

2013

DRSL ANNUAL REPORT 2013

A photograph of a person's profile on the left side, looking out over a body of water towards a sunset. The sky is filled with soft, golden light and scattered clouds. The water in the foreground is calm, reflecting the light from the sky. The overall mood is peaceful and contemplative.

ADDING
VALUE
BEYOND
DISPUTES



Contents

Welcome to DRSL 2

Comments from the Chair 3

Report from the CEO 4

What we stand for 6

Our Services 7

The DRSL Business Model 9

Our clients 10

Our people 18

Financials 20

Welcome to DRSL

DRSL is an independent, Crown-owned company providing specialist complaint management and dispute resolution services in New Zealand. It resolves disputes between organisations and the people with whom they come into contact.

DRSL resolves disputes of all kinds and all levels of complexity, including medical, insurance, financial services, telecommunications and real estate and handles more than 9,000 issues nationwide a year.

DRSL has approximately 120 staff nationally, with offices in Auckland, Wellington and Christchurch. Their staff are highly qualified professionals, including trained mediators and adjudicators, along with a strong team of client-focused advisors and administrators.

DRSL's competitive advantage comes from our extensive experience in dispute resolution, our systems and processes for managing disputes,

a commitment to protecting the privacy of all parties to a dispute, and a thorough understanding of technical and legislative issues that arise in different sectors that use our services.

DRSL was established more than 12 years ago as an independent body to manage reviews of ACC decisions. While ACC matters are still a substantial part of DRSL's business, we are now an independent Crown-owned company with greater ownership of our future and direction.

In the past 6 months DRSL has developed a new business model, delivering a wider range of 'bespoke' conflict management services. This service means we can add components to a customer's existing dispute or complaint system, and provide the experience and expertise to help them deal with more complex disputes.

It is an innovative way to package an alternative dispute resolution service, and adds to DRSL's established end-to-end conflict management model.

Diversification into new markets is a strategic fit with DRSL's overarching business plan that will see the company delivering conflict management services to a range of industry sectors.

Comments from the Chair

The year ending 30 June 2013 saw the completion of a very satisfactory year for DRSL, both from a financial result and a future growth path perspective through further diversification of our client base.

This was the second year as a newly created Crown Entity and whilst the first year was about establishing separation and independence from ACC, this year was about building a more sustainable market driven business model.

DRSL's end of the year Net Profit after Taxation of \$583K was a 20% increase on our business plan; this was achieved in what was a challenging fiscal environment, with several one-off non-recurring items being taken into account.

For example a substantial restructuring of the company was implemented and a rebranding project is underway which will also assist DRSL to raise its profile with both potential clients and the public at large. This is an important step for DRSL to increase revenue and broaden the customer base.

We also appointed a new Chief Executive – Greg Pollock in December 2012. Greg has brought substantial skills in business development which will serve DRSL well.

Significant new business growth opportunities are as follows:

- A new contract with the Canterbury Earthquake Recovery Authority (CERA).
- A two year renewal of the Real Estate Agents Authority.
- DRSL has been given approval by the Government to establish its own Financial Dispute Resolution Scheme from 1 July 2014.
- Negotiations are underway to roll-over the Telecommunication Dispute Resolution Scheme contract which expires on 31 December 2013.
- DRSL has signed a Heads of Agreement with the Ministry of Justice, as negotiations have commenced regarding us becoming a Service Provider in the proposed new Family Law Court alternative dispute sector.

DRSL also signed a roll-over contract for one year with ACC. This will provide the time needed to negotiate a longer-term partnership agreement which will include documenting DRSL assistance to move ACC Reviews into alternative dispute resolution initiatives.

I very much want to thank and acknowledge the Board and in particular the Deputy Chair Marie Bismark who stepped down from the Board in July 2013. I also thank and acknowledge our previous Chief Executive Neil McKellar who had completed 12 years at the helm, our current Chief Executive Greg Pollock and his staff for their excellent work over the past year.



Peter Blades
Chair

Report from the Chief Executive

As we grow our business in New Zealand, we are striving to bring the best of DRSL to our clients – in particular our focus is very much on “putting the customer first”.

I am delighted to be reporting to you for the first time as Chief Executive. In my seven months with DRSL I have been very impressed with the diverse skills, experience and passion of our staff.

New Business Model

In the past 6 months DRSL has developed a new business model (based on professional services), delivering a wider range of ‘bespoke’ conflict management services. This approach means we can add components to a customer’s existing dispute or complaint system, and provide the experience and expertise to help them deal with more complex disputes. It is an innovative way to package an alternative dispute resolution service, and adds to DRSL’s established end-to-end conflict management model.

Following a major restructure of the organisation in the 4th quarter of 2012/13 I appointed three new senior managers as direct reports and boosted the resources in our Business Development team. DRSL’s long-term success will be based on maintaining

and improving our relationships with and services to existing clients, while also seeking to diversify our client base.

In mid-2012 DRSL commenced a strategic assessment of the business to identify and clarify issues and opportunities. The assessment identified a number of inter-related issues that must be addressed to reduce business risk and enhance the organisation’s ability to deliver commercial success.

A thorough review of the company’s brand identity has also been undertaken, taking into consideration the extent to which the existing brand is appropriate for our desired positioning and diversification of services across the full suite of conflict management processes.

In the view of the Board replacing the name Dispute Resolution Services Limited and rebranding will significantly assist the organisation with re-positioning for commercial success and future growth. A new name and brand will be formally launched in the 4th quarter of 2013.

Our vision, mission and values must continue to drive all that our business stands for. We deal with a wide

range of people, and these values will provide a constant litmus test for our success. While we must make a range of changes to the business and the model we use to generate commercial revenue, the values will remain constant.

Our Vision: To be the leading conflict management services provider by protecting consumer’s rights, improving organisations’ capabilities, and strengthening public trust in those organisations.

Our Mission: Helping people in conflict to move forward.

Our Values: Our fundamental values are to pursue excellence in all we do through: Service excellence, Fairness, Integrity, Empathy, and Teamwork.

Commercial Success

We achieved an operating surplus after tax of \$583K against a budget of \$480K. This result was achieved even though revenue was \$505K below budget due mainly to reduced numbers of Accident Compensation Corporation (ACC) reviews. However the reduced revenue was more than offset by excellent cost-control management.

Contracts for DRSL's dispute resolution schemes (ACC, Financial Dispute Resolution Scheme (FDRS) and Real Estate Agents Authority (REAA) were re-signed during the reporting period and contract negotiations for the Telecommunication Dispute Resolution Scheme (TDR) are underway.

DRSL operates the Financial Dispute Resolution Reserve Scheme on behalf of the Ministry for Business, Innovation and Employment. The Scheme will be disestablished on 30th June 2014. Subsequently in its own right, DRSL has been approved as a Financial Dispute Resolution Scheme provider to the financial services industry. This change will take place from 1 July 2014.

DRSL has signed a contract with CERA to provide facilitation services as part of its Residential Advisory Scheme. We have completed our first referral where one of our staff facilitated a multi-party meeting involving EQC, a private insurer and the homeowner.

Technical Leadership

Late in 2012 we established a project called 'The Future Way of Working'. The project specifically targets processes, system and tool inefficiencies. While the project was originally limited in scope to the ACC client, its principles and building blocks have broad applicability across the business and will support our strategic objectives of client diversification and increased commercial outlook and appeal.

A critical aspect of this project is a dynamic case management system. Case management refers to our ability to—in one electronic space—do everything we need to do with a job; see everything we need to see; and know everything we need to know.

Currently, we use four to five technology applications and physical platforms (shelf space, paper files, etc.) to accomplish this.

With respect to our use of technology, two "must haves" are that we have the ability to make changes to the case management system in-house. This means shifting our current default reliance on an outside resource, to in-house capability.

We must also have the ability to work electronically at all times. This means working with electronic files, even if that requires us to digitise files.



Greg Pollock
Chief Executive

Our mission:
Helping people in conflict
to move forward.

Our values:
to pursue excellence
in all we do through...

Service excellence

Ensuring we provide a high quality service to our customers, so they trust us to provide a fair and independent environment in which to reach agreement or manage their conflict

Integrity

Creating an environment of openness through positive communication and transparency and treating people fairly and impartially

Teamwork

Providing opportunities for staff to work cooperatively

Fairness

It's at the heart of successful dispute resolution and any long-term valuable relationship

Empathy

Encouraging our staff to identify people's needs by asking, listening and seeking clarification

Our Services

DRSL is a professional services firm that works with clients to prevent, manage, resolve and learn from conflict. Our expertise lies in helping organisations to manage conflict to build relationships with internal and external stakeholders.

Preventing conflict

A low level of conflict in organisations is neither unusual or necessarily negative. Conflict can be a catalyst for positive change by enabling constructive discussion and challenging the status quo.

But not all organisations are competent at dealing with conflict. Often their culture and systems do not sit well with conflict at any level, whether it is low level and positive conflict, or open and destructive conflict.

We work with organisations to prevent destructive conflict at the earliest possible point, using a number of strategies.

Our services in this area are tailored to each client's unique needs and include developing a positive conflict culture, implementing structures and procedures to manage destructive

conflict as early as possible, skill development, coaching interventions and through the dynamics of collaborative problem solving.

Benefits of our conflict prevention services include reducing the number of internal and external complaints, preventing the escalation of complaints into costly disputes, reducing the cost of conflict to our client's organisations and the preservation and strengthening of relationships.

Managing conflict

We help enhance our clients' reputations by helping them design and implement fair, transparent, international best practice conflict management schemes that protect the rights of consumers.

Our services range from reviewing internal complaints processes, to designing external complaints review processes, to providing fully outsourced 'end-to-end' dispute resolution schemes provided under a client's brand. Dispute resolution schemes are unique to each organisation or industry group, and usually include a complaints triage service, case management, facilitation to seek early resolution, communication of the scheme to targeted consumers, and analysis to identify systemic issues.

The benefit of 'best practice' conflict management systems and services provided by DRSL experts is largely measured by consumers' satisfaction with the accessibility and expediency of the service.

We also help organisations effectively manage internal conflict. We work with organisations to identify where conflict resides by using analytical tools, and then develop solutions and interventions to build conflict competencies.

Organisations that understand the value of managing their internal relationships, appreciating different interests and perspectives, adds value and reduces the cost of conflict.

Resolving conflict

If unable to resolve a conflict with early intervention, DRSL offers clients access to one or more dispute resolution services to resolve and or settle the dispute or complaint.

Our services include facilitation, mediation, conciliation, adjudication and arbitration. Our team provides services that cover the full dispute

resolution continuum, which means that parties can start by using the most cost effective and most controllable service (facilitation), escalating to a more directional service if their dispute remains unresolved. Within our ethical boundaries, we also provide specialist hybrid services to clients with unique needs.

All DRSL mediators and adjudicators have professional qualifications and are accredited members of professional alternative dispute resolution bodies. Our peer review system ensures conflict resolution outcomes are consistent, robust and technically sound.

Learning from conflict

Conflict provides a rich opportunity for organisations to learn how to improve their relationships with internal and external stakeholders.

DRSL helps organisations to tap into their conflict experiences and to draw out lessons that exist, but are not often obvious. We assist organisations to know what they don't know about themselves.

Through this analytical process, we help organisations build new systems and interventions, and provide further bespoke capability building programmes.

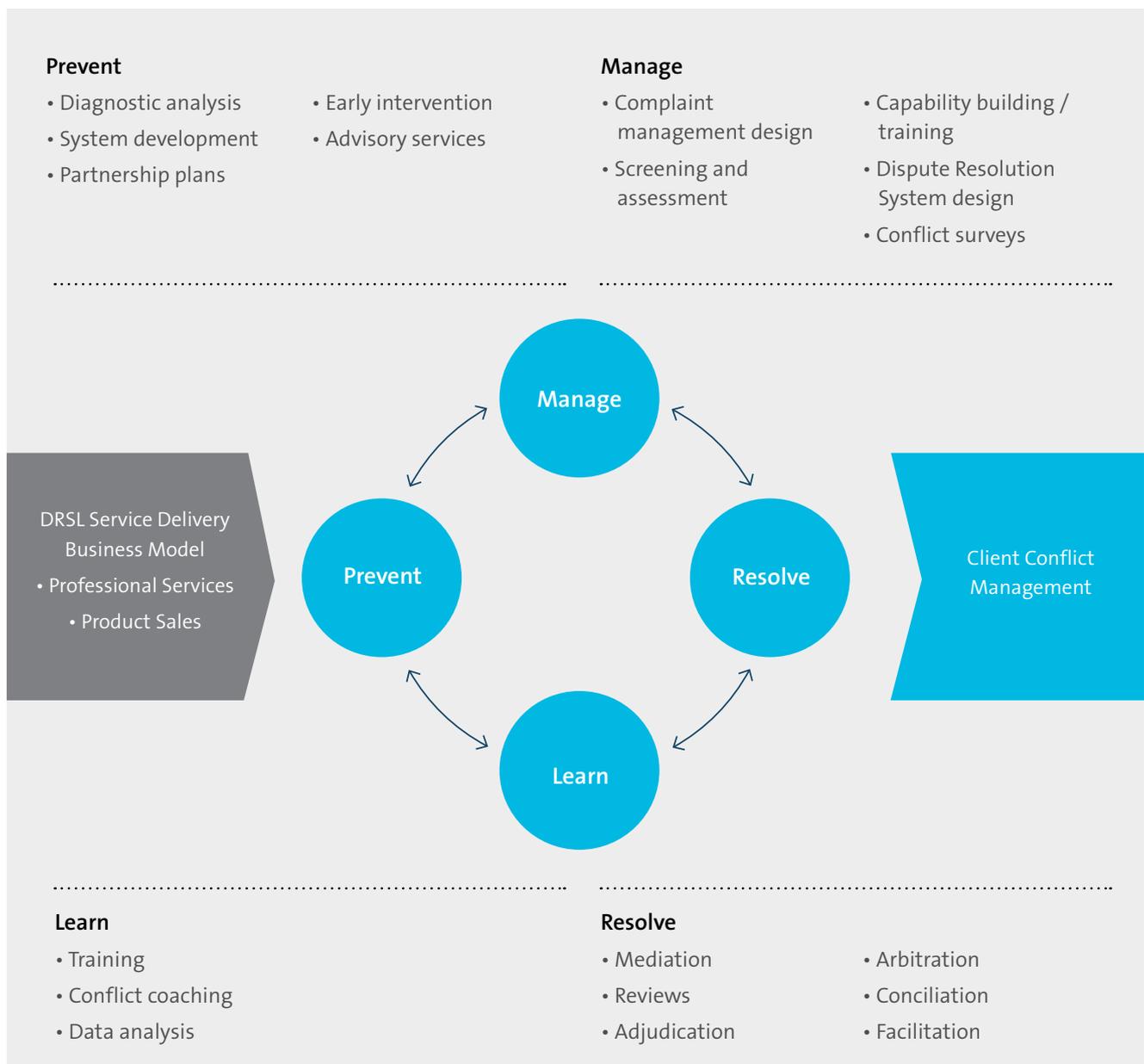
Customer complaints, particularly if centralised through a single gateway, can be a valuable source of business intelligence to organisations wanting to improve their customers' experiences. Our team help clients by capturing, recording, analysing and reporting on complaints data. We gather and analyse critical intelligence to detect developing or entrenched issues that may not be uncovered by the usual channels of research.

The DRSL Business Model

In the past 6 months DRSL has developed a new business model, delivering a wider range of ‘bespoke’ conflict management services. This service means we can add components to a customer’s existing dispute or complaint system, and

provide the experience and expertise to help them deal with more complex disputes. It is an innovative way to package an alternative dispute resolution service, and adds to DRSL’s established end-to-end conflict management model.

The diagram below demonstrates our transition to a full cycle of conflict management. It also identifies some of the specific services that we could provide at each stage of the cycle.



ACC

Accident Compensation Corporation

DRSL is contracted by ACC to operate the legislated decision review system for the Corporation, and also provides alternative dispute resolution services to the ACC, such as facilitation and mediation.

The ACC review process is for people who do not agree with a decision or outcome of their ACC claim. The service is paid for by the ACC and free to claimants.

The first quarter of the 2012/13 year saw new review numbers significantly above projections, however the remainder of the year new reviews declined significantly, to a point where at year-end total numbers were down by 260 on the previous year. This trend has continued into the new financial year.

Work has continued between ACC and DRSL to encourage the use of early resolution methods to process reviews. New mediation numbers have grown considerably during the year with a total of 367 received compared to 195 in the previous year.

DRSL's contract with ACC has been rolled over for 12 months to enable a longer term partnership agreement to be developed between the two organisations.

DRSL does offer a customer satisfaction survey to all complainants who have been through the ACC review process. In the latest customer satisfaction research (June 2013), 71% of respondents were satisfied or very satisfied with the service provided by DRSL, a further 15% held a neutral view.

66% of respondents also agreed that DRSL provided a service to help resolve disputes in a fair and impartial way and an additional 19% were neutral.

Overall Reviewers were seen in a positive light by respondents with 86% finding them easy to understand, 84% were seen to be friendly and 85% thought they were good listeners.

77% of respondents found that the time taken for the whole review process was reasonable.

367

New mediation cases



+ 172

71%

Customers satisfied or very satisfied with DRSL service



66%

Customers agreed service helped resolve disputes in a fair and impartial way



CUSTOMER FEEDBACK

"The service offers people an opportunity to have their say, regarding matters of significant personal concern. This is done in a professional and caring way that gives users of the service the feeling that they do in fact count as being part of a civilised community who cares for its citizens. This service gives above and beyond its ability to provide a clear and concise non-partisan resolution while clearly operating under extreme pressure from burgeoning caseloads (Wellington)"

Case study 1.

Serious Injury Unit

An ACC claimant put in a request to have a review about a delay in ACC responding to a letter by the claimant. The issue the letter related to was now 6 months out of time.

The issue related to the rate of pay for caregivers. The claimant had previously been to review and appeal and now has his own company for his caregivers and settled a rate with

ACC 2 years ago but believes he is entitled to the same rate lead suppliers receive.

Following the mediation the complainant agreed to apply to become a subcontractor to a lead supplier thus enabling him to negotiate his own rate with the lead supplier. He also agreed to withdraw his request for a review.

The applicant and ACC have a 30 year relationship so far, so it was important to both parties to resolve this together and preserve the relationship.

Case study 2.

Vocational independence

ACC granted cover for an arm injury then provided rehabilitation under an agreed plan with the objective of a return to work. The claimant did not return to work so ACC assessed, then made a finding that he had achieved vocational independence. This resulted in a cessation of weekly compensation three months later. The claimant engaged an advocate and sought a review of that decision.

The reviewer had to weigh competing medical opinion, whether rehabilitation was complete, claims the process was not correctly followed and a suggestion that non-accident conditions and the effects of chronic pain were not properly considered.

The reviewer found the relevant legislative provisions were followed and the medical evidence supported the finding of vocational independence.

Vocational Independence decisions are often appealed so there is a large body of case law from the District and High Courts for reviewers to follow. In this case the applicant appealed the review decision to the District Court.

On Appeal the Judge noted that determining vocational independence is a serious question because of the impact on weekly compensation entitlements. The Judge observed the definition of

vocational independence is only met when there is clear and compelling evidence that the claimant can work in the job types assessed as suitable.

Following a careful analysis of the evidence considered by the reviewer, the Judge found the decision that the claimant had achieved vocational independence was entirely justified.

TDR

Telecommunication Dispute Resolution Scheme

DRSL is the Scheme Agent for the TDR service, which celebrated five years of operation in December 2012. The service is free for consumers to use and is funded by the telecommunication companies that are TDR Scheme members. 16 organisations are now members of TDR.

The TDR service received a total of 2637 calls in the 12 month period, a total of 2500 (94.8%) were answered within the target time of 20 seconds.

Of those calls received 1825 enquiries were registered by DRSL. A significant proportion (59%) of those registered had not put a formal complaint to their telecommunications provider. A further 93 (5%) were non-relevant enquiries.

Customer satisfaction research

The TDR Customer Satisfaction Survey results are very positive, not only in relation to the high standard of service received from individual staff members but also with regard to the dispute resolution process in general. This is reflected in the following results:

- The majority (99%) of customers reported being satisfied with the TDR dispute resolution process including 95% (compared with 73% in 2012) that provided the highest possible rating in this regard (by rating the experience as a '5' out of '5').

- Customers also commended the service received by TDR staff, as 100% reported being satisfied with the way in which TDR staff handled their complaint. In fact, 93% gave TDR staff the highest rating possible rating in this regard (a '5' out of '5').

Scheme member satisfaction research

As found previously, Scheme Members are for the most part satisfied with the operation of the Scheme and are likely to continue supporting it.

- Most Scheme Members (seven out of the 10) reported being satisfied with the way in which the Scheme works.
- Reflecting their general satisfaction with the Scheme, the majority of Scheme Members (nine out of 10) also stated that their organisation would continue to support the Scheme.
- Nine out of 10 respondents reported having trust and confidence in the Scheme.
- Most Scheme Members (8 out of 10) were satisfied with the relationship they had with TDR.
- Eight out of 10 Members positively rated TDR staff in relation to their promptness, professionalism, responsiveness, availability, fairness and impartiality and discretion.

Marketing

During the 1st half of this year DRSL set up a TDR Facebook page and has maintained regular posts / articles on topics of interest to telecommunication consumers. In June of 2013 a five minute video explaining the workings of the TDR Scheme was produced and placed on Youtube, the TDR website and on DRSL's LinkedIn company page.

99%

Customers satisfied with TDR process



7 OUT OF 10

Scheme Members satisfied with the way the Scheme works



8 OUT OF 10

Scheme Members satisfied with TDR relationship



Reconditioned phone

The customer's husband gifted her a new mobile phone, purchased from provider X on a two-year data and calling plan. Around six months after the purchase, the customer noticed a small mark on the screen, but which did not affect the functioning of the phone. Given that the handset was still under warranty, the customer returned it to the provider, who sent it away for assessment and repair. The provider subsequently called the customer to advise that she could collect her handset. However, the phone that the provider gave her was a reconditioned handset, not her original phone.

The customer objected to being provided with a reconditioned model, and felt she should have been given an option of having her original phone returned. As it was, her phone had confidential work information stored on it, which she would have deleted if she had known the phone might not be returned. She also considered that a reconditioned phone was second-hand, and that she ought to have been given a new phone if the original could not be repaired.

The provider tried to retrieve the customer's original handset after she raised her objections, but unfortunately it was unsuccessful. The customer re-asserted that if the provider was unable to return her original handset, she should be provided with a new one rather than a reconditioned model.

The provider did not agree that it had provided diminished value by replacing the faulty phone with a reconditioned model. It reasoned that at the time of the customer took the phone back to the store it was nine months old. The provider further argued that reconditioned phones have new parts and parts that have been factory-tested, and are therefore as good as new. As a goodwill gesture it offered to credit one month's plan charges to the customer's account if she accepted the reconditioned phone.

The customer did not accept the offer, and the complaint was referred to a TDR Adjudicator.

In his determination, the Adjudicator referred to the parties' contract for services as well as the Consumer

Guarantee's Act 1993 (the CGA). He found that the fault with the phone screen was a 'minor' and not a 'substantial' defect. Therefore under the CGA the provider was required to either; repair the phone, replace it with an identical type, or refund the cost of the phone if it could not reasonably be repaired.

The provider had chosen to replace it with a reconditioned phone, but the Adjudicator found that this was not a replacement with an 'identical type'. The Adjudicator therefore directed the provider to either provide a new phone of the same model or refund the cost of the phone and void the remainder of the term of the contract for service.

The customer elected to take the new phone option, which the provider duly supplied. The customer therefore continued with the contract for service with the provider.

FDRS

Financial Dispute Resolution Scheme

DRSL operates FDRS, the government's reserve scheme to provide dispute resolution services and complaints management systems to the financial sector.

The scheme was launched 1st October 2010.

The Government has announced that the Scheme will be disestablished from 30 June 2014 however it has also given approval for DRSL to become an approved scheme in its own right. This will allow for a seamless transfer of members to the new FDRS Scheme from 1 July 2014.

FDRS has 1,570 Scheme members including some of New Zealand's largest corporates that operate finance and insurance companies; mortgage, insurance and other financial advisers; superannuation schemes; fund managers; forex and other derivative traders.

The Scheme ensures that consumers of its members have redress to issues that they have been unable to resolve with their financial service provider. The process is free to consumers.

Financial service providers are required to have an internal complaints procedure, promote and make it accessible to consumers. In addition to its statutory role to provide its members with guidelines to operate an internal complaints process, FDRS offers tips, material and training to best practices for complaints management, which can help them build their business.

For the 12 months to June 2013, FDRS handled 508 (244 in 2012) complaint enquiries. 186 (396 in 2012) were outside jurisdiction, primarily because they hadn't been through the Scheme member's complaints process first. FDRS will keep in touch with the parties to assist with process if required.

The Facilitation team was kept very busy over the 12 month period receiving 3520 (1500 in 2012) inbound enquiries and making 2185 (1700 in 2012) outbound calls. A lot of this activity was endeavouring to seek resolution of issues between complainants and Scheme members, to avoid escalation to the FDRS dispute process.

The balance was predominantly in managing new applications for membership; and jurisdictional, procedural enquires about complaints and personnel and contact changes from existing members.

FDRS rated very highly in its annual Scheme member satisfaction survey. 81% (same as for 2012) of Scheme members were either satisfied or very satisfied with FDRS service and personnel.

An even better result was in a complainant satisfaction survey. 86% (same as for 2012) of respondents were either satisfied or very satisfied with FDRS's role in handling their complaint.

1570

FDRS Scheme members



508

Complaint registered



+ 264

81%

Scheme members satisfied or very satisfied with service



FDRS CASE STUDY

This is a case study typical of so many complaints received. The consumer did not understand the terms of the agreement they signed in the rush and emotion of purchase. But the provider could have been clearer with its disclosure. It is notable that the impending Consumer Law Reform Bill addresses what has become the number one systemic issue - poor disclosure - across all industries.

“X” required urgent loan approval to enable him to bid on a property coming up for auction that day. He made application through a mortgage adviser who approached a specialist mortgage lender. His original application with the bank was delayed as it was outside normal banking criteria.

The mortgage lender approved the application immediately and had loan offer documents urgently drawn up through their lawyer. The adviser went through the documentation thoroughly with “X” who accepted and signed before heading off to the auction.

The terms of the offer included payment of all fees, including those of the adviser and lawyer, irrespective of success at auction.

The bank then approved the application. “X” was successful at the auction and accepted the bank’s offer.

The lender requested “X” pay its application fee and the broker and lawyer fees in terms of its agreement. “X” approached FDRS complaining that the fees were not payable as he had not uplifted the lender’s loan. FDRS referred “X” to make a formal complaint to the lender.

The lender processed the complaint through its internal complaints procedure and offered to waive 50% of its fee but insisted on payment of its lawyer’s costs and adviser fees as it was entitled to by contract under the loan offer and acceptance. “X” understood that he should have been more careful in reading and understanding the terms of the offer and accepted the lender’s decision.

This case is so typical of many complaints received. Consumers/ borrowers too readily accept the offer in the excitement of the moment before understanding what they are signing up to. It is very likely the complaint would not have been upheld had it escalated for a decision through FDRS as the complainant had contracted to pay the fees.

On the other hand it is possible the adjudicator may have made a ruling that the lender should have made the fees terms more evident to “X”, as it was quite possible that he would not be successful at auction but they would nevertheless be payable.

REAA Real Estate Agents Authority

Revenue from this client exceeded budget projections for the year. DRSL provided services in addition to mediations between Real Estate agents and their clients including conflict management activities. A total of 33 mediations were completed with a further 3 on hand going into the new financial year.

Discussions with the wider real estate market has informed DRSL that alternative dispute resolution services and advisory services / training to licensees could be further development income for DRSL.

DRSL secured a new contract for services to REAA for two further years through to July 2015. It is anticipated that REAA will go back to the market following this contract period.

Customer satisfaction

During the report period a customer satisfaction survey was carried out on the REAA – DRSL mediation service. 79% (77% in 2011/12) of respondents were either satisfied or very satisfied overall with DRSL during the mediation process and 72% were likely to recommend the service to their friends.

The two main reasons for agreeing to mediation by respondents were that it offered a less confrontational process and a good opportunity for them to get their point of view across.

86% (77% in 2011/12) respondents agreed or strongly agreed that they were treated fairly and given every opportunity to resolve their dispute during the mediation process.

However while 64% (54% in 2011/12) of respondents were confident that they would achieve a solution through the mediation process, 89% (92% in 2011/12) advised that the DRSL mediator had managed the meeting well.

79%



Customers satisfied or very satisfied with DRSL during mediation process

86%



+ 9%

Customers believed they were treated fairly

89%



- 3%

Customers believed mediation was well managed

CUSTOMER FEEDBACK

"The mediator was brilliant... I felt the mediator had a difficult job to do and she handled it extremely well"

"Very pleased with the service I received. I found the mediator to be very professional and friendly"

"The mediator was entirely neutral"

REAA CASE STUDY

This case was interesting, challenging and had a global flavour.

The complainant, the real estate agent and the mediator were all from different cultures.

They had never met in person because the complainant was living overseas, the agent was in Auckland and the mediator was in Christchurch.

All the conversations were by telephone and teleconference which had to be scheduled around people's availability and the time difference between the two countries.

The substance of the complaint was very challenging as the complainant wanted a very large amount of money in compensation for what was in real terms, a very small financial loss on the complainant's part.

Taking time to build relationships, trust and confidence with the parties on the phone was essential before the joint mediation teleconference, as well as afterwards. In the joint meeting, the parties spent considerable time talking about their respective view of events and decided that further negotiations would be done separately through the mediator.

Considerable time was needed for these on-going negotiations with a focus on managing expectations, reality checking and looking at other options to reach a resolution.

Patience and support finally proved their worth with the parties reaching a written agreement that probably didn't meet their initial wants and expectations but was enough in the end to provide a sense of completion and a willingness to "put it behind them and move on".

The process involved a long and challenging path for the parties and the mediator, but a very satisfying finish.

Our People

The people behind DRSL

DRSL BOARD



Peter Blades (Chair)

Peter Blades has more than 35 years of board and senior management experience; in recent years he has held several Chief Executive Positions. He has a finance and accounting background and has had experience in a wide range of industry sectors.

He has been heavily involved in reform processes in a number of industries, including electricity, gas, health, telecommunications and information technology.

He has been involved in a diverse range of consulting assignments and several performance-enhancing exercises, and has developed a stakeholder profiling (strategic alignment) methodology.

Peter has an extensive record of board involvement and currently is a Board member of the Wellington Regional Council Holding Co Ltd (NZ).

He is a member of the New Zealand Institute of Directors and a Fellow of the Australian Institute of Directors.



Anita Chan

Anita Chan is a specialist family law barrister. Her practice is in complex relationship property and child law cases.

Anita is a former Chair of the Family Law Section of the New Zealand Law Society. She is a Fellow of the International Academy of Matrimonial Lawyers (London). She became a Governor of the Academy in 2008, Parliamentarian in 2010, and presently serves as its Vice-President.

Anita has presented at numerous national and international family law conferences, including in Seoul, Brisbane, Shanghai, Adelaide, Cape Town, Vancouver, Singapore and Buenos Aires. She is a regular guest lecturer at the University of Otago.

She was a foundation director of the New Zealand Law Society Continuing Legal Education Board, and of Childfund New Zealand Limited.



Tupara Morrison

Tupara Morrison is of Te Arawa descent – Ko Ngati Whakaue te Iwi, Ko Ngati Pukaki, Ngati Hurungaterangi nga hapu.

Tupara is a Massey University business studies graduate, Chartered Accountant, and member of the New Zealand Institute of Directors.

Tupara was appointed as Chief Executive of Ngati Whatua Orakei Whai Maia Limited in October 2012. The Auckland-based company manages tribal development for Ngati Whatua o Orakei across health, education, heritage and culture, resource and environmental management, tourism and community building initiatives including housing.

Tupara maintains his ministerial governance appointments to DRSL and Te Puia – the New Zealand Maori Arts and Crafts Institute.



John Spencer CNZM

John Spencer is Chairman of KiwiRail Ltd, WEL Networks Ltd, the Tertiary Education Commission and Raukawa Iwi Developments Ltd. He is a director of Tower Ltd, Dairy NZ Ltd, Mitre 10 and DRSL. He is also the Audit Committee Chairman of Tower and Dairy NZ.

John was Chief Executive of New Zealand Dairy Group prior to the formation of Fonterra, and has held a number of senior management positions in New Zealand and overseas in various industries.

A Fellow of the Institute of Chartered Accountants, he was a member of the Accounting Standards Review Board for nine years.

SENIOR MANAGEMENT

Greg Pollock
Chief Executive

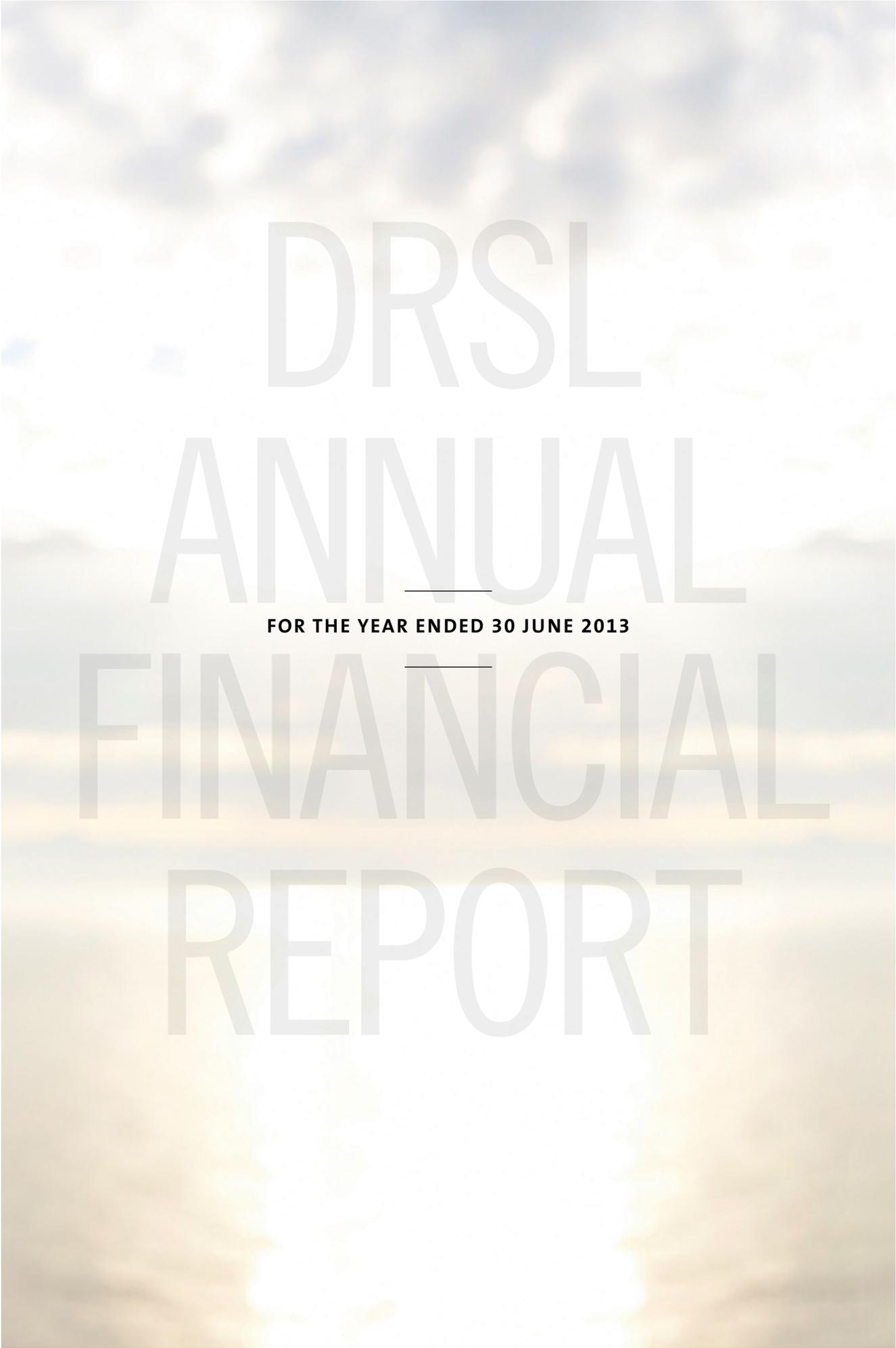
Andrea Dickens
General Manager,
Business Development

Anne Scragg
Practice Director,
Professional Excellence and
Innovation

Hannes Strydom
General Manager,
Service Delivery

Ray Lala
General Manager,
Strategy and Finance

Gillian Peacock
Director, Human Resources



DRSL
ANNUAL
FOR THE YEAR ENDED 30 JUNE 2013
FINANCIAL
REPORT

The directors are pleased to present the annual report of
DISPUTE RESOLUTION SERVICES LIMITED for the year ended 30 June 2013



Peter Blades
Chair



Anita Chan
Deputy Chair

Directors

Mr Peter Blades
(Chairperson, Appointed 1 July 2011)

Ms Anita Chan
(Deputy Chair, Appointed 1 July 2011)

Mr John Spencer CNZM
(Appointed 1 July 2011)

Mr Tupara Morrison
(Appointed 1 July 2011)

Dr Marie Bismark
(Resigned 30 June 2013)

Nature of Business

Dispute Resolution Services Limited is a Crown entity as defined by the Crown Entities Act 2004, being an independent Crown-owned company providing specialist dispute resolution services and systems to resolve disputes between organisations and the people they come in contact with.

Ultimate Holding Entity (Controlling Shareholders)

Dispute Resolution Services Limited (DRSL) was established in July 1999 as a subsidiary of the Accident Compensation Corporation (ACC) to provide independent dispute resolution services for ACC.

On 1 July 2011 DRSL was incorporated under the Public Finance Act 1989 as an independent Crown Owned Company wholly owned by the New Zealand Government.

Effective from 20 June 2011 the two shares were transferred from ACC to the Minister of Finance (one share), and the Minister of ACC (one share), and on that date DRSL became a Crown Entity in terms of the Crown Entities Act 2004 and is wholly owned on behalf of the Crown by the two aforementioned ministers.

Auditors

Marcus Henry of Ernst & Young, on behalf of the Controller and Auditor-General

Bankers

Westpac Banking Corporation

Registered Office

Level 9, 109 Featherston Street
Wellington

Directors' Report

The directors are pleased to present the financial statements of DISPUTE RESOLUTION SERVICES LIMITED for the year ended 30 June 2013 on pages 25-51

For and on behalf of the Board of Directors

16 September 2013



Peter Blades
Chair



Anita Chan
Deputy Chair

Statement of Responsibility

The Board is responsible for:

- the preparation of the annual financial statements and the judgements used therein; and
- establishing and maintaining a system of internal controls designed to provide reasonable assurance of the integrity and reliability of the financial statements.

In the opinion of the Board, the annual financial statements for the year ended 30 June 2013 fairly reflect the financial position and operations of Dispute Resolution Services Limited.



Peter Blades
Chair



Anita Chan
Deputy Chair

INDEPENDENT AUDITOR'S REPORT
TO THE READERS OF
DISPUTE RESOLUTION SERVICES LIMITED'S
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

The Auditor-General is the auditor of Dispute Resolution Services Limited (the Company). The Auditor-General has appointed me, Marcus Henry, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Company on her behalf.

We have audited the financial statements of the Company on pages 9 to 32, that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion

In our opinion:

- the financial statements of the Company on pages 9 to 32:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the Company's:
 - financial position as at 30 June 2013; and
 - financial performance and cash flows for the year ended on that date;

Other legal requirements

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

Our audit was completed on 16 September 2013. This is the date at which our opinion is expressed.

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

Basis of opinion

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

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Company's financial statements that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the

circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

An audit also involves evaluating:

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

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements

In accordance with the Financial Reporting Act 1993 we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements that:

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

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Public Finance Act 1989, the Crown Entities Act 2004 and the Financial Reporting Act 1993.

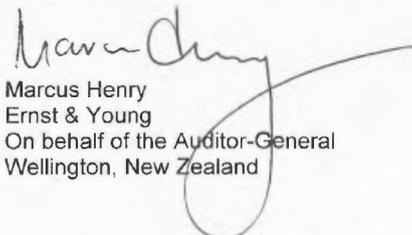
Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Company.



Marcus Henry
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

Financial Statements

for the year ended 30 June 2013

Statement of comprehensive income

For the Year Ended 30 June 2013

| | Notes | 2013 (\$000) | 2012 (\$000) |
|--|--------|-----------------|-----------------|
| Income | | | |
| Income from ACC for review and mediation services | | 13,422 | 13,200 |
| Income from other parties for services provided | | 1,708 | 1,959 |
| Other | | 89 | 80 |
| Interest | | 24 | 31 |
| Total income | | 15,243 | 15,270 |
| Expenditure | | | |
| Employee salaries and costs | 3 | (7,399) | (7,840) |
| Depreciation and amortisation | 9 & 10 | (491) | (479) |
| Other | 4 | (6,515) | (6,161) |
| Loss on disposal of assets | | – | (19) |
| Total Expenditure | | (14,405) | (14,499) |
| Operating surplus before tax | | 838 | 771 |
| Income tax expense | 5 | (255) | (211) |
| Net surplus and total comprehensive income attributable to owners | | 583 | 560 |

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the Year Ended 30 June 2013

| | Notes | 2013 (\$000) | 2012 (\$000) |
|---|-------|-----------------|-----------------|
| Balance at 1 July | | 3,233 | 2,673 |
| Surplus for the period | | 583 | 560 |
| Total comprehensive income for the period attributable to owners of the parent | | 583 | 560 |
| Balance at 30 June | | 3,816 | 3,233 |
| Share capital | | | |
| Balance as at 30 June | 13 | 400 | 400 |
| Retained surpluses | | | |
| Balance as at 1 July | | 2,833 | 2,273 |
| Surplus for the year | | 583 | 560 |
| Balance as at 30 June | | 3,416 | 2,833 |
| Total equity attributable to owners | | 3,816 | 3,233 |

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

For the Year Ended 30 June 2013

| | Notes | 2013 (\$000) | 2012 (\$000) |
|---|-------|-----------------|-----------------|
| Current assets | | | |
| Cash and cash equivalents | 7 | 1,539 | 1,307 |
| Trade and other receivables | 8 | 1,352 | 1,421 |
| Work in progress | | 1,450 | 1,738 |
| Total current assets | | 4,341 | 4,466 |
| Non-current assets | | | |
| Property, plant & equipment | 9 | 427 | 611 |
| Intangible assets | 10 | 1,114 | 660 |
| Total non-current assets | | 1,541 | 1,271 |
| Total assets | | 5,882 | 5,737 |
| Current liabilities | | | |
| Income tax payable | | 45 | 66 |
| Trade and other payables | 11 | 889 | 1,034 |
| Employee benefit liabilities | 12 | 869 | 853 |
| Total current liabilities | | 1,803 | 1,953 |
| Non-current liabilities | | | |
| Employee benefit liabilities | 12 | 123 | 332 |
| Deferred tax liabilities | 6 | 140 | 219 |
| Total non-current liabilities | | 263 | 551 |
| Total liabilities | | 2,066 | 2,504 |
| Net assets | | 3,816 | 3,233 |
| Equity | | | |
| Share capital | 13 | 400 | 400 |
| Retained surpluses | | 3,416 | 2,833 |
| Total equity attributable to owner | | 3,816 | 3,233 |

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of cash flows

For the Year Ended 30 June 2013

| | Notes | 2013 (\$000) | 2012 (\$000) |
|---|-------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 15,553 | 15,921 |
| Interest received | | 24 | 34 |
| Payments to suppliers and employees | | (14,174) | (13,725) |
| Payments to related party for tax losses | | | (134) |
| Payment of income tax | | (365) | (164) |
| Net goods and services tax | | (43) | 27 |
| Net cash inflow from operating activities | 15 | 995 | 1,959 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (123) | (183) |
| Purchase of intangible assets | | (640) | (618) |
| Net cash (outflow) from investing activities | | (763) | (801) |
| Cash flows from financing activities | | | |
| Equity Dividends paid | | – | (400) |
| Net cash (outflow) from financing activities | | – | (400) |
| Net (decrease) increase in cash and cash equivalents | | 232 | 758 |
| Cash and cash equivalents at beginning of year | | 1,307 | 549 |
| Cash and cash equivalents at end of the year | 7 | 1,539 | 1,307 |

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1. Summary of accounting policies

A. Reporting entity

Dispute Resolution Services Limited (the “Company”) is a limited liability company incorporated and domiciled in New Zealand. Effective 20 June 2011, the two shares held by the Accident Compensation Corporation (ACC) were transferred to the Minister of Finance, one share, and the Minister of ACC, one share, and on that date became a Crown Entity in terms of the Crown Entities Act 2004, and is wholly owned on behalf of the Crown by the two aforementioned Ministers. The company is a professional services firm that works with clients to prevent, manage, resolve and learn from conflict. DRSL’s expertise lies in helping organisations to manage conflict to build relationships with internal and external stakeholders.

B. Statement of compliance

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for public benefit entities.

Standards and interpretations issued but not yet effective

The company has not applied the following standards and interpretations that have been issued but are not yet effective:

| Reference | Title | Summary | Application date of standard |
|-----------|--|---|------------------------------|
| | PBE Standards for Tier 1 and Tier 2 Public Sector Entities | <p>The package of PBE Standards issued, applicable for Tier 1 and Tier 2 public sector PBEs consists of the following standards:</p> <ul style="list-style-type: none"> • Standard XRB A1 <i>Accounting Standards Framework</i>, which is the overarching standard that sets out the accounting standards framework; • A suite of 39 PBE Standards; and • The Public Benefit Entities (conceptual) Framework. <p>The new PBE Standards are based on International Public Sector Accounting Standards, which are themselves based on IFRS. Therefore major changes to accounting policies are not expected. Nevertheless, there are some potentially significant differences and also a range of smaller differences between the PBE Standards and NZ IFRS. Examples of potential significant differences could include:</p> <ul style="list-style-type: none"> • PBE Standards with no equivalent NZ IFRS <ul style="list-style-type: none"> – PBE IPSAS 23 <i>Revenue from Non-Exchange Transactions</i>, which prescribes requirements for accounting for revenue from non-exchange transactions; – PBE IPSAS 32 <i>Service Concession Arrangements: Grantor</i>, which prescribes the accounting for service concession arrangements by the grantor • Differences between equivalent standards <ul style="list-style-type: none"> – PBE IPSAS 20 <i>Related Party Disclosures</i>, exempts all transactions between related parties (except key management personnel remuneration) that occur on arm's length terms and conditions from disclosure, and provides a potentially wider definition of key management personnel compared to NZ IFRS 24 Related Party Disclosures. | 1 July 2014 |

| Reference | Title | Summary | Application date of standard |
|------------------|-----------------------|---|------------------------------|
| NZ IFRS 9 (2009) | Financial Instruments | <p>NZ IFRS 9 (2009) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace NZ IAS 39.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39. The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:</p> <ul style="list-style-type: none"> • two categories for financial assets being amortised cost or fair value; • removal of the requirement to separate embedded derivatives in financial assets; • strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows; • an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition; • reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes; and • changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income. | 1 January 2015 |

| Reference | Title | Summary | Application date of standard |
|------------------|-----------------------|---|------------------------------|
| NZ IFRS 9 (2010) | Financial Instruments | <p>NZ IFRS 9 (2010) supersedes NZ IFRS 9 (2009). The requirements for classifying and measuring financial liabilities were added to NZ IFRS 9 as issued in 2009. The existing NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i> requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows:</p> <ul style="list-style-type: none"> • The change attributable to changes in credit risk are presented in other comprehensive income (OCI) • The remaining change is presented in profit or loss <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> | 1 January 2015 |

The company will apply these, where applicable, for the reporting period beginning on or after the application dates set out above.

C. Basis for preparation

The financial statements have been prepared in accordance with the Crown Entities Act 2004, the Companies Act 1993 and the Financial Reporting Act 1993. The financial statements have also been prepared on the historical cost basis.

The functional and presentation currency is New Zealand Dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

D. Revenue recognition

Revenue is measured at the fair value of consideration given for completed review and mediation cases and an estimate of Work In Progress is made at year end for those cases that have not been completed.

All revenue is recognised in the period that the services are provided.

Interest revenue is recognised, as interest accrues using the effective interest method.

E. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

F. Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are non-interest bearing and are generally on 0-30 day terms.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due accordingly to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

G. Property, plant and equipment

Property, plant and equipment are recorded at historical cost less depreciation to date and any accumulated impairment losses.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Profit or Loss.

Subsequent costs

Cost incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation

All property, plant and equipment other than land are depreciated on a straight line basis at rates, which will write off their cost less estimate residual value over their expected useful lives.

Leasehold improvements are depreciated over the lower of the remaining term of the lease or 10 years.

| | |
|-----------------------------------|---------|
| Furniture, Fittings and Equipment | 4 years |
| Network Equipment | 5 years |
| Personal Computer Equipment | 3 years |

H. Intangible assets

Software acquisition and development

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of software by the Company, are recognised as an intangible asset. Direct costs include the software development employee costs.

Amortisation

Computer software assets are amortised on a straight-line basis over their estimated useful lives of between 5 to 7 years. Amortisation begins when the asset is available for use and ceases at the date the asset is disposed of. The amortisation charge for each period is recognised in the Profit or Loss.

I. Impairment of non-financial assets

Assets with a finite useful life are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the Company would, if deprived of the asset, replace its remaining future economic benefits or service potential. The value in use or cash-generating assets is the present value of expected cash flows. If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the Profit or Loss.

J. Goods and Services Tax (GST)

These financial statements have been prepared on a GST exclusive basis. Unpaid/ (overpaid) GST at balance date is included in current liabilities/ (current assets). Receivables and payables are disclosed inclusive of GST if applicable.

K. Employee benefits

Provisions made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employees expected to be settled within 12 months are measured at their nominal values based on accrued entitlements at current rates of pay.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

L. Payables

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

M. Provisions

Provisions are recognised when the Company has a present obligation (either legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

N. Income tax

Income tax for the period is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred income tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

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, using the tax rates that have been enacted or substantially enacted by balance date.

O. Operating leases

Where most of the risk and rewards of ownership are retained by the lessor, leases are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Profit or Loss on a straight-line basis over the period of the lease.

P. Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

2. Critical accounting estimates and assumptions

The following Accounting Estimates and or assumptions that are critical to the accounts have been used in the preparation of these accounts.

Work in Progress

Work in Progress at year end is calculated based on the pricing structure related to the stage of completion of ACC and Partnership programme reviews and mediation work.

Impairment of Intangible Assets

The company determines whether software intangible assets are impaired on an annual basis. This requires an estimation of the asset's recoverable amount based on its value in use. This requires management's estimates of future cash flows associated with the asset.

3. Employee salaries and costs

| | 2013 (\$000) | 2012 (\$000) |
|---------------------------------------|------------------------|------------------------|
| Salaries and wages | 6,654 | 7,088 |
| Employer superannuation contributions | 306 | 322 |
| Other employee benefits expense | 439 | 430 |
| | 7,399 | 7,840 |

4. Other expenditure

| | 2013 (\$000) | 2012 (\$000) |
|--|------------------------|------------------------|
| Audit fees | 43 | 43 |
| Advisory services paid to audit service provider Ernst & Young | 2 | 7 |
| Lease payments under operating leases | 797 | 760 |
| Contractor payments for review and mediation | 2,028 | 1,575 |
| Consultants fees | 473 | 296 |
| Legal fees | 79 | 52 |
| Travel, accommodation and facility costs | 912 | 968 |
| IT Support and Management | 864 | 953 |
| Communication Services | 585 | 525 |
| Office Services and Occupancy | 322 | 361 |
| Other | 410 | 621 |
| | 6,515 | 6,161 |

5. Income tax expense

| | 2013 (\$000) | 2012 (\$000) |
|--|-----------------|-----------------|
| Recognised in Statement of Comprehensive Income | | |
| Current tax expense | | |
| Current year | 264 | 258 |
| Adjustments for prior years | 70 | (3) |
| | 334 | 255 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | (25) | (44) |
| Adjustment for prior years | (54) | – |
| Total income tax expense in Statement of Comprehensive Income | 255 | 211 |
| Reconciliation between tax expense recognised in the Statement of Comprehensive Income and tax expense calculated per the statutory income tax rate | | |
| Surplus before tax | 838 | 771 |
| Tax at statutory rate of 28% (2012 28%) | 236 | 216 |
| Tax effect of permanent tax adjustments | 2 | – |
| Adjustments for prior years | 17 | (5) |
| | 255 | 211 |

6. Deferred tax liabilities

| | 2013 (\$000) | 2012 (\$000) |
|---|-----------------|-----------------|
| Deferred tax liabilities (assets) comprise the origination and reversal of temporary differences on: | | |
| Property, plant and equipment | (110) | (88) |
| Intangible assets | 63 | 41 |
| Employee benefits | (202) | (220) |
| Accrued WIP Income | 406 | 486 |
| Other accruals | (17) | – |
| | 140 | 219 |
| Movements | | |
| Balance at beginning of year | 219 | 263 |
| Recognised in Profit or Loss | (25) | (44) |
| Adjustments for prior years | (54) | – |
| Balance at end of year | 140 | 219 |

7. Cash and cash equivalents

| | 2013 (\$000) | 2012 (\$000) |
|--|-----------------|-----------------|
| Cash at bank and in hand | 1,539 | 1,307 |
| Total cash and cash equivalents | 1,539 | 1,307 |

The carrying value of short-term deposits with maturity dates of three months or less approximates their fair value.

8. Trade and other receivables

| | 2013 (\$000) | 2012 (\$000) |
|--------------------------------|------------------------|------------------------|
| Trade Receivables | 116 | 89 |
| Related parties receivables | 1,177 | 1,267 |
| Total Trade Receivables | 1,293 | 1,356 |
| Prepayments | 59 | 65 |
| | 1,352 | 1,421 |

The carrying value of receivables approximates to their fair value.

Trade receivables that are less than past due 31 days are not considered impaired. As of 30 June, trade receivables of \$14K (2012: \$18K) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

At 30 June, the ageing analysis of trade receivables is as follows:

| | 2013 (\$000) | 2012 (\$000) |
|-----------------------|------------------------|------------------------|
| Not Past due | 1,239 | 1,311 |
| Past due 0 – 30 days | 40 | 27 |
| Past due 31 – 60 days | 3 | 12 |
| Past due > 61 days | 11 | 6 |
| | 1,293 | 1,356 |

9. Property, plant and equipment

| | Leasehold Improvements (\$000) | Furniture, Fittings and Equipment (\$000) | Computer Equipment (\$000) | Total (\$000) |
|--|--------------------------------------|---|----------------------------------|------------------|
| At 1 July 2011 | | | | |
| At cost | 629 | 991 | 663 | 2,283 |
| Accumulated depreciation | (269) | (703) | (532) | (1,504) |
| Net carrying amount at 1 July 2011 | 360 | 288 | 131 | 779 |
| Year ended 30 June 2012 | | | | |
| Opening net carrying amount | 360 | 288 | 131 | 779 |
| Additions | 125 | 51 | 10 | 186 |
| Deletions and Disposals | – | (13) | (6) | (19) |
| Impairment Provision | – | – | – | – |
| Depreciation expense | (124) | (146) | (65) | (335) |
| Closing net carrying amount | 361 | 180 | 70 | 611 |
| At 30 June 2012 | | | | |
| At cost | 754 | 941 | 643 | 2,338 |
| Accumulated depreciation | (393) | (761) | (573) | (1,727) |
| Net carrying amount at 30 June 2012 | 361 | 180 | 70 | 611 |
| Year ended 30 June 2013 | | | | |
| Opening net carrying amount | 361 | 180 | 70 | 611 |
| Additions | 46 | 13 | 64 | 123 |
| Deletions and Disposals | – | (2) | (13) | 15 |
| Depreciation on Disposal | – | – | 13 | 13 |
| Depreciation expense | (143) | (111) | (51) | (305) |
| Closing net carrying amount | 264 | 80 | 83 | 427 |
| At 30 June 2013 | | | | |
| At cost | 800 | 951 | 693 | 2,444 |
| Accumulated depreciation and Impairment provision | (536) | (871) | (610) | (2,017) |
| Net carrying amount at 30 June 2013 | 264 | 80 | 83 | 427 |

10. Intangible assets

| | Computer Software (\$000) |
|--|---|
| At 1 July 2011 | |
| At cost | 814 |
| Accumulated depreciation | (625) |
| Net carrying amount at 1 July 2011 | 189 |
| Year ended 30 June 2012 | |
| Opening net carrying amount | 189 |
| Additions | 615 |
| Amortisation expense | (144) |
| Closing net carrying amount | 660 |
| At 30 June 2012 | |
| At cost | 1,429 |
| Accumulated amortisation | (769) |
| Net carrying amount at 30 June 2012 | 660 |
| Year ended 30 June 2013 | |
| Opening net carrying amount | 660 |
| Additions & software under development | 640 |
| Amortisation expense | (186) |
| Closing net carrying amount | 1,114 |
| At 30 June 2013 | |
| At cost | 2,069 |
| Accumulated amortisation | (955) |
| Net carrying amount at 30 June 2013 | 1,114 |

The computer software comprises the development of a Dynamic Case Management System and web site development \$565K.

11. Trade and other payables

| | 2013 (\$000) | 2012 (\$000) |
|---------------------------------------|------------------------|------------------------|
| Trade payables | 684 | 350 |
| GST | 38 | – |
| Accrued expenses | 167 | 684 |
| Total trade and other payables | 889 | 1,034 |

Trade and other payables are non-interest bearing and are normally settled on 30-day term, therefore the carrying value of trade and other payables approximates their fair value.

12. Employee benefit liabilities

| | 2013 (\$000) | 2012 (\$000) |
|---|------------------------|------------------------|
| Opening balance 1 July | 1,185 | 1,268 |
| Amount paid out during the year | (758) | (1,024) |
| Additional provision made during the year | 565 | 941 |
| Closing balance 30 June | 992 | 1,185 |
| Comprising: | | |
| Current | 869 | 853 |
| Non-current | 123 | 332 |
| Total employee benefit liabilities | 992 | 1,185 |

13. Contributed equity

| | 2013 Number (\$000) | 2013 Value (\$000) | 2012 Number (\$000) | 2012 Value (\$000) |
|---------------------------|---|--|---|--|
| Ordinary Shares | | | | |
| Issued and fully paid | 2 | 400 | 2 | 400 |
| Balance at 30 June | 2 | 400 | 2 | 400 |

The total authorised number of ordinary shares is 2 shares (2012: 2) with no par value. All issued shares are fully paid.

Capital Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as maintain optimal returns to shareholders and benefits for other stakeholders.

Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

14. Imputation credit account

| | 2013 (\$000) | 2012 (\$000) |
|------------------------|------------------------|------------------------|
| Closing credit balance | 593 | 249 |

15. Reconciliation of net surplus after tax to net cash from operating activities

| | 2013 (\$000) | 2012 (\$000) |
|---|------------------------|------------------------|
| Surplus after taxation | 583 | 560 |
| Add/(less) non-cash items: | | |
| Depreciation and amortisation expense | 491 | 479 |
| Loss on disposal of assets | – | 19 |
| Provision for employee benefits | (192) | (83) |
| Movement in deferred tax | (79) | (44) |
| | 220 | 371 |
| Add/(less) movements in working capital items: | | |
| Trade and other receivables | 70 | 605 |
| Work in progress | 288 | 88 |
| Trade and other payables | (145) | 386 |
| Income tax payable | (21) | (51) |
| | 192 | 1,028 |
| Net cash from operating activities | 995 | 1,959 |

16. Financial instruments

The company does not have any exposure from treasury activities. Financing required during 2013 nil. (2012, nil).

Market Risk

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market rates. Borrowings and investments issued at variable interest rates expose the company to cash flow interest rate risk. DRSL's bank (current) account is subject to changes in the market interest rates.

DRSL currently has no variable interest rate debt or investments.

If interest rates on the bank balance during the year had fluctuated by plus or minus 0.5%, the effect would have been to decrease/increase the surplus/ (deficit) by \$6,105 (2012: \$7,599).

Credit Risk

Credit risk is the risk that a third party will default on its obligation to DRSL, causing the company to incur a loss.

In the normal course of its business, DRSL incurs credit risk from trade debtors and transactions with financial institutions.

DRSL has a credit policy, which is used to manage this exposure to credit risk. DRSL believes it does have a significant concentration of credit risk with regard to the trading relations with its major trading customer ACC. In 2011 a 2 year contract was signed for the supply of dispute resolution services to ACC. This includes a condition for prompt settlement of debts. The contract was renewed for a further year on 1 July 2013.

DRSL does not require any collateral or security to support financial instruments as it only deposits with banks and other financial institutions with high credit ratings.

DRSL's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents (note 7) and trade receivables (note 8). There is no collateral held as security against these financial instruments, including those instruments that are overdue.

Liquidity Risk

Liquidity risk is the risk that DRSL will encounter difficulty raising liquid funds to meet commitments as they fall due. The liquidity risk is managed by ensuring that there is sufficient working capital to meet current obligations. This is monitored by regular relevant reports to the Board of Directors.

Maturity analysis and effective interest rates

The table below summarises the maturity profile of the financial liabilities of the company. The amounts disclosed in the table are the contractual undiscounted cash flow.

| At 30 June 2013 | Less than 1 year (\$000) | Between 1-2 years (\$000) | Between 2-5 years (\$000) | Greater than 5 years (\$000) |
|----------------------------------|-----------------------------|---------------------------------|---------------------------------|------------------------------------|
| Payables and accrued liabilities | 889 | – | – | – |

| At 30 June 2012 | Less than 1 year (\$000) | Between 1-2 years (\$000) | Between 2-5 years (\$000) | Greater than 5 years (\$000) |
|----------------------------------|-----------------------------|---------------------------------|---------------------------------|------------------------------------|
| Payables and accrued liabilities | 1,034 | – | – | – |

Fair Values

Cash, Receivables, Payables and Bank Overdraft

The carrying value of these items is equivalent to their fair value. The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

17. Categories of financial assets and liabilities

The carrying amounts of financial assets and liabilities in each of the NZ IAS 39 categories are as follows:

| | 2013 (\$000) | 2012 (\$000) |
|---|-----------------|-----------------|
| Loans and receivables | | |
| Cash and cash equivalents | 1,539 | 1,307 |
| Trade and other receivables | 1,352 | 1,362 |
| Total loans and receivables | 2,891 | 2,669 |
| Financial liabilities measured at amortised cost | | |
| Trade and other payables | 889 | 1,034 |
| Total financial liabilities measured at amortised cost | 889 | 1,034 |

18. Operating lease commitments

The company has operating leases for premises, some of which have right of renewal options. There are no sub leases from these arrangements.

| | 2013 (\$000) | 2012 (\$000) |
|--|-----------------|-----------------|
| Non-cancellable operating lease commitments payable | | |
| Not later than one year | 881 | 874 |
| Later than one year and not later than five years | 1,336 | 1,227 |
| Later than five years | – | – |
| | 2,217 | 2,101 |

Significant leasing arrangements

The premises leasing agreements are based around a contract fixed period and generally contain a right of renewal option. The fixed periods vary from 1 to 4 years and right of renewal options vary from 1 to 4 years. The leasing agreements where they are greater than 1 year contain rent review clauses which are subject to acceptance of valuation reports or if not accepted, a resolution process.

19. Related party transactions

Transactions

DRSL as a wholly owned entity of the Crown enters into a number of transactions with other government departments, crown agencies and state-owned enterprises on an arm's length basis where those parties are acting in the course of their normal dealing with DRSL.

ACC, a wholly owned government entity is a major source of DRSL revenue. Revenue from review and mediation services to ACC during the year totaled \$13.422 million (2012: \$13.200 million). ACC provided services to DRSL during the year totaled nil (2012: \$0.870 million).

During the year DRSL did not declare a dividend to the Crown (2012: nil).

| | 2013 (\$M) | 2012 (\$M) |
|---|---------------|---------------|
| Significant transactions during the year with other government departments, crown agencies and state-owned enterprises | | |
| Payments by DRSL to Inland Revenue Department for taxation, including GST, income tax and fringe benefit tax | 1.360 | 1.505 |
| Amount outstanding and owing to IRD at balance date | 0.098 | 0.083 |
| Financial Dispute Resolution Scheme funding from Ministry of Consumer Affairs | 0.944 | 0.958 |

Outstanding balances

Amounts outstanding between the company and related parties are:

| | 2013 (\$000) | 2012 (\$000) |
|---------------------------------|-----------------|-----------------|
| Owing by related parties | | |
| ACC – billed | 1,024 | 1,265 |
| ACC – unbilled (WIP) | 1,450 | 1,738 |
| | 2,474 | 3,003 |
| Owing to related parties | | |
| ACC | – | 5 |
| | – | 5 |

Key management personnel

The remuneration of the directors of the board and senior management team is set out below:

| | 2013 (\$000) | 2012 (\$000) |
|--|-----------------|-----------------|
| Salaries and other short term employee costs | 1,154 | 1,246 |
| Salaries and other long term employee costs | – | 6 |
| Post employment costs | 59 | 59 |
| Termination benefits | 129 | – |
| Total key management personnel compensation | 1,342 | 1,311 |

20. Capital commitments

Commitments for future capital expenditure resulting from contracts entered into by the company at balance date amount to \$836K (2012: nil).

21. Contingencies

Contingent liabilities at 30 June 2013 are estimated at nil (2012: nil).

22. Events after balance sheet date

The company declared a dividend of \$200,000 to the shareholder (NZ Government) in September 2013. (2012: nil)

Statutory Information

for the year ended 30 June 2013

1. Directors' remuneration

Directors who have received remuneration and other benefits from the company during the year are as follows:

| | 2013 (\$000) | 2012 (\$000) |
|-----------------|-----------------|-----------------|
| Peter Blades | 35 | 35 |
| Anita Chan | 18 | 18 |
| Tupara Morrison | 18 | 18 |
| John Spencer | 18 | 18 |
| Marie Bismark | 18 | 18 |

2. Employees' remuneration

a) The number of employees whose remuneration was within these specified bands is as follows:

| | 2013 (\$000) | 2012 (\$000) |
|-----------------------|-----------------|-----------------|
| \$100,000 – \$110,000 | 6 | 3 |
| \$110,000 – \$120,000 | 1 | 3 |
| \$120,000 – \$130,000 | 2 | 2 |
| \$130,000 – \$140,000 | 2 | 1 |
| \$140,000 – \$150,000 | 1 | 1 |
| \$150,000 – \$160,000 | 1 | 2 |
| \$180,000 – \$190,000 | 1 | 1 |
| \$190,000 – \$200,000 | 1 | – |
| \$200,000 – \$210,000 | 2 | – |
| \$270,000 – \$280,000 | 1 | – |
| \$310,000 – \$320,000 | – | 1 |

b) During the year ended 30 June 2013, eight employees received compensation in relation to cessation totaling \$264,197 (2012, 3 employees \$36,889).

3. Changes in business of company

During the year ended 30 June 2013 there was no significant change in the nature of the business operations of the company.

4. Company donations

During the year the Company made donations of \$1,286 (2012: \$522).

5. Directors interests

Pursuant to section 140(2) of the Companies Act 1993, the following is a list of particulars of general disclosures of interest by directors of Disputes Resolution Services Limited holding office at 30 June 2013.

| Name of Director | Nature of Interest | Date disclosed |
|----------------------------|---|----------------|
| Peter Blades – Chair | | |
| | Director, Wellington Regional Holding Company Ltd | 26/07/2011 |
| | Director, PBL Ltd (New Zealand) | 26/07/2011 |
| | Board Member, Document Corp Pty Ltd (Victoria) | 18/12/2012 |
| | Director, rbz Resources Pty Ltd (Victoria) | 26/07/2011 |
| Anita Chan – Deputy Chair | | |
| | Barrister Sole, Anita Chan Barrister, Dunedin | 12/08/2011 |
| | Vice President of International Academy of | |
| | Matrimonial Lawyers (IAML), London | 12/08/2011 |
| Tupara Morrison – Director | | |
| | Owner & Director, ID Group Holdings Ltd, Business | |
| | Growth Company | 09/04/2010 |
| | Director, New Zealand Maori Arts & Crafts Institute | 18/06/2010 |
| | CEO, Ngati Whatua Orakei Whai Maia Ltd | 18/10/2012 |
| John Spencer – Director | | |
| | Board Chairman, KiwiRail Ltd | 19/05/2011 |
| | Board Chairman, WEL Networks Ltd | 19/05/2011 |
| | Director, Tower Ltd | 19/05/2011 |
| | Director, Dairy NZ Ltd | 19/05/2011 |
| | Director, Mitre 10 NZ Ltd | 19/05/2011 |
| | Board Chairman, Tertiary Education Commission | 24/08/2012 |
| | Board Chairman, Raukawa Iwi Development Ltd | 24/08/2012 |



www.drsl.co.nz