)	(9,205)	1,356	203
(Increase)/Decrease in inventories	(1,712)	264	-	-
(Increase)/Decrease in prepayments	(219)	(127)	-	-
(Increase)/Decrease in tax refund due	233	(276)	-	-
Increase/(Decrease) in trade and other payables	(288)	5,603	(1,291)	(289)
Increase/(Decrease) in provision for tax	642	2,171	-	-
Increase/(Decrease) in other current liabilities	737	232	4	-
<i>Items classified as investing or financing activities</i>				
Gain on sale of property, plant and equipment	(209)	(76)	-	-
Loss on sale of property, plant and equipment	2,876	3	3,700	-
Net cash inflows/(outflows) from operating activities	39,206	32,136	8,737	11,994
35. CAPITAL EXPENDITURE COMMITMENTS				
Plant and equipment	5,528	10,056		
The parent company has no capital expenditure commitments. (2010: nil)				

36. 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.

36.1 Capital management strategy

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

The mission statement in the parent company 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.

36.2 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 2011, \$'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	11,913	-	-	11,913
Trade and other receivables	32,026	-	-	32,026
Advances due from the DCC	6,656	32,437	285,792	324,885
Mortgage receivables	-	1,568	-	1,568
Derivative financial instruments	20,562	-	-	20,562
NZ carbon credits	366	-	-	366
	71,523	34,005	285,792	391,320

36.2 Liquidity Risk – continued**Group 2011, \$'000**

	Maturity date	Maturity date over 1 year or less	Maturity date 1 year & less than or equal to five years	Total over 5 years
Financial liabilities				
Cash and cash equivalents	-	-	-	-
Trade and other payables	22,448	-	-	22,448
Borrowings	36,142	355,285	290,935	682,362
Derivative financial instruments	20,665	-	-	20,665
	<u>79,255</u>	<u>355,285</u>	<u>290,935</u>	<u>725,475</u>

Group 2010, \$'000**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	-	1,631	-	1,631
Derivative financial instruments	11,988	-	-	11,988
NZ carbon credits	204	-	-	204
	<u>96,935</u>	<u>35,787</u>	<u>198,255</u>	<u>330,977</u>

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
	<u>136,209</u>	<u>271,710</u>	<u>245,512</u>	<u>653,431</u>

36.3 Interest rate risk

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

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

Group interest rate risk

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

	Group 2011 \$'000	Group 2010 \$'000
Maturing in less than one year	20,000	32,500
Maturing between one and five years	157,500	61,500
Maturing after five years	147,500	225,500
	<u>325,000</u>	<u>319,500</u>

This swap liability must be considered against the fair value of the bond debt that the swap is intended to hedge. The fair value of the multi-option facility debt is now \$26m below (2010: \$8m above) the carrying cost in the Balance Sheet.

Parent interest rate risk

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

	Parent 2011 \$'000	Parent 2010 \$'000
Maturing in less than one year	-	-
Maturing between one and five years	5,000	5,000
Maturing after five years	-	-
	<u>5,000</u>	<u>5,000</u>

36.4 Currency market risk

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

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

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

	Group 2011 \$'000	Group 2010 \$'000
Forward foreign exchange contracts – fair value	2,324	1,517
– nominal value	13,757	25,202
(sale of USD and purchase of NZD)		
Forward foreign exchange contracts – fair value	(49)	13
– nominal value	777	425
(sale of NZD and purchase of USD)		
Forward foreign exchange contracts – fair value	2	37
– nominal value	1,402	1,135
(sale of AUD and purchase of NZD)		

All contracts are current.

36.5 Effectiveness of cash flow hedges

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

	Group	Group	Parent	Parent
	2011	2010	2011	2010
	%	%	%	%
Effectiveness	100	100	100	100

36.6 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	Group	Parent	Parent
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Past due receivables				
Age analysis: 30-60 days	795	1,219	-	127
60-90 days	523	396	-	127
90 days plus	976	1,882	-	1,143

36.7 Sensitivity analysis of financial assets and liabilities

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

- > Proportional foreign exchange rate movement of –10% (depreciation of NZD) and a +10% (appreciation of the NZD) against the USD, from the year end rate of 0.833. A parallel shift of +1%/-1% in the NZD market interest rate from the year end 90day BBR of 2.7% (2010: 2.8%)

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.

2011, \$'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)	20,562	-	(13,744)	-	12,854	-	(1,054)	-	1,287
Other financial assets	331,745	(100)	(100)	100	100	-	(265)	-	324
	352,307								
Financial liabilities									
Derivatives – designated as cash flow hedges (interest rate swaps, forward currency deals separately disclosed)	20,665	-	(14,602)	-	13,494	-	-	-	-
Other financial liabilities	682,362	3,656	3,656	(3,656)	(3,656)	-	-	-	-
	703,027								
TOTAL INCREASE/ (DECREASE)		3,556	(24,790)	(3,556)	22,792	-	(1,319)	-	1,611

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 \$2.0m of USD, and up to \$0.4m 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 \$112.0m from the Dunedin City Council in Dunedin City Holdings Limited is variable rate debt that is not hedged.

36.8 Fair value of financial instruments

Fair value measurements recognised in the statement of financial position

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

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

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

2011, NZ \$'000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	20,562	-	20,562
New Zealand carbon credits	366	-	-	366
	366	20,562	-	20,928
Financial liabilities				
Derivative financial liabilities	-	-	-	-
	-	20,665	-	20,665
	-	20,665	-	20,665

36.8 Fair value of financial instruments – continued				
2011, 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 liabilities	-	-	-	-
Derivative financial liabilities	-	11,988	-	11,988
	-	11,988	-	11,988

37. 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 arms-length commercial basis. The group provided services and traded with Dunedin City Council in respect of the following transactions:

	Group 2011 \$'000	Group 2010 \$'000
Sales of services to the Dunedin City Council:		
Contracting services	17,530	12,813
Interest income	18,490	18,369
Transport services	483	391
	36,503	31,573
Purchases of goods and services from the Dunedin City Council:		
Interest	7,616	8,223
Dividends	15,584	14,877
Materials/network assets	1,548	654
Rates and property rentals	1,000	976
Administration and office services	42	39
	25,790	24,769
As at balance date:		
Receivable from Dunedin City Council	330,215	244,812
Payable to Dunedin City Council (inclusive of shareholders advance)	112,126	112,079
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	453	169
Dividends	-	25
Management fee	25	-
	478	194

Group 2011 \$'000	Group 2010 \$'000
Paid or payable to associate companies:	
City Forests Limited purchases from chip mill	1 -
As at balance date:	
Receivable from associate companies	124 26
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. Amounts are to the nearest \$1,000.

During the course of the year:

- > City Forests Limited, Taieri Gorge Railway Limited and DELTA Utility Services Limited paid \$22,000 (2010: \$125,000) 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 \$610,000 (2010: \$886,000) for materials to Blackhead Quarries Limited, an organisation of which Mr R D Liddell is a director. Blackhead Quarries Limited paid \$38,000 (2010: \$3,000) to DELTA Utility Services Limited for contacting services. At year end \$29,000 was payable to Blackhead Quarries Limited (2010: \$85,000).
- > DELTA Utility Services Limited purchased no (2010: \$17,000) consulting, accounting and financial services from Enabling Technologies Limited, an organisation of which Dr N Evans is a director.
- > DELTA Utility Services Limited and Taieri Gorge Railway Limited paid \$21,000 (2010: \$47,000) 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 sold contracting services to a value of \$410,000 (2010: \$168,000) and purchased services to a value of \$21,000 (2010: \$17,000) to the University of Otago an organisation of which Mr S J McLauchlan is the Pro-Chancellor. At year end, \$11,000 was payable to the University (2010: \$4,000) and \$63,000 was receivable (2010: \$20,000).
- > DELTA Utility Services Limited sold no contracting services (2010: \$18,000) 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 \$12,000 (2010: \$85,000) 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 last year.
- > DELTA Utility Services purchased services to a value of \$13,000 (2010: \$24,000) to Lund South Limited an organisation of which Mr S J McLauchlan is a director. No services were sold to Lund South Limited (2010: \$200,000).
- > DELTA Utility Services Limited and Taieri Gorge Railway Limited purchased less than \$1000 of services from Scenic Circle Hotels Limited (2010: \$5,000) an organisation of which Mr S J McLauchlan is a director.
- > DELTA Utility Services Limited and Taieri Gorge Railway Limited purchased no services (2010: \$5,000) from Cargill Hotel 2002 Limited an organisation of which Mr S J McLauchlan is a director.
- > Citibus Limited paid \$74,000 (2010: \$64,000) for accounting services to Ms S Spiers, a close family member of a director.
- > Taieri Gorge Railway Limited paid \$18,000 (2010: \$17,000) 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 \$1,000 (2010: \$4,000) were provided to Mr Wilson. Nothing was outstanding as at 30 June 2011 (2010: \$2,000).
- > Mr N Harwood is an employee of DELTA Utility Services Limited. In the 2011 year, no contracting services were provided to Mr Harwood (2010: \$1,000). No monies were outstanding as at 30 June 2011 (2010: nil).
- > Ms R Walker is an employee of DELTA Utility Services Limited. In the 2011 year, contracting services of \$8,000 were provided to Ms Walker (2010: nil). No monies were outstanding at year end (2010: nil).

Group 2011 \$'000	Group 2010 \$'000	Parent 2011 \$'000	Parent 2010 \$'000
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Compensation of key management personnel

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

Short-term benefits	3,246	2,748	321	316
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The remuneration of directors is agreed annually by the Dunedin City Council in accordance with the policies that it sets from time to time. The remuneration of management is determined by the remuneration committees of each board having regard to the performance of individuals and market trends.

Parent Company

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

Purchases of goods and services, payments made

Dunedin City Council		
Dividends	15,584	14,877
Interest	7,616	8,223
Other	13	10
Subsidiaries	1,722	1,512
	24,935	24,622

Sales of goods and services, payments received

Dunedin City Council	-	-
Subsidiaries		
Dividends	18,003	19,335
Other	325	2,896
Associates		
Dividends	132	-
	18,460	22,231

38. 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.

39. EVENTS AFTER BALANCE SHEET DATE

Change in company tax rate: The changes include the drop in company tax rate from 30% to 28% which applies for the 2011/2012 income year. The new tax rate was used in deferred tax calculations for 2010/2011.

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RESPONSIBILITIES AND EXPERIENCE

<i>Director</i>	<i>Experience</i>	<i>Responsibilities</i>
Paul R Hudson <i>J.P., B.Com., C.A.</i>	Company director, councillor	Chairman Appointed 1993
Michael O Coburn <i>F.N.Z.I.M., A.F.Inst.D.</i>	Company director Director, Arthur Barnett Limited Director, Jack Tewa Foundation Appointer Limited Director, Islington Park Limited Director, Lake Hayes Estate Limited Director, New Zealand Aquifer Limited Director, New Zealand Property Fund Limited	Non-executive director Appointed 2003
Norman G Evans <i>D.B.A., M.B.A., N.Z.C.E, M.Inst.D</i>	Company director Chairman, Enabling Pty Limited (Aus) Director, Enabling NZ Limited Director, Halo Investment Management Limited Director, Halo Fund No 1 Limited Director, Lifetime Health Diary Limited	Non-executive director Appointed 2005
Ross D Liddell <i>B Com, C.A.(P.P), A.C.I.S., A.F.Inst.D</i>	Company director Chairman, James Maurice Properties Limited Chairman, Palmer & Son Limited Chairman, 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	Non-executive director Appointed 1999
Stuart J McLauchlan <i>B Com, C.A.(P.P)., A.F.Inst.D.</i>	Partner, G S McLauchlan & Co Chairman, Helicopters (NZ) Limited Chairman, NZ Sports Hall of Fame Chairman, Scott Technology Limited Chairman, Pharmac Limited Chairman, UDC Finance Limited Director, A D Instruments Pty Limited Director, Cargill Hotel 2002 Limited Director, Crown Monitor, SDHB Director, Dunedin Casinos Limited Director, HTS-110 Limited Director, Islington Park Limited Director, Scenic Circle Hotels Limited and subsidiaries Director, Lund South Limited Director, Otago & Southland Employers Assn Director, Roxdale Foods Limited Director, South Canterbury Finance subsidiaries Director, University of Otago Foundation Studies Limited Director, USC Investments Limited Pro-Chancellor, University of Otago	Non-executive director Appointed June 2007

In accordance with the constitution of Dunedin City Holdings Limited one third of the directors retire by rotation and directors appointed through the year must also retire.

DIRECTORS' REMUNERATION AND BENEFITS

<i>Parent company</i>	<i>\$</i>	<i>Company</i>
<i>Director</i>		
Paul R Hudson	32,217	Dunedin City Holdings Ltd
Michael O Coburn	18,234	Dunedin City Holdings Ltd
Norman G Evans	18,234	Dunedin City Holdings Ltd
Ross D Liddell	18,234	Dunedin City Holdings Ltd
Stuart J McLauchlan	18,234	Dunedin City Holdings Ltd
Parent company total	105,153	
Subsidiaries		
<i>Director</i>	<i>\$</i>	<i>Company</i>
Michael O Coburn	21,250	Aurora Energy Ltd
	14,495	Citibus Ltd
	20,549	City Forests Ltd
	19,350	DELTA Utility Services Ltd
Norman G Evans	21,250	Aurora Energy Ltd
	14,495	Citibus Ltd
	20,549	City Forests Ltd
	20,850	DELTA Utility Services Ltd
Paul R Hudson	21,250	Aurora Energy Ltd
	20,914	Citibus Ltd
	23,863	City Forests Ltd
	19,350	DELTA Utility Services Ltd
Ross D Liddell	33,506	Aurora Energy Ltd
	14,495	Citibus Ltd
	36,710	City Forests Ltd
	34,975	DELTA Utility Services Ltd
	32,980	Dunedin City Treasury Ltd
Stuart J McLauchlan	23,500	Aurora Energy Ltd
	14,495	Citibus Ltd
	20,549	City Forests Ltd
	21,600	DELTA Utility Services Ltd
Raymond S Polson	44,500	Aurora Energy Ltd
	43,950	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	14,711	Taieri Gorge Railway Ltd
John M Chapman	9,231	Taieri Gorge Railway Ltd
F John McCall	9,231	Taieri Gorge Railway Ltd
Gary M Williams	9,231	Taieri Gorge Railway Ltd
Kate Wilson	9,231	Taieri Gorge Railway Ltd
Brian C Wolff	2,308	Taieri Gorge Railway Ltd
Hon Stan Rodger	6,923	Taieri Gorge Railway Ltd
Subsidiaries Total	\$620,291	
Group Total	\$725,444	

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INSURANCE

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

DIRECTORS' BENEFITS

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

EVENTS SUBSEQUENT TO BALANCE DATE

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

EMPLOYEE REMUNERATION

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

<i>Remuneration Range</i>	<i>Parent Company</i>	<i>Subsidiaries</i>
\$380,000-390,000	-	1
\$320,000-329,999	-	1
\$250,000-259,999	-	2
\$210,000-219,999	1	1
\$200,000-209,000	-	1
\$190,000-199,999	-	3
\$180,000-189,999	-	2
\$170,000-179,999	-	1
\$160,000-169,999	-	2
\$150,000-159,999	-	-
\$140,000-149,999	-	1
\$130,000-139,999	-	4
\$120,000-129,999	-	5
\$110,000-119,999	-	14
\$100,000-109,999	-	13

parent company statement of service performance

The performance targets established in the 2010/2011 Statement of Corporate Intent for Dunedin City Holdings Limited and the results achieved for the year ended 30 June 2011 are as follows:

Performance targets	Outcome achieved
ECONOMIC	
1.0 Value added At the half year and the full year to assess the economic value added and the appropriateness of rates of return for each of the group Companies.	Rates of return reviewed and value added assessed at the half year and full year. Refer to an earlier page for the group EVA result.
2.0 Dunedin City Council objectives A review of the draft Statements of Corporate Intent for 2010/2011 to be completed by 31 July 2010.	The review of the draft 2010/2011 Statements of Corporate Intent reported to the Council for February 2010.
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 a result the business and assets of Citibus Limited were sold during the year.
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.
SOCIAL	
7.0 Reporting (i) Monthly reports to be received from the group Companies within 35 days from the end of the month under review. (ii) Reports are to be provided to Dunedin City Council within 45 days after the end of each quarter by Dunedin City Holdings Limited.	Each of the Companies in the group reported monthly within 35 days of the previous month end. Reports were provided to the Council within 45 days.
8.0 Corporate Citizen A review of the activities undertaken by the group Companies for purposes of being a good corporate citizen.	A review of 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 2010/2011 Statement of Intent, presented to the shareholder in February 2010, projected that the parent company surplus after tax would be \$13.3m and that the shareholder's funds at year end would be \$40.86m 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 \$4.98m and lower than expected due to the loss on the sale of the Citibus business and the change in tax policy that caused the cessation of subvention income from a tax paying subsidiary. The shareholder's funds at the end of the period, at \$32.7m, were accordingly lower reflecting lower income but a constant level of distribution to the shareholder. The dividends plus the interest on the shareholders advance to the Dunedin City Council in February 2010 were projected to be \$23.2m and this was the amount that was paid.

auditor's report

**Independent Auditor's Report
To the readers of
Dunedin City Holdings Limited and group's
financial statements and statement of service performance
for the year ended 30 June 2011**

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

We have audited:

- the financial statements of the company and group on pages 29 to 68, that comprise the balance sheet as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on pages 72 and 73.

Opinion on the financial statements and the statement of service performance

In our opinion,

- the financial statements of the company and group on pages 29 to 68:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the company and group's:
 - financial position as at 30 June 2011; and
 - financial performance and cash flows for the year ended on that date; and
- the statement of service performance of the company on pages 72 and 73:
 - complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the company's service performance achievements measured against the performance targets adopted for the year ended 30 June 2011.

Opinion on other legal requirements

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

Our audit was completed on 15 September 2011. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control.

An audit also involves evaluating:

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

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. In accordance with the *Financial Reporting Act 1993*, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

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

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

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

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

Responsibilities of the Auditor

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

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

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) Requirement 2008. These assignments are compatible with those independence requirements.

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



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

company directory

Directors

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

Company Secretary

Athol J Stephens

Chief Executive

Bevan R N Dodds

Registered Office

50 The Octagon
Dunedin
New Zealand

Bankers

National Bank of New Zealand Limited

Taxation Advisors

Deloitte

Solicitors

Anderson Lloyd

Auditor

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



