Dunedin City Treasury Limited

FINANCIAL STATEMENTS

For six months to

December 2014

Contents

Company Particulars

As at 31 December 2014

Directors

Graham W Crombie – B.Com., F.C.A.(P.P) A.M.Inst.D., M.D.Ent.
Kathy E Grant – B.A., L.L.B., Dip.Law, M.Inst.D.
Linda M Robertson – B.Com., A.M.Inst.D.
Brian J Wood – M.B.A.(Otago), F.N.Z.I.M, A.F.Inst.D.

Registered Office

50 The Octagon
Dunedin
New Zealand

Bankers

ANZ New Zealand Limited

Solicitors

Anderson Lloyd, Barristers and Solicitors

Taxation Advisers

Deloitte

Auditor

The Controller and Auditor-General

Directors' Report

For the Six Months Ended 31 December 2014

The Directors of Dunedin City Treasury Limited are pleased to report on the trading results of the Company for the period ended 31 December 2014.

Principal Activities of the Company

The role of Dunedin City Treasury Ltd is to identify and manage the financial risks and the liquidity of the Dunedin City Council Group to ensure that adequate funds are always available to meet obligations, that financing costs are minimised and the return on surplus funds is maximised within acceptable levels of risk.

The funding and treasury management services of Dunedin City Treasury Ltd include the following activities:

- managing financial relationships with third parties
- working capital management
- cash management
- funds management
- financial risk management
- interest rate risk management
- treasury advisory services
- investment portfolio management.

Results for the Six Months Ended 31 December 2014

	$000's
Operating Surplus before Income Tax	536
Income Tax	150
Net Profit for the Six Months	386

State of Affairs

The directors are satisfied with the results achieved by the company and believe that the state of affairs of the company is satisfactory.

Review of Operations

The six months covered by this report has been a period of low short term interest rates coupled with falling longer term rates, driven by global yield compression and low inflation. Over the period, there has been significant effort and progress made to reduce debt levels. Term Liabilities have reduced by close to $30m to $574.9m as at 31 December 2014 versus $604.5m as at 30 June 2014.

The financial performance of the company over the first six months of the 2015 financial year has been satisfactory and an interest and fees adjustment to members of the group of $581,000 was paid in December 2014.

The second quarter of the financial year was also a highlight for Dunedin City Treasury Limited with a number of debt capital markets issues successfully arranged. A maturing tranche of $75m fixed rate bonds was replaced with a new tranche of $70m for a further term of 7years at a very attractive margin to swap of floating BKBM +50.25pts. This enabled the company to achieve 20% of funding for a period of 5years or longer reducing future re-financing risk. The company also issued a new tranche of $20m of floating rate notes for 3years, replacing a maturity of $25m. The $40m floating rate notes maturing 15 September 2014, were replaced with $25m of promissory notes and the balance of $15m was repaid. The higher levels of promissory note funding, gives greater repayment flexibility.

The company manages the Waipori Fund – a special DCC fund. The Fund's value increased to $80.1m in December versus $75.5 in June 2014, a net surplus of $4.6m for the six month period. The performance was driven by very strong gains in equity markets, favourable currency movements and solid income flows.

The company recently had its Standard & Poor's long term rating confirmed at AA while its short term rating is A1+. The ratings are an important factor in the results achieved.

Directors' Interests in Contracts

No material contracts involving directors' interests were entered into during the six months to 31 December 2014 or existed at 31 December 2014.

Directors' Insurance

As allowed by the company's constitution, Dunedin City Treasury Limited has arranged policies of directors' liability insurance, which together with a deed of indemnity, ensure that the directors will incur no 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 Treasury Limited has, since the end of the previous financial year, received or become entitled to receive a benefit.

There were no loans from the company to directors.

There were no notices from directors of the company requesting use of company information received in their capacity as directors, which would not otherwise have been available to them.

Directors' Report - continued

For the Six Months Ended 31 December 2014

Events Subsequent to Balance Date

The directors are not aware of any matter or circumstance since the end of the half year, not otherwise dealt with in this report or the company's financial statements, that has significantly, or may significantly, affect the operation of Dunedin City Treasury Limited, the results of those operations or the state of affairs of the company.

On behalf of the Board of Directors

G W Crombie
Chairman

Information on the Directors of Dunedin City Treasury Ltd

Director and Qualifications	Responsibilities	Declarations of Interests
Graham W Crombie B.Com, F.C.A. (CPP), A.M.Inst.D., M.D.Ent. Date appointed – 17 October 2013	Chairman	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, Innovatio Limited Chairman, Dunedin City Holdings Ltd
Kathleen E Grant B.A., L.L.B., Dip.Law, M.Inst.D. Date appointed – 17 October 2013	Non-Executive Director	Consultant, Gallaway Cook Allan Chair of Council, Otago Polytechnic Trustee, Sport Otago Director, Dunedin City Holdings Limited Director, Dunedin International Airport Limited Director, Southern Sinfonia
Linda M Robertson B.Com., A.M.Inst.D., F.C.I.S. Date appointed – 17 October 2013	Non-Executive Director	Chairman – Statistics New Zealand Audit and Risk Committee Director - Dunedin City Holdings Limited Director – Hunter Downs Development Limited Employee and shareholder – Meridian Energy Limited
Brian J Wood M.B.A. (Otago), F.N.Z.I.M., A.F.Inst.D. Date appointed 17 October 2013	Non-Executive 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, Dunedin City Holdings Limited Director, Harrison Grierson Holdings Limited

Statement of Comprehensive Income

For the Six Months Ended 31 December 2014

	Six Months to 31 Dec 14 $'000	Six Months to 31 Dec 13 $'000	Year to 30 Jun 14 $'000
Financial income	19,882	19,915	39,825
Total Income	19,882	19,915	39,825
Less expenses			
Audit fees	10	10	29
Directors Fees	0	0	9
Management Fees	150	0	0
Employee expenses	33	142	270
Financial expenses	18,991	19,666	39,300
Other expenses	162	92	192
Total Expenditure	19,346	19,910	39,800
Surplus before tax	536	5	25
Income tax expense	150	1	3
Net Surplus for the period	386	4	22
Other Comprehensive Income			
Gain (Loss) of cash flow hedges taken to equity	(754)	7,170	9,694
Gain (Loss) of cash flow hedges to related parties	754	(7,170)	(9,694)
Total other Comprehensive Income for period		-	
TOTAL COMPREHENSIVE INCOME FOR PERIOD	386	4	22

Statement of Changes in Equity

For the Six Months Ended 31 December 2014

Equity at beginning of period	255	233	233
Total comprehensive income	386	4	22
Equity at the end of the period	641	237	255

Balance Sheet

At 31 December 2014

	Note	31 Dec 14 $'000	31 Dec 13 $'000	30 Jun 14 $'000
Equity				
Share capital	4	100	100	100
Retained earnings	5	541	137	155
Total Equity		641	237	255
Current Liabilities				
Short term borrowings	7	2,722	6,912	7,527
Current portion of term borrowing	10	50,000	150,000	140,000
Trade and other payables	8	6,902	7,100	6,984
Derivative financial instrument	9	18,606	20,358	17,834
Provision				19
Provision for tax		144		1
Total Current Liabilities		78,374	184,370	172,365
Non-Current Liabilities				
Term Borrowings	10	524,262	449,545	464,517
Total Non-Current Liabilities		524,262	449,545	464,517
Total Liabilities		602,636	633,915	636,882
TOTAL EQUITY PLUS LIABILITIES		603,277	634,152	637,137

	Note	31 Dec 14 $'000	31 Dec 13 $'000	30 Jun 14 $'000
Current Assets				
Cash and cash equivalents		8,686	19,570	34,586
Trade and other receivables	11	6,789	6,004	5,816
Derivative financial instruments		18,588	20,358	17,834
Prepayments		455	478	454
Investments	12	17,205	10,245	16,354
Total current assets		51,723	56,655	75,044
Non-Current Assets				
Investments	12	551,554	577,497	562,093
Property Plant and Equipment	13		-	
Total non-current assets		551,554	577,497	562,093
TOTAL ASSETS		603,277	634,152	637,137

For and on behalf of the Board of Directors

_________________________ Director   ___________________ Director
G W Crombie   K E Grant

Dated ___________________

Statement of Cash Flows

For the Six Months Ended 31 December 2014

	Note	Six months to 31 Dec 14 $'000	Six months to 31 Dec 13 $'000	Year to 30 Jun 14 $'000
Cash Flows from Operating Activities				
Cash was provided from				
Interest received		19,433	19,192	38,630
Other income		70	564	1,264
		19,503	19,756	39,894
Cash was disbursed to				
Payments to suppliers and employees		355	197	512
Interest paid		19,670	19,561	39,247
Tax paid		7	11	14
		20,032	19,769	39,773
Net Cash Inflows / (Outflows) from Operating Activities	**14**	(529)	(13)	121
Cash Flows from Investing Activities				
Cash was provided from				
Investments realised		9,689	20,685	31,180
		9,689	20,685	31,180
Cash was disbursed to				
Net purchase of investments			0	1,200
			0	1,200
Net Cash Inflows / (Outflows) from Investing Activities		9,689	20,685	29,980
Cash Flows from Financing Activities				
Cash was disbursed to				
Repayment of borrowings		35,060	13,277	7,670
Net Cash Inflows / (Outflows) from Financing Activities		(35,060)	(13,277)	(7,670)
Net Increase / (Decrease) in Cash Held		(25,900)	7,395	22,411
Cash and short term deposits at the beginning of the year		34,586	12,175	12,175
CASH AND SHORT TERM DEPOSITS AT THE END OF THE PERIOD		8,686	19,570	34,586
Composition of Cash				
Cash and short term deposits		8,686	19,570	34,586
CASH AND SHORT TERM DEPOSITS AT THE END OF THE PERIOD		8,686	19,570	34,586

Notes to the Financial Statements

For the Six Months Ended 31 December 2014

1. REPORTING ENTITY

The financial statements presented here are for the company Dunedin City Treasury Ltd.

Dunedin City Treasury Ltd 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, and is 100% owned by Dunedin City Holdings Limited, which is wholly owned by Dunedin City Council.

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

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 interim financial report is a general purpose financial report which has been prepared in accordance with NZ IAS 34: with additional information requested by the Directors.

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

Basis of Accounting

The Ministry of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the Company has determined that it is a ‘tier one’ for-profit public sector entity, as the Company has expenses exceeding $30 million.

The financial statements have been prepared in accordance with general accepted accounting practice in New Zealand (NZ GAAP). For the purposes of complying with the NZ GAAP the entity is a for profit entity.

The financial statements have been prepared on the historic cost basis, except for derivative financial instruments, financial instruments classified as available for sale and financial instruments held for trading.

The accounting policies set out below have been applied consistently to all periods in these financial statements.

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.

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. The Company 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.

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.

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.

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.

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 company'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 company 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.

Depreciation is charged so as to write off the cost or valuation of assets, other than 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 its estimated remaining useful lives.

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

Depreciation rates and methods used are as follows:

	Rate	**Method**
Office equipment	5% to 50%	Straight Line
Office equipment and fittings	5% to 25%	Straight Line
Software	20% to 100%	Straight Line

An item of office 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 derocognised.

Financial Instruments

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

Trade and other receivables

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 and term deposits.

Trade and other payables

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.

Derivative financial instruments and hedge accounting

The company's activities expose it primarily to the financial risks of changes in interest rates. The company uses interest rate swap contracts to hedge these exposures.

The company 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 the company is governed by the policy approved by the 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 that the derivative is entered into and are subsequently remeasured to their fair value.

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. 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.

Changes in the 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.

Provisions

A provision is recognised in the balance sheet when the company 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.

3. DIVIDENDS

No dividends were paid by the company.

4. SHARE CAPITAL

	31 Dec 14 $'000	31 Dec 13 $'000	30 Jun 14 $'000
Share Capital	100	100	100

The company has 100,000 shares, which are fully paid. All shares carry equal voting rights and the right to share in any surplus. None of the shares carry fixed dividend rights.

5. RETAINED EARNINGS

Balance at the beginning of the six month period	155	133	133
Net surplus for the period	386	4	22
Balance at end of period	536	137	155

6. SEASONALITY

There is limited seasonality of earning within the Company.

7. SHORT TERM BORROWINGS

Due to Related Parties	1,180	5,568	5,650
Other Short Term Deposits	1,542	1,344	1,877
	2,722	6,912	7,527

The short-term deposits have a maturity range from call to 90 days at a weighted average interest rate of 3.97% (December 2013 2.721%).

8. TRADE AND OTHER PAYABLES

Due to Related Parties	155	14	3
Interest Payable	6,747	6,999	6,981
Other Current Payables	0	45	0
Employee Entitlements	0	42	0
	6,902	7,100	6,984

9. DERIVATIVE FINANCIAL INSTRUMENTS

Liabilities			
Interest Rate Swaps	18,606	20,358	17,834
Non-current			
Current	18,606	20,358	17,834

10. TERM BORROWINGS - SECURED

The company has a $850 million Multi Option Debt Issuance Facility, which is secured against certain assets and undertakings of the Group. Debt is raised by issuing long dated bonds, floating rate notes and by the issue of Promissory Notes usually for 90-day terms.

	As at 31 Dec 14 $000	As at 31 Dec 13 $000	As at 30 Jun 14 $000
Term Borrowings			
Multi Option Debt Facility (Promissory Notes)	79,262	64,545	59,517
Multi Option Debt Facility (FRN 5/14)	0	0	0
Multi Option Debt Facility (10/14)	0	0	0
Multi Option Debt Facility (FRN 10/14)	0	0	0
Multi Option Debt Facility (Bonds 11/14)	0	0	0
Multi Option Debt Facility (FRN 10/15)	0	50,000	50,000
Multi Option Debt Facility (FRN 4/16)	90,000	90,000	90,000
Multi Option Debt Facility (Bonds 11/16)	50,000	50,000	50,000
Multi Option Debt Facility (FRN 2/17)	20,000	20,000	20,000
Multi Option Debt Facility (Bonds 10/17)	60,000	60,000	60,000
Multi Option Debt Facility (FRN 10/17)	20,000		
Multi Option Debt Facility (FRN 5/18)	20,000		20,000
Multi Option Debt Facility (Bonds 7/18)	50,000	50,000	50,000
Multi Option Debt Facility (Bonds 12/18)	15,000	15,000	15,000
Multi Option Debt Facility (Bonds 11/20)	50,000	50,000	50,000
Multi Option Debt Facility (Bonds 11/21)	70,000	0	0
	524,262	449,545	464,517
Current Portion of Term Borrowings			
Multi Option Debt Facility	50,000	150,000	140,000

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

The repayment period on the term borrowings is as follows:			
Repayable between one and two years	219,262	114,545	199,517
Repayable between two to five years	185,000	364,452	215,000
Repayable between five to nine years	120,000	65,000	50,000

The weighted average interest rate on the term borrowings was 5.337% (December 2013 4.869%).

11. FAIR VALUE ESTIMATION

An estimation of the fair value of the Company's financial instruments is required as well as details of the valuation method used as outlined in IFRS 13. There is 3 level hierarchy outlined in IFRS 13 and the Company uses level 2. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for example interest rates and yield curves observable at commonly quoted intervals.

Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Debt instruments are fair valued using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties.

The Directors estimate the fair value of the company's borrowings as at 31 December 2014 as being $ 595,139,197

12. TRADE AND OTHER RECEIVABLES

Interest due from Related Parties	6,716	5,883	5,770
Amount due from Related Parties	73	79	
Other Current Receivables		42	46
	6,789	6,004	5,816

13. INVESTMENTS

	As at 31 Dec 14 $'000	As at 31 Dec 13 $'000	As at 30 Jun 14 $'000
Current Investments			
Due from related parties	17,205	10,245	16,354
Non Current Investments			
Due from related parties	551,480	577,205	561,857
Other Investments	74	292	236
Total Non Current Investments	551,554	577,497	562,093
TOTAL INVESTMENTS	568,759	587,742	578,447

The investments had a weighted average interest rate of 6.44% (December 2013 6.098%). Re-pricing of interest rates depends on the maturity dates of the respective investments, which range from 5 days to 7.5 years.

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

Net surplus/(deficit) for the period	386	4	22
Items Not Involving Cash Flows	-	-	
Impact of Changes in Working Capital Items			
(Increase)/Decrease in accounts receivable	(979)	(159)	30
(Increase)/Decrease in prepayments	(1)	(9)	14
Increase/(Decrease) in accounts payable	(98)	162	65
Increase/(Decrease) in provision for tax	143	(11)	(10)
Increase/(Decrease) in other non-cash items	20		
Items Classified as Investing or Financing Activities		-	
Net cash inflows/(outflows) from operating activities	(529)	(13)	121

15. CONTINGENT LIABILITIES

The company has contingent liabilities outstanding at balance date of $2,322,767 (December 2013 $3,919,445) represented by Performance Bonds issued in favour of third parties on behalf of Companies within the Dunedin City Council Group.

16. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities which potentially subject the Company to credit risk principally consist of cash, short term advances, accounts receivable, investments and various off balance sheet instruments.

The fair value of interest rate swaps and borrowings is estimated using discounted cash flows.

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

Trade and other receivables
Cash and cash equivalents
Trade and other payables
Prepayments

17. RISK MANAGEMENT POLICIES

i) Credit Risk

Credit risk is the potential risk of loss arising from the failure of a debtor or counterparty to honour fully any financial or contractual obligation.

Credit risk principally arises within the company from its core business of providing lending and other financial facilities to members of the Dunedin City Council Group.

Contracts have been entered into with various counterparties having approved and satisfactory credit ratings and in accordance with dollar limits as set forth by the Board of Directors.

Industry and product concentrations are determined by the activities within the Dunedin City Council Group.

ii) Interest Rate Risk

Interest rate risk arises from holding assets and liabilities, including off balance sheet instruments, which may mature or reprice in different periods.

The company seeks to reduce the interest rate risk by seeking to match the repricing of assets and liabilities. This is achieved by the use of derivatives such as interest rate swaps.

iii) Liquidity Risk

Liquidity management is designed to ensure the company has the ability to generate or obtain sufficient cash in a timely manner and at a reasonable price to meet its financial commitments on a daily basis.

The company monitors the liquidity of all companies within the Dunedin City Council Group through close liaison with members of the Group. Note 10 clarifies the extent of facility available to provide advances and enable settlement of liabilities as they fall due.

iv) **Concentration of Credit Risk**

Financial instruments which potentially subject the Company to credit risk principally consist of cash, short term advances, accounts receivable, investments and off balance sheet instruments including interest rate swaps, Forward Rate Agreement's and interest rate options.

The Company places its cash with high credit quality financial institutions and sovereign bodies and limits the amount of its credit exposure to any one financial institution.

Short term advances and investments are made against collateral or other security offered by a counterparty. All advances and investments and their underlying security are approved by the Board of Directors.

The company has a concentration of credit exposure to the Dunedin City Council Group which is exclusively domiciled in New Zealand.

18. CONCENTRATION OF FUNDING

The company obtains its funding by the issue of Promissory Notes, Floating Rate Notes and Term Bonds issued through the Company's Multi-Option Facility. Instruments are either privately placed or issued through a tender panel.

19. RELATED PARTY TRANSACTIONS

Dunedin City Treasury Limited is a wholly owned subsidiary of Dunedin City Holdings Limited. Dunedin City Holdings Limited is owned by the Dunedin City Council.

The Dunedin City Council Group includes the Dunedin City Council and all its subsidiaries.

Major Transactions with the Dunedin City Council Group

Dunedin City Treasury Limited undertakes transactions with the Dunedin City Council and other Dunedin City Council controlled entities on an arms length commercial basis.

During the year the Company purchased the following services from the Dunedin City Council Group:

	Six Months Ended 31 Dec 14 $000	Six Months Ended 31 Dec 13 $000	Year Ended 30 Jun 14 $000
Administration and Office Support	5	15	29
Management Fee	150		
Interest paid out on investments	47	73	106
	202	88	135
Dunedin City Treasury Limited also provided treasury and financial services to the Dunedin City Council Group (including DCHL Group)			
Interest and fees received from borrowing	19,440	19,743	39,461
At period end the following amounts were owed to and from related parties in the Dunedin City Council Group: (including DCHL Group)			
Payable to Related Parties in the Dunedin City Council Group	1,335	8,617	7,159
Receivable from Related Parties in the Dunedin City Council Group	575,401	610,285	600,124

Other Related Party Transactions

No related party debts have been written off or forgiven during the period.

The terms of settlement of Related Party transactions are based on normal business practices.

The Company provides derivative financial instruments to the Group and hedges these instruments with parties outside the Group.

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