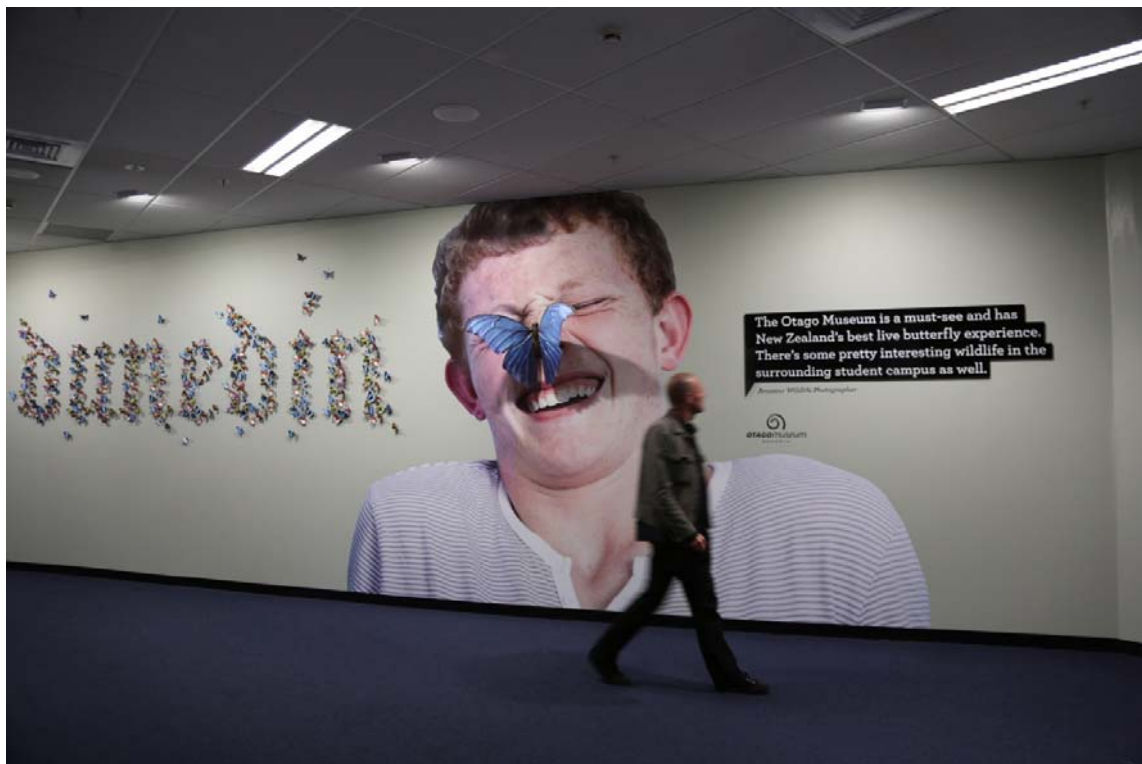


DUNEDIN CITY HOLDINGS LIMITED



REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

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HIGHLIGHTS

Six Months Ended 31 December 2014

- The after tax profit increases from \$8.7 million for the six months to 31 December 2013 to \$10.1 million a \$1.4 million (16.1%) increase
- Group revenue increased by 9.5% to \$128.3 million.
- Cash flow from operating activities increased by \$4.1 million to \$25.8 million.
- Term borrowings (including current portion) have decreased by \$26.3 million to \$586.5 million.

DUNEDIN CITY HOLDINGS LIMITED

DIRECTORS' REPORT

For the Six Months Ended 31 December 2014

Results for the Six Months Ended 31 December 2014

	Group \$000
Operating surplus before tax from continuing activities	14,440
Income tax	4,440
Net surplus/(deficit) for the period from continuing activities	10,000
Gain from discontinued activities	118
Net surplus/(deficit) for the period	10,118
Interest expense to Dunedin City Council on the shareholders advance	2,951
Subvention paid to Dunedin City Council subsidiaries	3,644
Net surplus/(deficit) pre shareholders interest and subvention	16,713

DIRECTORS' REPORT

For the Six Months Ended 31 December 2014

Dividends

The company paid a \$1.5m interim dividend to Dunedin City Council in December.

Reserves and Retained Earnings

Forest revaluation reserves were increased by a net \$479k following a revaluation, net of deferred tax, of the forest.

The change in retained earnings comprises the after tax profit reduced by the dividend to Council and the transfer of the \$479k increase in forest revaluation to reserves.

Review of Operations

Dunedin City Holdings Limited

The parent company returned a net surplus after income tax for the half year of \$1.9 million compared to a surplus of \$1.4 million for the same period in 2013. A reduction in interest costs and operating costs have driven the favourable movement.

Subsidiary Companies

Aurora Energy Limited

The operating surplus before tax and subvention is \$13.8 million compared to \$11.0 million for the same period last year. Revenue determining energy volumes have been lower during the period due to warmer average temperatures. Notwithstanding that there is potential for these conditions to continue the company is expecting to be on target for its full year operating result.

Delta Utility Services Limited

Delta has continued to grow its asset management, energy and environmental divisions and expects a satisfactory result by year end. The Group's net profit before income tax was \$ 3.0 million compared to: \$3.515 million for the same period last year.

City Forests Limited

The Company's log export business has experienced improving returns over the six month period. International log markets led by China are recovering from the overstock situation experienced at the beginning of the financial year. When combined with the substantial drop in the value of the New Zealand Dollar compared to the United States Dollar and a reduction in international shipping rates on the back of reduced fuel costs; New Zealand Dollar log export returns have again lifted to above average levels.

Taieri Gorge Railway Limited

Favourable movements in revenue compared to the same period last year has translated into an improvement in the operating performance of the Company.

DIRECTORS' REPORT

For the Six Months Ended 31 December 2014

The market is showing recovery after several years of weakness following the Christchurch earthquakes and the consequent lack of hotel rooms in Christchurch. The falling New Zealand dollar, recovery of regional tourism in New Zealand and an improvement in the level of cancellations in the cruise ship market has assisted the situation.

Dunedin City Treasury Limited

The company continues to act as the central treasury for the Dunedin City Holdings group and the wider Dunedin City Council group. The company has been able to consistently obtain the funds that it has required for the shareholder and the group at good margins which are highly competitive as measured against similar organisations of equal credit rating.

Associate Company

Dunedin International Airport Limited

An operating surplus before tax of \$1.5 million is consistent with the same period last year where an operating surplus of \$1.4 million was achieved. A reduction in aeronautical income has been offset by an increase in non-aeronautical income. Overall passenger numbers are down by 1% compared to the same period last year.

Corporate Governance

Dunedin City Holdings Limited is a Council Controlled Trading Organisation (CCTO). The directors' role is defined in the Local Government Act 2002. This states that all decisions relating to the operation of the CCTO shall be made pursuant to the authority of the directorate of the CCTO and its Statement of Intent (SI). The board is responsible for the preparation of the SI. In addition to the obligations of the Local Government Act, Dunedin City Holdings Limited is also covered by the Companies Act and governed by directors in accordance with the law and best practice.

The shareholder reviews and approves the SI and three-year financial plan. Six monthly and annual reports of financial and operational performance are provided to the shareholder. In addition quarterly updates are provided to Councillors of the Dunedin City Council.

Financial Statements

The unaudited financial statements for the six months ended 31 December 2014 are attached to this report.

Directors' Interests in Contracts

Disclosures of interests made by 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' REPORT

For the Six Months Ended 31 December 2014

Directors' Insurance

In accordance with their constitutions, Dunedin City Holdings Limited and its subsidiary companies have arranged policies of Directors' and Officers' Liability Insurance which, together with a deed of indemnity, ensure that the directors will not incur any monetary loss as a result of actions undertaken by them as directors provided that they operate within 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 shown in the financial statements). There were no notices from directors of the company requesting to use company information received in their capacity as directors 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 period not otherwise dealt with in this report or the financial statements that has significantly or may significantly affect the operation of Dunedin City Holdings Limited, the results of those operations or the state of affairs of the parent company or the group.

Outlook

The outlook for the group is positive for the full year. All the companies expect to either meet or exceed planned results for the year which is a pleasing result for the group.

A strong operating cash flow performance along with utilisation of cash on hand in the group has seen the group pay off a substantial proportion of debt further strengthening the financial position of the group.

On behalf of the Board of Directors

Chairman

25 February 2015

Principal Activities of the Group

Dunedin City Holdings Limited as the parent company of the group has a primary role to monitor and support the performance of its subsidiary companies on behalf of the ultimate shareholder, Dunedin City Council. This role involves continual review of strategic direction, operating activities, financial performance, and service delivery of each of the subsidiaries.

It is the responsibility of Dunedin City Holdings Limited to ensure that each of its subsidiary companies has a sustainable competitive position and, where appropriate, a basis for growth. Dunedin City Holdings Limited also has the responsibility to ensure that its subsidiary companies receive the advantages available from being a group of companies and that the group's financial strength is maintained through sound financial management. The principal activities of the subsidiary companies are as follows:

- **City Forests Limited** manages approximately 16,100 hectares of land from which forest products are grown, harvested and marketed.
- **Dunedin City Treasury Limited** provides the group with funding and financial services.
- **Delta Utility Services Ltd** is an electrical and civil contracting company with a wide-ranging customer base. It is also an asset management company. As asset manager to Aurora Energy Ltd it is responsible for the efficient distribution of electricity in Dunedin City and a large proportion of Central Otago.
- **Aurora Energy Limited** owns electricity network assets in the city of Dunedin and in Central Otago in areas from Roxburgh through to Queenstown and Wanaka.
- **Taieri Gorge Railway Limited** operates a tourist and community orientated train on the Taieri Gorge Railway Line and provides other train services in the South Island, principally for charters and excursions.
- **Dunedin International Airport Limited** (Associate) operates the Dunedin Airport. It also farms adjacent land in partnership with a sharemilker and owns a small residential housing estate on land adjoining the airfield to the north.

DUNEDIN CITY HOLDINGS LIMITED

Group Financial Statistics

	Six Months to Dec 2014 \$'000	Six Months to Dec 2013 \$'000	Year to June 2014 \$'000	Year to June 2013 \$'000	Year to June 2012 \$'000	Year to June 2011 \$'000	Year to June 2010 \$'000
Revenue	128,317	117,225	233,978	255,986	254,922	245,784	233,583
Tax	4,280	4,001	6,789	5,791	2,838	7,704	5,918
Surplus after tax	10,118	8,667	12,483	20,512	(5,087)	16,244	18,110
Net interest paid to Council on Advance	2,951	3,365	6,731	5,903	7,213	7,616	8,223
Surplus after tax before shareholder interest and subvention ⁽¹⁾	16,713	15,759	24,464	31,665	7,376	23,860	26,333
Shareholder's funds	175,276	168,544	169,549	159,197	142,289	153,175	152,238
Rate of return p.a. (on shareholder's funds)	11.5%	10.3%	7.4%	12.9%	(3.5)%	10.6%	11.9%
Shareholders Advance	112,000	112,000	112,000	112,000	112,000	112,000	112,000
Dividend paid in period	1,500	1,500	3,719	4,547	10,737	15,584	14,877
Net interest paid to Council on Advance	2,951	3,365	6,731	5,903	7,213	7,616	8,223
Subvention to Council subsidiary	3,644	3,727	5,250	5,250	5,250	-	-
Total paid to Council and subsidiaries	8,095	8,592	15,700	15,700	23,200	23,200	23,100
Total assets	1,013,423	1,029,299	1,034,432	1,036,288	1,022,319	965,829	889,710
Shareholder's funds to total assets	17.3%	16.4%	16.4%	15.3%	13.9%	15.8%	17.1%

Notes:

- ⁽¹⁾ The surplus after tax figure is impacted by differing methods of distribution to the shareholder. The surplus after tax before shareholder interest provides a more consistent measure on the surpluses achieved.

DUNEDIN CITY HOLDINGS LIMITED

Statement of Comprehensive Income

For the Six Months Ended 31 December 2014

	Note	Six months to 31 December 2014 \$'000	Six months to 31 December 2013 \$'000	Year to 30 June 2014 \$'000
Continuing operations				
Revenue		113,669	102,893	202,649
Forest revaluation		665	283	1,571
Financial income		13,423	13,601	28,824
Share of retained net surplus of associates		560	448	924
<u>Total revenue from continuing operations</u>		128,317	117,225	233,978
<u>Less expenses</u>				
Audit fees		102	126	230
Contractors		12,646	11,011	22,232
Depreciation		8,631	8,572	17,406
Directors' Fees		338	343	667
Employee expenses		21,212	19,689	39,006
Financial expenses		21,803	22,968	46,177
Raw materials and consumables used		26,274	22,382	45,164
Other expenses		19,227	15,138	34,480
<u>Total expenses from continuing operations</u>		110,233	100,229	205,362
Profit before tax, impairment and subvention		18,084	16,996	28,616
Subvention payments to DVL/DVML		3,644	3,727	7,292
Impairment in value of assets in subsidiary companies		-	133	-
Profit before tax from continuing operations		14,440	13,136	21,324
Income tax expense		4,440	4,175	7,524
Profit for the Period from continuing operations		10,000	8,961	13,800
Discontinued operations	8			
Gain/(Loss) for the year from discontinued operations net of tax		118	(294)	(1,317)
Profit for the period		10,118	8,667	12,473
Other comprehensive income				
<i>Items that may be reclassified subsequently to Profit or Loss</i>				
Forest land revaluation				(101)
Interest rate swap hedge gains/(losses) during period		(1,993)	2,321	1,055
Foreign exchange hedge gains/(losses) during period		(1,468)	503	1,067
Share of other comprehensive income of associates			158	-
Income tax on other comprehensive income		969	(803)	(594)
Other comprehensive income		(2,492)	2,180	1,427
Total comprehensive income for period net of tax		7,626	10,847	13,910
Profit attributable to:				
Parent Interest		10,184	8,806	12,497
Minority Interest		(66)	(139)	(14)
Net Surplus/(Deficit)		10,118	8,667	12,483
Earnings per share from continuing operations (cents)		1.18	1.05	2.51

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

DUNEDIN CITY HOLDINGS LIMITED

Statement of Changes in Equity

For the Six Months Ended 31 December 2014

GROUP	Share Capital \$'000	Reserves \$'000	Retained Earnings \$'000	Minority Interest \$'000	Total Equity \$'000
Balance at 1 July 2014	100	41,383	127,586	480	169,549
Comprehensive income					
Profit for the year	-	-	10,184	(66)	10,118
Other comprehensive income					
Interest rate swap hedge gains/(losses) during period	-	(1,435)	-	-	(1,435)
Foreign exchange hedge gains/(losses) during period	-	(1,057)	-	-	(1,057)
Share of other comprehensive income of associates	-	15	-	-	15
Transfer between reserves	-	479	(479)	-	-
Total comprehensive income for the year	-	(1,998)	(479)	-	(2,477)
Less distribution to owners	-	-	(1,500)	-	(1,500)
Equity at 31 December 2014	100	39,385	135,791	414	175,690

For the Six Months Ended 31 December 2013

GROUP	Share Capital \$'000	Reserves \$'000	Retained Earnings \$'000	Minority Interest \$'000	Total Equity \$'000
Balance at 1 July 2013	100	38,664	119,939	494	159,197
Comprehensive income					
Profit for the year	-	-	8,806	(139)	8,667
Other comprehensive income					
Interest rate swap hedge gains/(losses) during period	-	1,817	-	-	1,817
Foreign exchange hedge gains/(losses) during period	-	362	-	-	362
Transfer between reserves	-	203	(203)	-	-
Total comprehensive income for the year	-	2,383	8,603	(139)	10,847
Less distribution to owners	-	-	(1,500)	-	(1,500)
Equity at 31 December 2013	100	41,046	127,042	355	168,544

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

DUNEDIN CITY HOLDINGS LIMITED

Consolidated Balance Sheet

At 31 December 2014

	Note	Group 31 December 2014 \$'000	Group 31 December 2013 \$'000	Group 30 June 2014 \$'000
Equity				
Share capital	5	100	100	100
Associate company asset revaluation reserve		10,516	10,340	10,501
Forest revaluation reserves	6	30,332	29,027	29,853
Hedging reserve	6	(1,463)	1,680	1,029
Retained earnings	7	135,791	127,042	127,586
		175,276	168,189	169,069
Minority Interest		414	355	480
Total Equity		175,690	168,544	169,549
Current Liabilities				
Short term borrowings		2,722	5,633	7,531
Trade and other payables		26,054	23,567	22,430
Other current liabilities		2,002	2,123	1,128
Provisions		4,600	4,150	4,413
Derivative financial instruments		18,686	19,757	17,594
Provision for tax		4,272	3,404	2,537
Current portion of term borrowings		51,686	152,757	141,686
Total current liabilities		110,022	211,391	197,319
Non-Current Liabilities				
Shareholders advance- DCC		112,000	112,000	112,000
Term borrowings		532,082	454,388	471,781
Other liabilities		557	333	320
Provisions		320	355	331
Deferred tax liability		82,752	82,288	83,132
Total non-current liabilities		727,711	649,364	667,564
Total Liabilities		837,733	860,755	864,883
TOTAL EQUITY PLUS LIABILITIES		1,013,423	1,029,299	1,034,432

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

DUNEDIN CITY HOLDINGS LIMITED

	Group 31 December 2014 \$'000	Group 31 December 2013 \$'000	Group 30 June 2014 \$'000
Current Assets			
Cash and short term deposits	9,933	20,084	36,993
Trade and other receivables	34,846	35,517	38,902
Derivative financial instruments	16,826	24,047	19,015
Inventories	5,355	6,049	4,579
Prepayments	1,750	3,359	1,085
Tax refund due	2	-	739
Investment	17,205	10,246	16,355
Inter company advances	532	-	-
Assets classified as held for sale	4,168	5,139	4,459
Total current assets	90,617	104,441	122,127
Non-Current Assets			
Investments	345,399	359,494	341,727
Property, plant and equipment	442,105	433,993	436,213
Forestry assets	111,623	108,423	111,093
Investments in associates	22,596	22,346	22,661
Intangible asset	1,083	602	611
Total non-current assets	922,806	924,858	912,305
TOTAL ASSETS	1,013,423	1,029,299	1,034,432

For and on behalf of the Board of Directors

Director

G W Crombie
Director

25 February 2015

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

DUNEDIN CITY HOLDINGS LIMITED

Statement of Cash Flows

For the Six Months Ended 31 December 2014

	Note	Six months to 31 December 2014 \$'000	Six months to 31 December 2013 \$'000	Year to 30 June 2014 \$'000
Cash Flows from Operating Activities				
<i>Cash was provided from</i>				
Receipts from customers		121,560	112,348	205,018
Dividends from associates		640	565	-
Interest received		17	21	384
		122,217	112,934	205,402
<i>Cash was disbursed to</i>				
Payments to suppliers and employees		71,989	71,065	116,849
Interest paid		23,012	19,463	47,389
Income tax paid		1,441	1,431	2,497
Net GST paid		(1,433)	(1,339)	151
Subvention to DVL/DVML		1,361	1,361	7,893
		96,379	91,981	174,779
Net Cash Inflows/(Outflows) from Operating Activities from Continuing Activities		25,838	20,953	30,623
Net Cash Inflows/(Outflows) from Operating Activities from Discontinued Activities		-	738	(539)
Net Cash Inflows/(Outflows) from Operating Activities	9	25,838	21,691	30,084
Cash Flows from Investing Activities				
<i>Cash was provided from</i>				
Sale of property, plant and equipment		4,024	165	898
Investments realised		1,218	3,269	28,930
		5,242	3,434	29,828
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		17,343	13,245	28,354
Purchase of investments		3,394	1,200	2,365
		20,737	14,445	30,719
Net Cash Inflows/(Outflows) from Investing Activities from Continuing Activities		(15,495)	(11,011)	(891)
Net Cash Inflows/(Outflows) from Investing Activities from Discontinued Activities		-	9,721	14,812
Net Cash Inflows/(Outflows) from Investing Activities		(15,495)	(1,290)	13,921

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

DUNEDIN CITY HOLDINGS LIMITED

	Six months to 31 December 2014 \$'000	Six months to 31 December 2013 \$'000	Year to 30 June 2014 \$'000
Cash Flows from Financing Activities			
<i>Cash was provided from</i>			
Proceeds from borrowings	-	100	-
	-	100	-
<i>Cash was disbursed to</i>			
Repayment of borrowings	35,903	3,959	9,376
Dividends paid	1,500	1,500	3,719
	37,403	5,459	13,095
Net Cash Inflows/(Outflows) from Financing Activities from Continuing Activities	(37,403)	(5,359)	(13,095)
Net Cash Inflows/(Outflows) from Financing Activities from Discontinued Activities	-	(9,427)	(8,386)
Net Cash Inflows/(Outflows) from Financing Activities	(37,403)	(14,786)	(21,481)
NET INCREASE/(DECREASE) IN CASH HELD	(27,060)	5,615	22,524
Cash and short term deposits at the beginning of the year	36,993	14,469	14,469
CASH AND SHORT TERM DEPOSITS AT THE END OF THE PERIOD	9,933	20,084	36,993
Composition of Cash			
Cash and short term deposits	9,933	20,084	36,993
Bank overdraft	-	-	-
CASH AND SHORT TERM DEPOSITS AT THE END OF THE YEAR	9,933	20,084	36,993

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

Notes to the Financial Statements

For the Six Months Ended 31 December 2014

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 six months ended 31 December 2014.

The registered address of the company is 50 The Octagon, Dunedin 9016

Dunedin City Holdings Limited is a profit orientated entity.

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 operates.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The condensed consolidated financial report is a general purpose financial report which has been prepared in accordance with NZ IAS 34: Interim Financial Reporting.

The condensed consolidated financial report does not include all of the information required for a full annual report.

The financial report is to be read in conjunction with the most recent annual financial report.

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.

DUNEDIN CITY HOLDINGS LIMITED

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.

DUNEDIN CITY HOLDINGS LIMITED

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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

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

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 shareholders' rights to receive payment have been established.

Construction Contracts

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

DUNEDIN CITY HOLDINGS LIMITED

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 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 retranslated 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).

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Borrowing Costs

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

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

Government Loans

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

Employee Entitlements

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

Entitlements to long service leave 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.

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.

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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, are 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.

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.

Revaluations are performed with sufficient regularity such that the carrying amount for forests and/or forest land 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 forests and/or forest 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.

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 asset's 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 over their expected useful lives on the same basis as owned assets, or where shorter, over the term of the relevant lease.

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

	<i>Rate</i>	<i>Method</i>
Buildings	1% to 5%	Straight Line
Metering Equipment	10% to 20%	Straight Line
Electricity Network Assets	1% to 20%	Straight Line
Plant and Equipment	5% to 50%	Straight Line
Motor Vehicles	5% to 25%	Straight Line
Railway Assets	1% to 20%	Straight Line
Office Equipment and Fittings	5% to 48%	Straight Line
Construction in Progress	no depreciation charged	
Software	20% to 100%	Straight Line

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

	<i>Rate</i>	<i>Method</i>
Buildings	2% to 3%	Straight Line
Roads	5% to 24%	Diminishing Value
Bridges	2% to 2.4%	Diminishing Value
Plant and Equipment	6% to 80.4%	Diminishing Value
Fences	10% to 13%	Diminishing Value
Motor Vehicles	6.6% to 36%	Diminishing Value
Office Equipment	10% to 60%	Diminishing Value

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

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

At transition date, when the accounts were transferred to International Financial Reporting Standards, the carrying value of the network assets of Aurora Energy Limited and the carrying value of plant and equipment, motor vehicle and office equipment and fixture assets of Citibus Limited were transferred at deemed cost in accordance with NZ IFRS1. Amounts in the revaluation reserves in these two companies were transferred to retained earnings.

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.

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Derecognition of Non-Financial Assets

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

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

Investment Property

Investment property, which 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.

Research and Development Expenditure

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

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 (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, 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 (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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

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Inventories

Inventories are stated at the lower of cost and net realisable value. Log inventories are valued at net realisable value less estimated point of sale costs. 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.

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.

Accounts receivable

Accounts receivable are stated at cost less any allowances for estimated irrecoverable amounts.

Cash and short term deposits

Loans and other receivables are financial instruments that are measured at amortised cost using the effective interest method. This type of financial instrument includes deposits, term deposits, community loans and mortgages.

Investments Held for Trading

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

Investments in debt and equity securities:

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

Accounts payable

Accounts payable 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 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 re-measured 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.

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.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted 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.

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Carbon Credits

Emissions units held are treated as intangible assets, and initially recorded at:

- Cost in the case of purchased units.
- Government granted units are recognised at fair value (initial market value) when there is reasonable assurance that the company will comply with the attached conditions and the grant will be received.

Emissions unit fair value is marked to market (revalued) annually at 30 June subsequent to initial recognition and annually thereafter. The difference between initial fair value or previous annual revaluation and disposal or revaluation value of the units is treated as revenue if positive or expense if negative. Emissions obligations are recognised as a current or future liability depending on the legislated liability period. Emissions liability is recorded at the market value of emissions units at the end of the period. Increases in emissions liabilities at 30 June are treated as expenses and reductions are treated as revenue

Provisions

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

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

Prior Period Comparatives

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

Critical Accounting Estimates and Assumptions

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

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

Discontinued Operations

Discontinued operations consist of business units and other non-core assets that have either been sold or discontinued during the year or are classified as held-for-sale at year end.

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

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3. SEASONALITY OF OPERATIONS

The profitability and cash flow of the group contains seasonal elements. Some businesses of the group have quite marked seasonal elements but overall the winter business of the electricity distribution company has a bigger impact on the group than the summer flows of the tourism based businesses of Taieri Gorge Railway and the summer bias of the Delta Utility Services contracting activity.

4. DIVIDENDS

The following dividends were paid by the group:

	Group 31 December 2014 \$'000	Group 31 December 2013 \$'000	Group 30 June 2014 \$'000
Interim dividends	1,500	1,500	1,500
Final dividend	-	-	2,719

5. EQUITY - Share Capital

Issued Capital

850,000,000 ordinary shares	100	100	100
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On incorporation, Dunedin City Holdings Limited issued 100,000,000 ordinary shares in favour of the Dunedin City Council. Only \$100,000 was called.

Since incorporation Dunedin City Holdings Ltd has issued additional shares for a consideration 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

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6. RESERVES

	Group 31 December 2014 \$'000	Group 31 December 2013 \$'000	Group 30 June 2014 \$'000
<u>Forest and Forest Land Revaluation Reserve</u>			
Balance at beginning of the year	29,853	28,823	28,823
Net revaluations of forest	479	204	1,131
Net revaluations of forest land	-	-	(101)
Balance at the end of the year	30,332	29,027	29,853
<u>Hedging Reserve</u>			
Balance at beginning of the year	1,029	(499)	(499)
Net revaluations	(3,461)	2,977	2,122
Deferred tax arising on hedges	969	(798)	(594)
Balance at the end of the year	(1,463)	1,680	1,029

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.

7. RETAINED EARNINGS

	Group 31 December 2014 \$'000	Group 31 December 2013 \$'000	Group 30 June 2014 \$'000
Balance at the beginning of the year			
Group companies	120,410	112,763	112,763
Associate companies	7,176	7,176	7,176
	127,586	119,939	119,939
Net surplus for the year	10,118	8,667	12,483
Dividend distributions	(1,500)	(1,500)	(3,719)
Transfer to forest reserve	(479)	(203)	(1,131)
Minority share of surplus	66	139	14
Balance at the end of the year	135,791	127,042	127,586
<i>Represented by</i>			
Group companies	128,615	119,418	120,410
Associate companies	7,176	7,624	7,176
Balance at the end of the year	135,791	127,042	127,586

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8. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS

Discontinued operations

On 12 July 2013 the Group announced plans to cease operations in the civil construction sector. All Civil construction business units completed their contracts before exiting the sector by the end of June 2014. The civil construction business units are reported as discontinued operations.

A special resolution was passed on the 1 May 2014 by Delta Utility Services Limited to have its subsidiary Delta Investments Limited removed from the Companies Register. The Company was removed from the register on 11 July 2014. Delta Investments Limited's operations are included as discontinued operations

In 2012 City Forests Limited entered into a lease agreement in respect of the processing mill at Milburn. The activities related to the wind up of City Forests Limited operations at that plant have been reclassified to discontinued operations.

Income statement information

	Delta Utilities Ltd Six months ended		City Forests Ltd Six months ended		Total Six months ended	
	31 December 2014 \$'000	31 December 2013 \$'000	31 December 2014 \$'000	31 December 2013 \$'000	31 December 2014 \$'000	31 December 2013 \$'000
Revenue	-	5,180	201	230	201	5,410
Expenses	-	(5,707)	(37)	(157)	(37)	(5,864)
Loss before income tax from discontinued operations	-	(527)	164	73	164	(454)
Income tax(expense)/credit	-	180	(46)	(20)	(46)	160
Loss after income tax from discontinued operations	-	(347)	118	53	118	(294)

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9. RECONCILIATION OF NET SURPLUS FOR THE PERIOD TO CASH FLOWS FROM OPERATING ACTIVITIES

	Group 31 December 2014 \$'000	Group 31 December 2013 \$'000	Group 30 June 2014 \$'000
Net surplus/(deficit) for the year	10,118	8,667	12,483
Share of net surplus/(deficit) in associate companies	(560)	(448)	(924)
<i>Items Not Involving Cash Flows</i>			
Amortisation of intangibles	(80)	474	-
Asset impairment	-	133	1,955
Depreciation	8,684	9,009	17,885
Depletion of forest	1,433	1,607	2,487
Deferred tax	113	2,362	3,066
Forest revaluation	(665)	(283)	(1,571)
Other non-cash items	547	(511)	4,365
<i>Impact of Changes in Working Capital Items</i>			
(Increase)/Decrease in trade and other receivables	4,056	3,777	(4,219)
(Increase)/Decrease in inventories	(776)	(602)	866
(Increase)/Decrease in prepayments	(665)	(1,321)	(223)
(Increase) / Decrease in tax refund due	737	-	(172)
(Increase) / Decrease in other current assets	291	-	(2,790)
(Increase) / Decrease in inter company balances	(532)	-	-
Increase / (Decrease) in trade and other payables	4,498	3,317	2,936
Increase / (Decrease) in provision for tax	1,735	636	(797)
Increase / (Decrease) in other current liabilities	874	(3,299)	(1,001)
 (Gain) on sale of property, plant and equipment	(366)	(1,827)	(1,757)
Capital creditors included in accounts payable	(2,397)	-	-
Items related to development property	(1,207)	-	(1,992)
Net cash inflows / (outflows) from operating activities	25,838	21,691	30,084

10. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Financial risk factors

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the group's annual financial statements as at 30 June 2014. There have been no changes in the risk management strategies or in any risk management policies since the year end.

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Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the group's assets and liabilities that are measured at fair value at 31 December 2014.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivatives used for hedging	–	16,826	–	16,826
NZ Carbon Credits	4,168	–	–	4,168
Forest land	–	–	25,574	25,574
Forestry assets	–	–	111,623	111,623
Total assets	4,168	16,826	137,197	158,191
Liabilities				
Derivatives used for hedging	–	18,686	–	18,686
Total liabilities	–	18,686	–	18,686

The following table presents the group's assets and liabilities that are measured at fair value at 30 June 2014.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivatives used for hedging	–	19,015	–	19,015
NZ Carbon Credits	3,079	–	–	3,079
Forest land	–	–	25,574	25,574
Forestry assets	–	–	111,093	111,093
Total assets	3,079	19,015	136,667	158,761
Liabilities				
Derivatives used for hedging	–	17,594	–	17,594
Total liabilities	–	17,594	–	17,594

There were no transfers between any levels during the period.

Valuation techniques used to derive Level 2 fair values

Level 2 hedging derivatives comprise forward foreign exchange contracts and interest rate swaps. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

DUNEDIN CITY HOLDINGS LIMITED

Fair value measurements using significant unobservable inputs (Level 3)

	Forest land \$'000	Forestry assets \$'000	Total \$'000
Opening balance at 1 July 2014	25,574	111,093	133,703
Gains/(losses) in profit or loss, under 'Forest revaluation'	–	665	283
Gains/(losses) recognised in other comprehensive income, under 'Forestry land revaluation'	–	–	–
Costs capitalised in establishing forests during the period	–	1,030	854
Interest capitalised		268	
Less Value of logs harvested	–	(1,433)	(1,303)
Closing balance at 31 December 2014	25,574	111,623	133,537

Discounted cash flow or similar modelling techniques are generally used to determine the recurring fair value measurements for Level 3 forestry assets. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

The forestry valuation is subject to unobservable inputs such as the yield per hectare, the log price, and the discount rate. The higher the yield and the log price the higher the fair value. The higher the discount rate, the lower the fair value.

The group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no changes in valuation techniques during the period.

Group's valuation processes

The valuation processes used for valuing derivatives, forest land, forestry and carbon credits are as described in the full annual financial statements for the year ended 30 June 2013, with the exception that the forestry valuation is only peer reviewed annually at 30 June.

Fair value of financial assets and liabilities measured at amortised cost.

The directors estimate the fair value of the group's borrowings are as follows:

	31 December 2014 \$'000	30 June 2014 \$'000
Multi-option note facility	595,139	612,044
Forestry loans	6,690	7,265
	601,829	619,309

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Cash and cash equivalents
- Trade and other receivables
- Investments
- Trade and other payables

DUNEDIN CITY HOLDINGS LIMITED

COMPANY DIRECTORY

As at 31 December 2014

Directors	Responsibilities	Declarations of Interests
Graham William Crombie Date appointed – 25 June 2012	Chairman Company Director	Chairman, NZ Institute of Chartered Accountants Chairman, Otago Museum Trust Independent Chairman, Action Engineering Limited Director, Australia/NZ Chartered Accountants Director, Surf Life Saving NZ Chairman, NZ Genomics Limited Trustee, Arai Te Uru Kokiri Centre Charitable Trust Director and shareholder, Innovatio Limited Chairman, Dunedin City Treasury Ltd
Kathleen Enid Grant Date appointed – 25 June 2012	Company Director	Consultant, Gallaway Cook Allan Chair of Council, Otago Polytechnic Trustee, Sport Otago Director, Dunedin City Treasury Limited Director, Dunedin International Airport Limited Director, Southern Sinfonia
Linda May Robertson Date appointed – 17 October 2013	Company Director	Chairman, Statistics New Zealand Audit and Risk Committee Director, Dunedin City Treasury Limited Director, Hunter Downs Development Limited Employee and shareholder, Meridian Energy Limited Director and shareholder, RML Consulting Limited
Brian John Wood Date appointed - 17 October 2013	Company Director	Chairman, Buller Holdings Limited Chairman, Westreef Services Limited Chairman, Buller Recreation Limited Chairman, Westport Harbour Limited Chairman, Canterbury Linen Services Limited Chairman, Abley Transportation Consultants Limited Director, Interpret Geospatial Solutions Limited Director, Lyttelton Port of Christchurch Limited Director, Harrison Grierson Holdings Limited Director, Dunedin City Treasury Limited

DUNEDIN CITY HOLDINGS LIMITED

REGISTERED OFFICE

50 The Octagon
Dunedin, New Zealand

TAXATION ADVISORS

Deloitte

SOLICITORS

Anderson Lloyd

AUDITOR

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

BANKERS

ANZ National Bank Limited

GROUP CHIEF FINANCIAL OFFICER

Grant McKenzie

**COMPANIES COMPRISING THE DUNEDIN CITY
HOLDINGS GROUP****Subsidiary Companies**

City Forests Limited
Delta Utility Services Limited
Dunedin City Treasury Limited
Aurora Energy Limited
Delta Investments Limited
Taieri Gorge Railway Limited (72% Owned)

Associate Companies

Dunedin International Airport Limited (50%
Owned)
Otago Chipmill Limited (49.9% Owned by City
Forests Limited)

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