

ANNUAL REPORT
2018

DELTA
THINK.INFRASTRUCTURE



CONTENTS

CHAIRMAN AND CHIEF EXECUTIVE'S REPORT	12
DIRECTORS' REPORT	126
TREND STATEMENT	131
STATEMENT OF SERVICE PERFORMANCE	132
INFORMATION ON THE DIRECTORS	134
FINANCIAL CONTENTS	137
FINANCIAL STATEMENTS	138
NOTES TO THE FINANCIAL STATEMENTS	144
INDEPENDENT AUDITOR'S REPORT	172
COMPANY DIRECTORY	176

THE YEAR

IN NUMBERS

13%

Reduction in
injury rate

512

People employed across
the South Island

25

Average number of
apprentices/trainees

7,102,646

Kilometres travelled in
Delta branded vehicles

400

Plant/vehicles fitted
with Smarttrack

10,193

Revenue meters
tested

33,006

Smart meters
installed

44,360

Metres of vegetation
cleared from power lines

2,047

Hectares of vegetation
maintained for local
authority customers

9,068

Power poles
inspected

1,939

Power poles
installed

6,186

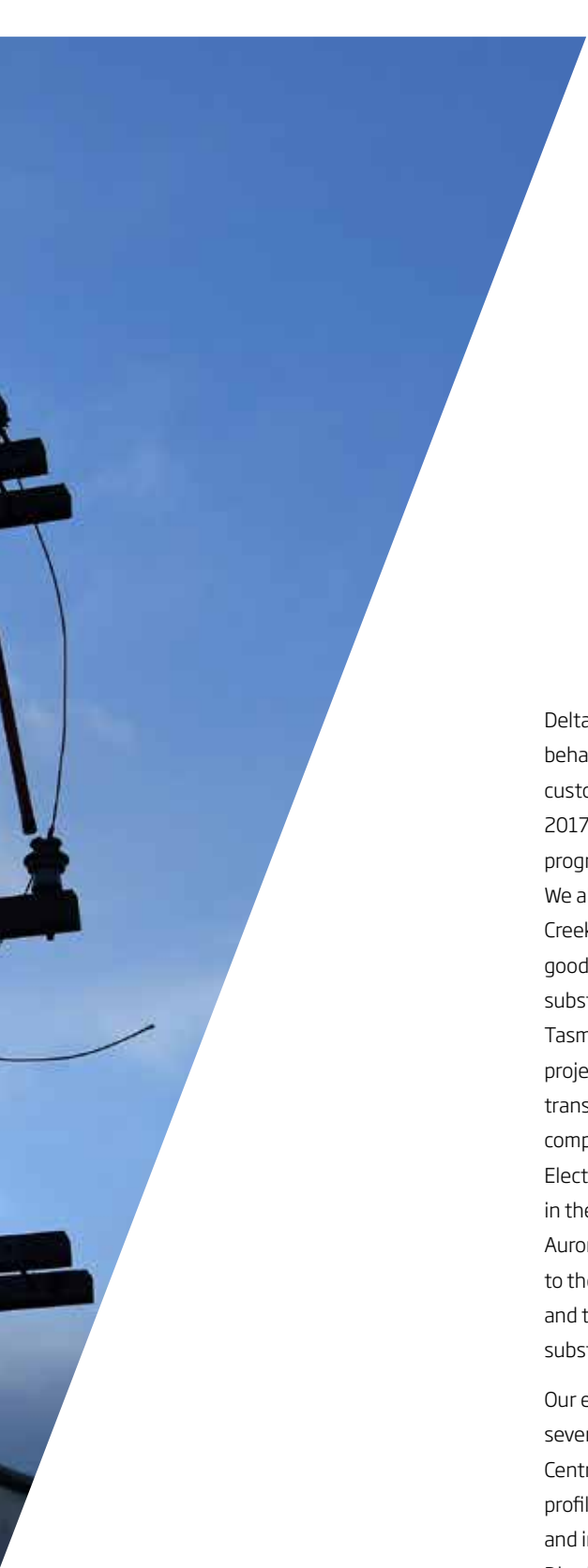
Electricity faults
attended



CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

for the year ended 30 June 2018

Our core business activities in the electrical and environmental infrastructure sectors delivered solid results for the year ended 30 June 2018. We retained existing long term contracts and managed to secure new work activity with both new and current customers. Overall financial performance for the year remained positive, achieving a better than budget operating profit.



Delta managed several capital projects on behalf of our three major electrical network customers during FY18. In December 2017, Delta completed the Fast Track pole programme on behalf of Aurora Energy. We also concluded our work on the Gorge Creek project in Central Otago and made good progress on the new Carisbrook zone substation build in Dunedin. For Network Tasman we completed several re-conductor projects and converted pole mounted transformers to kiosk substations. We also completed three major projects for Nelson Electricity during the year. Future projects in the electrical services sector include the Aurora Energy replacement of 33kV cables to the Smith Street substation in Dunedin and the Network Tasman Annebrook zone substation project in Nelson.

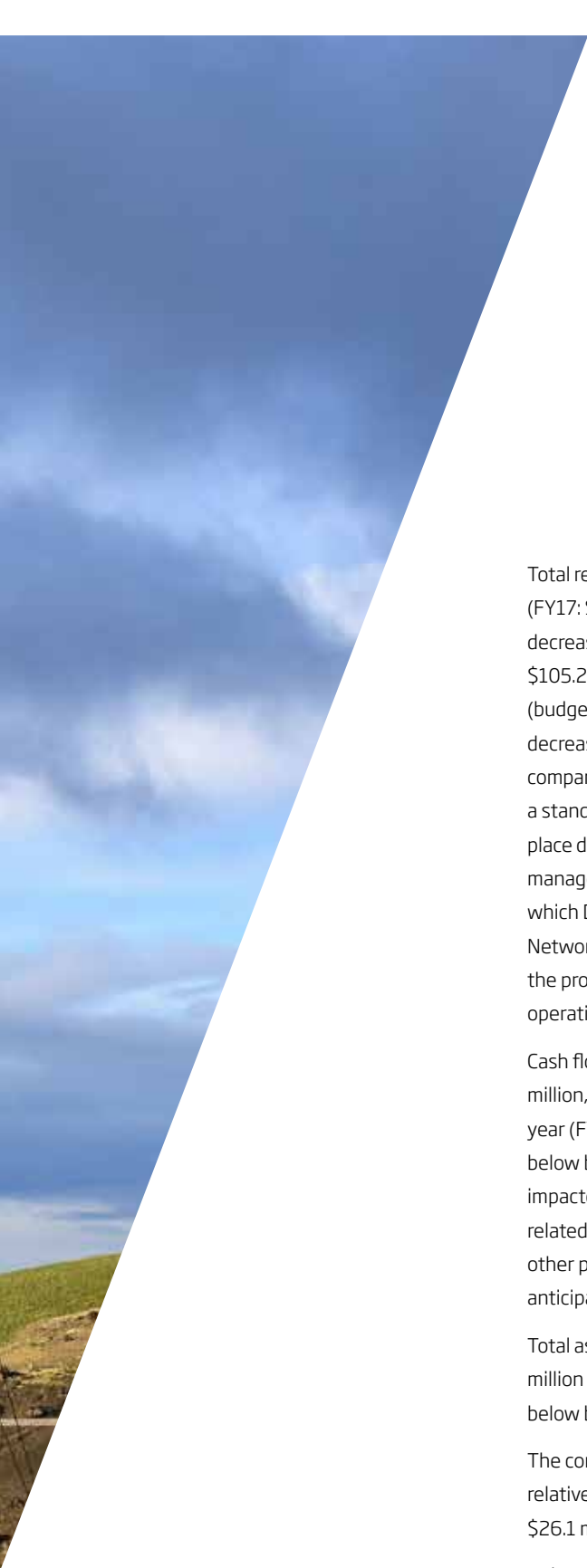
Our environmental services business secured several long-term contracts during FY18. In Central Otago, Delta secured the QLDC high profile turf contract for the next eight years and in North Canterbury, the Waimakariri District Council renewed our parks and reserve contract for a further seven years. In Dunedin, the Council expanded our northern

parks contract to include the city's southern region cricket grounds, and our specialist tree services business continued to help maintain the reliability of the Aurora Energy network by clearing a total of 44.3 km of vegetation away from powerlines.

Shareholder equity continued to grow, increasing over 10% to \$22.1 million, reflecting the company's prudent approach to risk and revenue growth that is underpinned by long term infrastructure maintenance partnerships.

For FY18, Delta recorded a profit before income tax of \$4.3 million, slightly down on the previous year (FY17: \$5.8 million) but above budget expectations (budget \$3.4 million). The company's net profit after tax of \$3.8 million for the year under review (FY17: \$4.9 million) was also above budgeted expectations of \$2.4 million.





Total revenue was \$93.6 million for FY18 (FY17: \$105.7 million). Operating revenue decreased by 11.9% to \$92.7 million (FY17: \$105.2 million), but was above budget (budget \$87.4 million). The substantial decreases from 2017 reflect the significant company changes necessary to become a standalone contractor which took place during FY18, the transfer of asset management and engineering functions which Delta performed on the Aurora Energy Network to Aurora Energy on 1 July 2017 and the progressive exit from our solid waste operations.

Cash flows from operations were \$3.9 million, down \$5.7 million on the previous year (FY17: \$9.6 million) and \$2.2 million below budget. Cash flow from operation was impacted by one off intragroup transition related payments and a higher trade and other payables opening balance than anticipated.

Total assets decreased slightly from \$61.9 million to \$60.7 million, partly as a result of below budget capital expenditure.

The company's term borrowings remained relatively unchanged, down \$0.6 million to \$26.1 million (FY17: \$25.5 million).

Delta remains comfortable with progress towards the recovery of its debt with Infinity Yaldhurst Limited. The debt arose from the supply of infrastructure services on a Christchurch subdivision. In August 2016, the subdivision was purchased by property

development company, Infinity Yaldhurst Ltd, at which time Delta entered a new loan agreement with Infinity Yaldhurst Ltd to replace the historical debt owed by the previous developer. Delta received an initial debt reduction of \$0.9 million, and is confident that progressive recovery of the current loan balance of \$13.7 million (plus interest thereon) will commence within the next twelve months.

Delta paid dividends of \$1.750 million during FY18 (FY17: \$2.5 million), as forecasted in its 2017/18 Statement of Intent. In approving these dividends, the Board carefully considered the prudent balance between shareholder returns and retained earnings. As one of the Dunedin City Council's group of companies, Delta's financial returns and dividends ultimately benefit its community owners.

STRATEGIC DIRECTION



PEOPLE

An environment that enables and encourages everyone to reach their potential.



PROCESSES

Fit for purpose and standardised across our organisation.



CUSTOMERS

Understanding objectives and delivering on our promises.



PLANNING

A proactive approach, every time.



EFFICIENCY

Eliminating waste and ensuring we always have the right tools for the job.



INNOVATION

Inspiring innovative solutions.





FY18 has been a year of change. Having clear strategic direction is essential to ensure that change translates to business improvement. During the year we have reinforced this by reviewing and refocusing our safety and business strategies, and documenting them in a clear and simple manner.

Our overall safety vision is 'Everyone Home Safe, Every day.' Redefining our safety strategy focused on three main themes - Risk Focused, Worker Engaged and Leadership Motivated. These themes give clarity and understanding to help achieve our overall safety vision, and increase our vigilance in ensuring we focus on planned activity and effective management of critical risks.

At Delta, our core values are simple and proactive - Do it First, Do it Right, Do it Together. Therefore, on every project, we make a difference through fresh thinking, dependability and working together. Delta's purpose is to deliver innovative, high quality infrastructure services, by providing smart thinking to our customers and always working safe. This ensures that our vision of being a leading infrastructure specialist in energy and environmental services, is achieved. We developed our business strategy with these core ideals in mind. We centred the strategy on six key pillars to ensure balance and a clear focus.

People - An environment that enables and encourages everyone to reach their potential.

Processes - Fit for purpose and standardised across our organisation.

Customers - Understanding objectives and delivering on our promises.

Planning - A proactive approach, every time.

Efficiency - Eliminating waste and ensuring we always have the right tools for the job.

Innovation - Inspiring innovative solutions.

Each pillar considers a key component related to how Delta has moved forward as an organisation, and how we expect to progress the development of our business operations. By successfully delivering these six key aspects of our business we will ensure that we fulfil our values, creating a safe and rewarding environment for our people, customers and stakeholders.

During FY18, we decided to change how we communicated our business strategy to our staff. Rather than creating an extensive document, we embarked on a strategy roadshow to share our vision and business direction. We engaged and interacted with all our people, in 12 sessions, across our six depots. Staff participated in the process and were excited to be involved in developing the approach that would help shape our business future. To ensure delivery of our strategy is a reality, during the roadshows we committed to implement seven business projects which are directly related to the six key pillars on which our business strategy is formed. Implementation of these business improvement projects will have a positive effect on our operational performance and ensure that Delta continues to enhance overall efficiency.



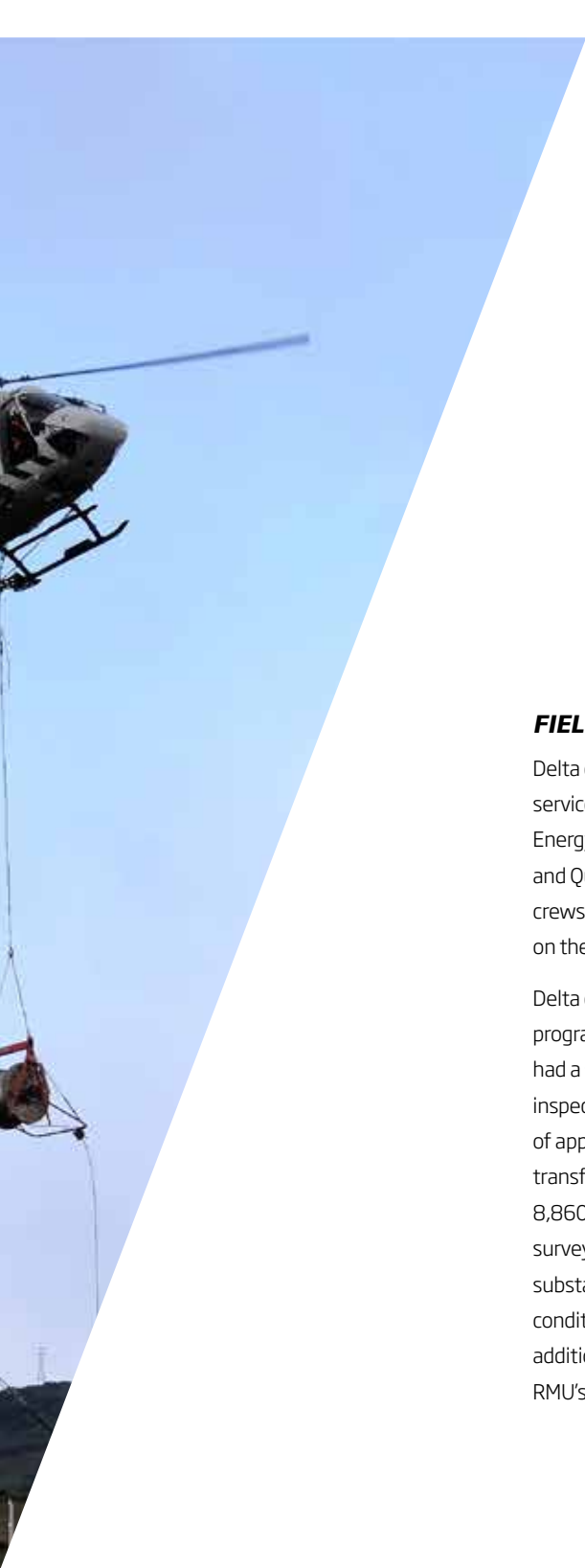


OUR VALUES

DO IT FIRST. DO IT RIGHT. DO IT TOGETHER.

ELECTRICAL SERVICES

Our electrical contracting business continued to deliver distribution services to Aurora Energy, Network Tasman and Nelson Electricity networks during FY18. There was another uplift in demand for capital and maintenance services, as the networks expanded their asset renewal and maintenance programmes. Operating in a competitive market, Delta secured several new contracts across a wide range of electrical services and customers.



FIELD MAINTENANCE SERVICES

Delta continued to provide maintenance services and faults response to the Aurora Energy network in Dunedin, Central Otago and Queenstown Lakes. During the year, our crews responded to more than 4,000 faults on the Aurora Energy networks.

Delta completed the annual maintenance programme for Aurora Energy, which for FY18 had a strong focus on condition based asset inspections. This included the inspection of approximately 2,600 distribution transformers, 1,300 ring main units (RMU), 8,860 poles, thermographic and corona surveys of sub-transmission lines and zone substations, and comprehensive asset condition reports for all zone substations. In addition Delta maintained approximately 100 RMU's across the Aurora Energy network.

During FY18, Delta also continued to provide operation and maintenance services to Network Tasman and Nelson Electricity. Throughout the year, our crews responded to 1,800 faults on the Network Tasman network and 230 faults on the Nelson Electricity network. Delta completed the annual maintenance programme for Network Tasman and the maintenance work it was issued from Nelson Electricity. Delta's Tasman Team was particularly proud of their effective storm response during February's Cyclone Gita.

**ELECTRICAL
SERVICES**
continued...



KEY DISTRIBUTION PROJECTS

Aurora Energy

One of Delta's largest projects for the year was the build of a new zone substation at Carisbrook, Dunedin for Aurora Energy.

This new substation will replace Aurora Energy's Neville Street substation, which is the oldest on their network. During FY18 we completed the two kilometre installation of new 33kV underground cables from the South Dunedin grid exit point substation to the new substation site. Once contractors completed the construction of the building, Delta installed zone substation transformers, 33kV and 11kV switchgear, protection panels and transformer neutral earthing resistors. The substation is scheduled to become operational in September 2018.

In Central Otago, Delta secured the Riverbank Road 66kV and 11kV interfacing works contract on Aurora Energy's newest switching substation in Wanaka. To date, Delta has installed all the new underground cables in readiness for the dismantling of existing 11kV overhead lines. The next stage is to build the new 66kV line. This switching substation will increase the capacity of electricity supply, improve the network security and help cater to the growing demand that is being faced by the Central Otago region.

During the first half of FY18, Delta, alongside other external contractors, completed the Fast Track Pole Programme on behalf of Aurora Energy. 2,906 power poles in total were replaced, repaired or reassessed by the end of December 2017. Throughout the year Delta has replaced a total of 1,785 poles on the Aurora Energy network, some of which were part of Fast Track pole programme, and many were completed as live line work.

Another challenging project Delta completed this year was the Aurora Energy Gorge Creek

project in Central Otago. The project was completed in May 2018 and involved the construction of two three-pole structures and the stringing of new conductors over a gorge that spans more than 580 meters. The renewal of this asset was crucial to maintaining the network's reliability, as this structure helps supply electricity to Alexandra and Roxburgh, and takes power generated from the Roxburgh hydro-station to the Clyde Dam, where it is exported to the National Grid.

Network Tasman

During FY18 Delta has completed a number of significant re-conductor projects for Network Tasman, and undertook the conversion of eight pole mounted transformers to kiosk substations. Delta has also recently been awarded the contract to upgrade Network Tasman's Annebrook zone substation.

Nelson Electricity

Delta was awarded three major contracts from Nelson Electricity during the year. We converted overhead lines to underground cables in Hastings Street, Nelson and installed a new kiosk substation at Port Nelson – improving the reliability of supply to their logistics centre. At the request of the Nelson City Council and Nelson Electricity, we also relocation of the Trafalgar Centre substation out of a potential flood risk area.

GENERATION

In the generation market, Delta has provided technical expertise in power generation and electrical services to Contact Energy for the past four years. During FY18, Delta's contract with Contact Energy was renewed and Delta will continue the operation and maintenance of electrical plant and equipment for Contact Energy's Clutha hydroelectric power stations in Clyde and Roxburgh for a further 4 years.

COMMUNICATIONS

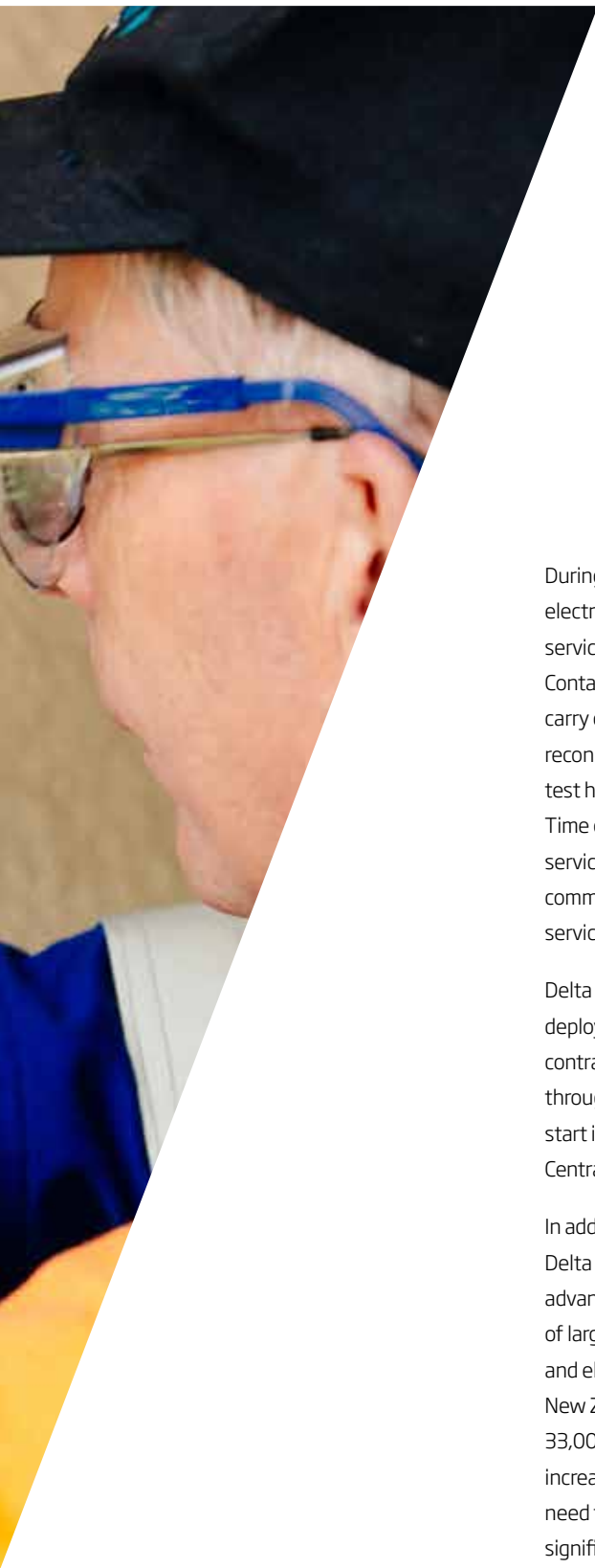
Delta continued to maintain Network Tasman's consumer fibre optic communications network in Tasman and Marlborough. We also provided a small amount of fibre optic communication services to Aurora Energy during the year. A total of 25.5 kilometres of new fibre optic cable was installed across Network Tasman and Aurora Energy communication networks. A major highlight for Delta during the year, was the opportunity to assist in the 3 kilometre fibre optic network build for Network Tasman. This required teams to install fibre optic cables from a Transpower fibre source to the Murchison grid exit point substation. We also saw an increase in the number of residential fibre optic connections in new subdivisions for Network Tasman, and we continued to carry out both fibre and electrical reticulation work to subdivisions across the Nelson and Tasman regions.

OTHER

Delta's continues to provide street lighting maintenance services to the Dunedin City Council. This will be the case until the Council replaces the current lights with LED's as part of a pending upgrade project. Delta is also providing installation services to both the Central Otago District Council and Queenstown Lakes District Councils as part of their street lighting LED upgrade programmes.

RETAILER SERVICES

Delta has continued to maintain its dominant position in the retail metering services industry. We are the largest legacy field service provider in New Zealand – providing nationwide field services to Contact Energy, Meridian, Powershop, Electric Kiwi and Energy Club NZ, as well as South Island services to Pulse, Flick, Switch and Ecotricity.



During FY18, Delta was awarded the electricity metering services and associated services for legacy metering contract from Contact Energy. Specifically, Delta will carry out nationwide disconnection and reconnection services, logistic services, and test house services; as well as South Island Time of Use (TOU) and non TOU metering. Our services for disconnection and reconnection commenced on 1 April 2018, and all other services will begin on 1 September 2018.

Delta has also been awarded the Trustpower deployment and ongoing BAU maintenance contracts in five electricity networks throughout the South Island. This work will start in January 2019, in Aurora Energy's Central Otago network.

In addition to these long term contracts, Delta continued to maintain and install advanced and legacy meters for the majority of large and smaller electricity retailers and electricity meter owners throughout New Zealand. Delta installed more than 33,000 smart meters during FY18. With the increased installation of smart meters the need for manual reads of legacy meters has significantly reduced. In September 2017, Delta made the decision to discontinue the provision of meter reading services.

As well as smart meter deployment, Delta also carries out advanced and legacy meter testing and statistical sampling on selected ICP's in our A Class test laboratory for AMS and other meter owners. We also perform special project work, which includes meter compliance and specific meter replacement projects.

Our retailer services team is largely based in Dunedin, however we have some staff based in Christchurch and Auckland - including electrical inspectors and meter technicians. Our Christchurch based team also provides network connection services to Orion.

ENVIRONMENTAL SERVICES

Delta continued to grow and expand its environmental business during FY18. The security of several long-term contracts allowed Delta to compete for a wide range of greenspace work throughout the year. We continued to provide sports turf management, horticulture services, roadside vegetation control and park and reserve maintenance throughout the South Island.





Since July 2016, Delta has maintained the Dunedin City Council's northern parks contract, which includes specialised turf maintenance for the city's northern cricket grounds. Delta's commitment to quality has led to our high level of success within this contract. During FY18, the Dunedin City Council asked Delta to assist them in the restoration of the city's southern region cricket grounds. To date, the Council have been very pleased with our contribution to the pitches and has expanded the scope of our contract, to include the ongoing maintenance work for the southern cricket grounds.

In FY18, Delta successfully secured the Queenstown Lakes District Council contract to manage and maintain their high profile turf. The eight year contract commenced on 1 August 2017, and is valued at \$1.1 million per year. A major highlight of this contract so far, has been the opportunity to prepare the practice and playing surfaces for the Under 19 International Cricket World Cup, at John Davies Oval in Queenstown. In January 2018, the oval was host to the Under 19 English cricket team, and used for nine one-day international fixtures throughout the tournament. The appearance and quality of the ground attracted praise from the Queenstown Lakes District Council and the International Cricket Council.

FY18 saw Delta enter the third year of our contract with Christchurch City Council to deliver parks maintenance services in the south of the city. We completed all scheduled maintenance programmes in line with the contract performance standard and provided innovative solutions to the Council. During FY18, Delta purchased a remote control mower to cut informal turf and steep embankments. The remote control mower improves productivity and reduces the health and safety risk associated with embankment mowing. This new piece of equipment has generated a lot of interest throughout the Canterbury region, with other Councils eager to see it in use. The mower commenced operation in late 2017 and is being used across a number of contracts in the region.

In the Waimakariri district, the Council renewed our parks and reserves maintenance contract which commenced in 2017. This seven year contract was successfully tendered following the expiry of the original contract, held with the council since 2010. Our Rangiora based team have settled into the new contract model well, with an upgraded fleet of equipment and a great attitude. The team undertook all the contract specific maintenance work during the year, as well as securing a varied range of additional work across the region.

Further north, Delta has continued to provide services to Fulton Hogan on the Nelson NZTA networks outcome contract. The work includes roadside vegetation control on all State Highways in the Nelson area, as well as on local roads in Golden Bay. A new roadside spraying truck with a remote controlled spray boom has been commissioned during the year and has provided improved productivity and safety across these vegetation control spraying programmes.



ENVIRONMENTAL SERVICES *continued...*



TREE SERVICES

To assist with improved network reliability, our specialist tree services business cleared a total of 44.3 kilometres of vegetation away from powerlines on the Aurora Energy network. All trees were recorded, and tree owners were notified prior to the commencement of work. A major highlight during FY18, was the completion of the Bob's Peak forest project. The complex job saw more than 90 Douglas fir trees trimmed and 40 felled, near the Skyline gondola in Queenstown. The 40-50 meter tall trees were growing near high voltage overhead lines which supply the Skyline gondola operation. Therefore this work was necessary to maintain the network's reliability and avoid interruption to tourist activity through tree related power outages.

The Dunedin City Council roadside vegetation control contract is shared between our greenspace and tree services teams. Roadside corridor trimming has been a continual focus for the tree services team since the beginning of this contract in December 2016. During FY18 we have worked closely with the Council to prepare programmes and prioritise work. As a result, we have seen a significant reduction in reactive work coming from the community.

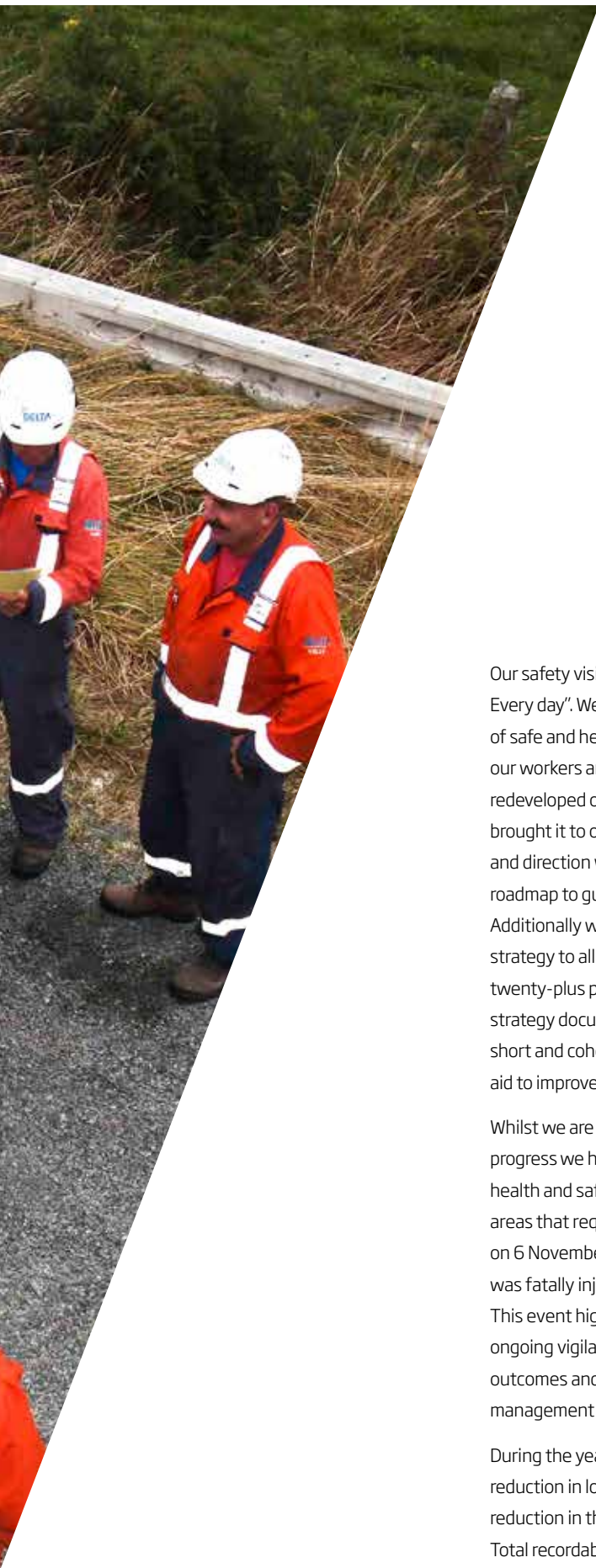
SOLID WASTE

As mentioned in the 2017 report, Delta was unsuccessful with its offer to renew the Green Island landfill contract in Dunedin. This prompted the business to complete an extensive review of its future in the waste management market. The Green Island landfill contract underpinned our solid waste business and therefore affected our long term sustainability in this sector. With little competitive advantage in this space, the decision was made to exit our solid waste business entirely.

During FY18, Delta finalised the sale agreement of its remaining waste management operations with WasteCo Ltd. This included the Mt Cooee landfill operations contract for Clutha District Council, transfer station operations for Waitaki District Council and private bin customers in the Waitaki area. All operations were transferred on 1 December 2017. During the transition, we provided job search assistance to affected employees. We were pleased that almost every employee seeking work found alternative employment within a short space of time.

SAFETY AND RISK

DELTA
THINK INFRASTRUCTURE



Our safety vision is “Everyone Home Safe, Every day”. We are committed to the provision of safe and healthy work environments for our workers and the public. During FY18, we redeveloped our five year safety strategy and brought it to our people. With their insight and direction we created a clear and concise roadmap to guide us on our safety journey. Additionally we enhanced the delivery of our strategy to all staff, by firstly reducing the old twenty-plus page document into a one page strategy document, and supported this with a short and coherent video – to provide a visual aid to improve the retention of our message.

Whilst we are generally satisfied with the progress we have made in relation to improved health and safety performance, there are still areas that require ongoing attention. Sadly, on 6 November 2017 a member of our team was fatally injured in a work place incident. This event highlights the need to ensure ongoing vigilance in the pursuit of safety outcomes and re-affirmed our focus on management of critical risks to support this.

During the year we achieved a 50 per cent reduction in lost time events and a 13 per cent reduction in the total recordable injury rate. Total recordable injuries per 200,000 hours worked (TRIFR) was 3.76 compared to 4.33 in FY17, an improvement against our target.

We strive to continuously improve our operations throughout the business. This year, Delta purchased a remote control mower in our Christchurch based team, to help reduce the health and safety risks associated with manual embankment mowing. Also our Health and Safety team helped co-develop new apps to be used in the field, enabling us to attain real time data on the ground.

During FY18, we maintained the visibility of safety leadership across the organisation. The Board of Directors’ Health and Safety Committee met four times during the year and actively visited a variety of worksites. Managers also made regular onsite safety observations and workgroup safety days gave focused attention to critical risk and the importance of planning and prevention for every day jobs.

CUSTOMER FOCUS

Delta is committed to finding a noticeably better way to interact and work with our customers, every time. We pride ourselves on proactive relationships and therefore during FY18, Delta introduced its new customer charter. This document represents the promise we make to our customers on every job, every day. The charter is centred around our four main assurances.



PROVIDING A QUALITY SERVICE



NEVER COMPROMISING ON SAFETY

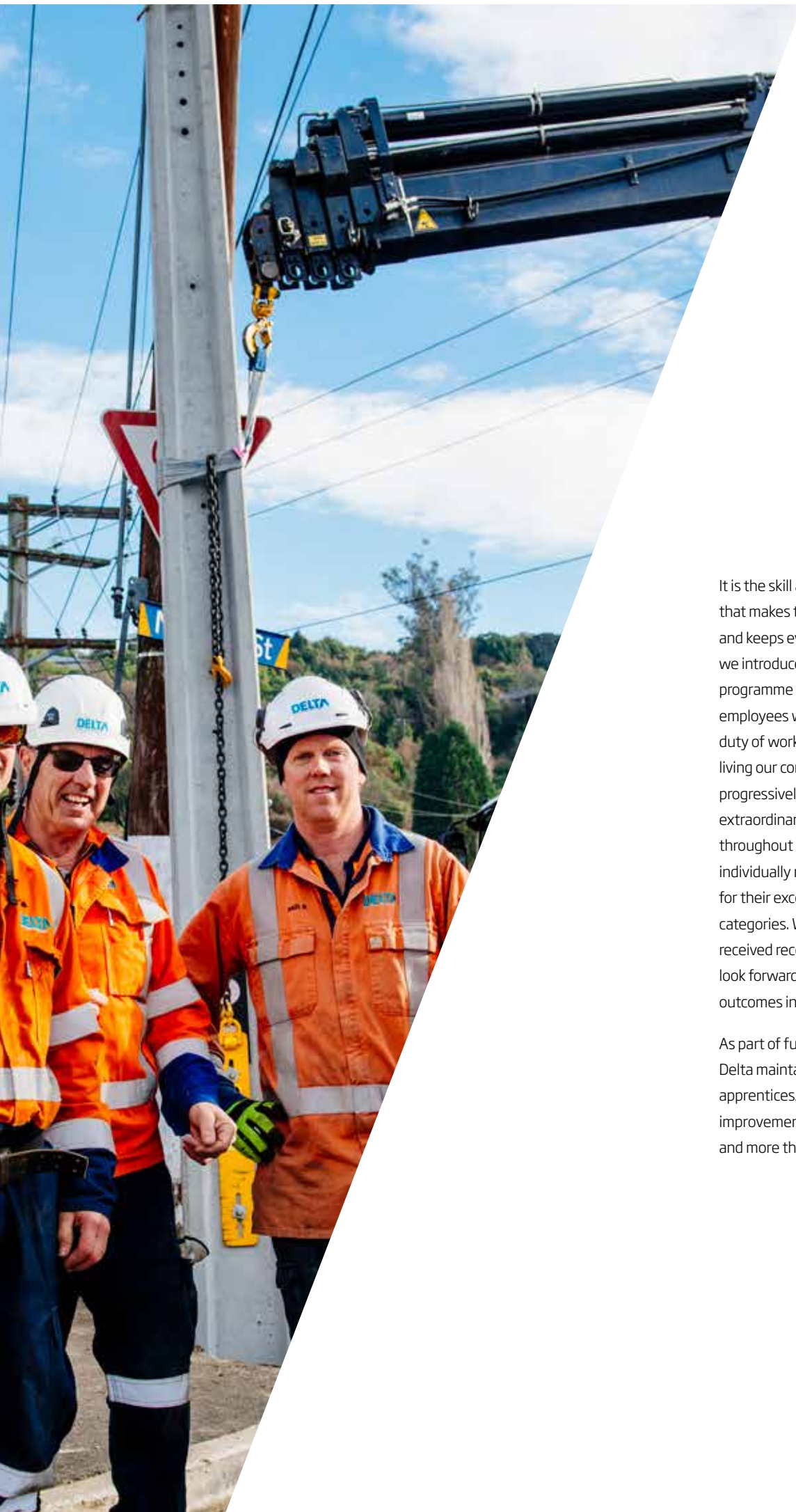


SUPPORTING THE ENVIRONMENT



PROVIDING VALUABLE SOLUTIONS

We aim to meet our customers' expectations every time they use our services and we invest in our people and business to give us the ability to deliver smart thinking solutions that go beyond ordinary expectations.



It is the skill and dedication of our people that makes the difference for our customers and keeps everyone safe at work. This year we introduced a new staff recognition programme to recognise and encourage employees who go above and beyond the duty of work in customer service, safety and living our core values. The new framework progressively considers achievement and extraordinary contribution from our staff throughout the year. During FY18, Delta individually recognised 45 staff members for their exceptional performance in these categories. We congratulate all those who received recognition during the year and look forward to achieving more successful outcomes in the future.

As part of future proofing our workforce, Delta maintained an average of 25 apprentices/trainees during FY18 - an improvement on our FY17 average of 19, and more than double our target of 10.

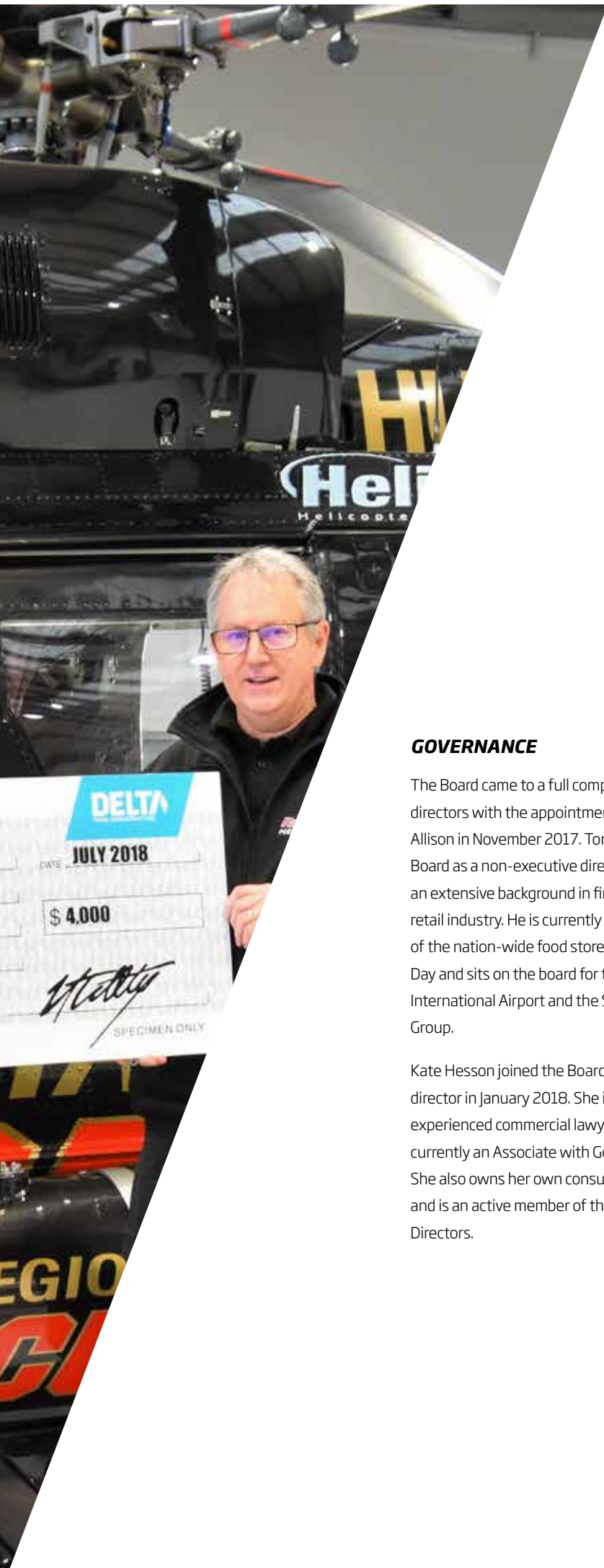
OUR COMMUNITIES

We are proud to support the communities in which we operate, by providing essential infrastructure services and by lending a helping hand to community organisations.

Our Charity Challenge campaign raises safety awareness among employees with the goal of ensuring everyone home safe, every day. The Charity Challenge fund increases each time an employee reports a close call or identifies a new hazard. We encourage the monitoring and reporting of close calls as an important way to identify potential hazards and take preventative action. During the year, Delta made donations to the Otago Rescue Helicopter Trust, Otago Community Hospice, St John Ambulance and the Fifeshire Foundation – helping out good causes in the community and supporting our journey towards zero harm.

In FY18, Delta continued to be a major sponsor of the Connexis Annual Connection Excellence Awards. Each year the iconic three day event brings together the best and brightest of the electrical and telecommunication industry to compete in cable jointing and line mechanic events. Delta is proud to celebrate excellence in the electricity supply sector and recognise the talent and expertise of aspiring trainees to experienced veterans.





GOVERNANCE

The Board came to a full complement of directors with the appointment of Tony Allison in November 2017. Tony joined the Board as a non-executive director and has an extensive background in finance and the retail industry. He is currently chief executive of the nation-wide food store Night 'n Day and sits on the board for the Dunedin International Airport and the Smith City Group.

Kate Hesson joined the Board as an intern director in January 2018. She is an experienced commercial lawyer and is currently an Associate with Goldsmith Law. She also owns her own consulting practice and is an active member of the Institute of Directors.

OUR THANKS

Our success throughout FY18 can be attributed to the support of our communities, customers, and importantly, our people. The commitment and dedication our team has, helped Delta to face significant change, and still achieve another successful year. As an organisation we are proud of our year's achievements and endeavour to continually improve the service we provide. We look forward to FY19 and the outcomes we achieve as we build on this year's results.

Brian Wood
CHAIRMAN

Mike Costelloe
CHIEF EXECUTIVE

31 August 2018



DIRECTORS' REPORT

The Directors of Delta Utility Services Limited are pleased to report on the financial results and associated matters for the year ended 30 June 2018.

The financial accounts in this report include the activities of Delta Utility Services Limited only as the Company has no trading subsidiaries.

DIRECTORS' REPORT

for the year ended 30 June 2018

PRINCIPAL ACTIVITIES OF THE COMPANY

The principal activities of the Company are the management, construction, operation and maintenance of infrastructure assets and the provision of contracting and related services.

RESULTS FOR THE YEAR ENDED 30 JUNE 2018

	\$000
Operating profit before income tax	4,273
Less income tax expense	497
Net profit for the period	<u>3,776</u>

STATE OF AFFAIRS

The Directors believe that the state of affairs of the Company is satisfactory.

DIVIDENDS

Dividends of \$1.750 million were declared and paid during the year.

RESERVES

The following net transfers have been made to or from reserves:

	\$000
Retained earnings - to (from)	2,026
Cash flow hedge reserve to (from)	73

DIRECTORS' REPORT

for the year ended 30 June 2018 – continued

REVIEW OF OPERATIONS

During the year the company established a number of new revenue streams and consolidated its position as one of the South Islands leading electricity network and environmental services contractors.

Delta's net surplus of \$3.776 million (2017: \$4.830 million) was above budget and provided a return on average Shareholder's equity of 18% (2017: 26%).

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2018 are attached to this report.

DIRECTORS' INTERESTS IN CONTRACTS

Disclosures of interests made by Directors are recorded in the Company's interests register. These general disclosures of interests are made in accordance with S140 (2) of the Companies Act 1993 and serve as notice that the Directors may benefit from any transaction between the Company and any of the disclosed entities. Details of these declarations are included in the Information on Directors section of this report.

Any significant contracts involving Directors' interests that were entered into during the year ended 30 June 2018 or existed at that date are disclosed in the related parties section of this report.

DIRECTORS' BENEFITS

No Director has received or become entitled to receive a benefit since the end of the previous financial period other than a benefit included in the total remuneration received or due and receivable by the Directors as shown in the financial statements.

There were no notices from Directors requesting to use Company information received in their capacity as Directors that would not otherwise have been available to them.

CHANGE OF DIRECTORS

Mr B J Wood was appointed as Chairman with effect from 1 July 2017.

Mr S W Grave was appointed as a Director with effect from 1 July 2017.

Mr T D Allison was appointed as a Director with effect from 1 November 2017.

Mr D J Frow and Mr S R Thompson retired as a Directors with effect from 30 June 2017.

DIRECTORS' INSURANCE

In accordance with the Constitution, the Company has arranged policies of Directors' Liability Insurance, which ensure generally 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' REPORT

for the year ended 30 June 2018 – continued

DIRECTORS' REMUNERATION

The remuneration paid to Directors during the year was:

Brian J Wood	\$	76,500
Steve W Grave	\$	42,500
Tony D Allison	\$	28,255
Trevor J Kempton	\$	42,500
	\$	<u>189,755</u>

EMPLOYEES' REMUNERATION

The number of employees and former employees, whose remuneration and benefits exceeded \$100,000 for the year ended 30 June 2018 is listed below. Remuneration includes all non-cash benefits and redundancy payments at total cost to the company, where applicable:

\$100,001 - \$110,000	35
\$110,001 - \$120,000	20
\$120,001 - \$130,000	9
\$130,001 - \$140,000	5
\$140,001 - \$150,000	10
\$150,001 - \$160,000	4
\$160,001 - \$170,000	1
\$170,001 - \$180,000	1
\$230,001 - \$240,000	2
\$390,001 - \$400,000	1
	<u>88</u>

AUDIT AND RISK COMMITTEE

All directors were members of the Audit and Risk Committee throughout their tenure as directors of the Company. The Audit and Risk Committee has the responsibility for agreeing the arrangements for audit of the Company's financial accounts. Its responsibilities include ensuring that appropriate audit consideration is given to the following issues:

- effectiveness of systems and standards of internal control
- quality of management controls
- management of business risk
- compliance with legislation, standards, policies and procedures
- appointing and monitoring the internal audit function.

Crowe Horwath was engaged to review specific areas throughout the year, with the results reported to the Audit and Risk Committee and the Board.

DIRECTORS' REPORT

for the year ended 30 June 2018 – continued

HEALTH AND SAFETY COMMITTEE

All directors were members of the Health and Safety Committee throughout their tenure as directors of the Company. The Committee's principal responsibility is to review and make recommendations to the Board on the appropriateness and effectiveness of the Company's health and safety strategy, performance and governance.

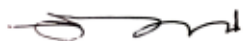
AUDITOR

The Auditor-General is appointed as Auditor pursuant to S70 of the Local Government Act 2002. The Auditor-General has contracted the audit to Audit New Zealand.

EVENTS SUBSEQUENT TO BALANCE DATE

There were no significant post balance sheet date events.

On behalf of the Directors



Brian Wood
CHAIRMAN



Tony Allison
DIRECTOR

31 August 2018

TREND STATEMENT

Years ended 30 June	Note	2018 \$000	2017 \$000	2016 \$000	2015 \$000	2014 \$000
Total Recordable Injury Frequency Rate	1	3.76	4.33	3.11	4.16	8.79
Revenue		93,641	105,733	106,663	102,471	96,624
EBITDA		9,378	11,092	11,473	11,055	12,000
EBIT		5,402	7,192	7,875	7,700	7,784
Profit before tax		4,273	5,817	6,135	6,212	5,700
Net surplus		3,776	4,830	4,673	4,657	4,377
Total assets		60,746	61,864	61,163	59,835	56,530
Ordinary dividends		1,750	2,500	2,500	2,500	2,500
Cash flow from operating activities		3,924	9,612	3,439	10,390	5,553
Shareholder's equity		22,122	20,023	17,618	15,469	13,757
Term debt		26,100	25,465	29,165	26,490	29,775
Return on average Shareholder's equity		18%	26%	28%	32%	34%
EBIT / average funds employed		9%	12%	13%	13%	12%
Equity to assets		36%	32%	29%	26%	24%
FTE (Full time equivalent) employee numbers as at year end		512	616	607	572	505

NOTES:

- ¹ Total recordable injuries per 200,000 hours worked. Recordable injuries include harm where either time has been lost from work, or formal medical treatment resulted.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2018

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
THE SHAREHOLDER			
Consult with the Shareholder on matters to be included in the Company's Statement of Intent	Shareholder approval of the Company's Statement of Intent	Achieved	The Statement of Intent for the 2018 financial year was submitted to and accepted by DCHL prior to 30 June 2017.
Bring to the attention of the Shareholder any strategic or operational matters where there may be conflict between the Council's community outcomes and/or the Ministers' expectations and those of the Company and seek the Shareholders view on these	No unnotified potential conflicts	Achieved	Monthly KPI reports and financial information was provided to DCHL in line with the agreed timetable.
Keep the Shareholder informed of all substantive matters	Report all substantive matters to the Shareholder within 24 hours	Achieved	Board reports were produced and meetings were held each month to review the Company's compliance with goals and objectives stated in the SOI and Strategic Plan.

COMMUNITY, PEOPLE, SAFETY AND ENVIRONMENT OBJECTIVES

Community

Make positive contribution to our community	\$25,000 of sponsorship per annum	Achieved	Over \$40,000 was paid in sponsorship / donations to community groups during the year.
Support community recreation and visitor experience	Achieve KPI's on service contracts	Achieved	Target KPI's were maintained or exceeded on average throughout the year.

People

Support Delta apprenticeship scheme	Average number of apprentices in the scheme of 10 or more per annum	Achieved	The average apprentices in the scheme was over 25 during the period.
Monitor absences due to illness	Lower than 2.5% sick leave based on hours	Achieved	Staff sick leave was 1.6% of total hours during the year.
Monitor voluntary leavers relative to permanent staff	Below 15.0% staff turnover	Achieved	Voluntary staff turnover was 14.4% over the 2017/18 year.

Safety

Reduce harm to employees and contractors	≤ 4.75 total recordable injury frequency rate (TRIFR) per 200,000 hours worked	Not achieved	Although the TRIFR achieved for the year was 3.76 per 200,000 hours worked, the outcome has been noted as not achieved due to an employee fatality in November 2017.
Zero serious harm events involving members of the public	0	Achieved	There were no actual serious harm incidents during the year involving the public.
Maintain tertiary level ACC workplace management practices accreditation	Obtain	Achieved	All accreditation was maintained.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2018 - continued

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
COMMUNITY, PEOPLE, SAFETY AND ENVIRONMENT OBJECTIVES - continued			

Environment

• Maintain all existing environmental accreditations	Maintain all existing environmental accreditations held during the year	Achieved	All environmental accreditations were maintained.
• Maintain full compliance with the Resource Management Act (RMA)	0 – number of breaches	Achieved	There were no RMA breaches during the year.
• Maintain or lower fuel efficiency	≤ 9.75 litres fuel used per 100 kilometres	Achieved	Fuel efficiency across the Delta light commercial fleet was calculated at 9.74 litres per 100 kilometres.

Economic

• Maintain essential infrastructure to support Dunedin City Council's strategy to be one of the world's great small cities	Deliver maintenance services per contractual arrangements	Achieved	Delta met or exceeded its KPI's on contracts held with Aurora Energy and the Dunedin City Council throughout the year.
--	---	----------	--

FINANCIAL OBJECTIVES

	TARGET	OUTCOME	RESULT
	\$000		\$000
• EBITDA	9,509	Not achieved	9,378
• Net profit after income tax	2,440	Achieved	3,776
• Shareholder's equity	19,979	Achieved	22,122
• Cash flow from operations ¹	6,101	Not achieved	3,924
• Capital expenditure	≤ 8,780	Achieved	3,938
• Term debt	≤ 30,490	Achieved	26,100
• Dividends	1,750	Achieved	1,750
• Shareholder's equity to total assets	30%	Achieved	36%

¹ The company references a Cash flow from operations of \$9.328 million in its 2017/2018 Statement of Intent. It has since been noted that \$6.101 million was in fact the target for cash flow from operations. The correct target for cash flow from operations was \$6.101 million as per the table above.

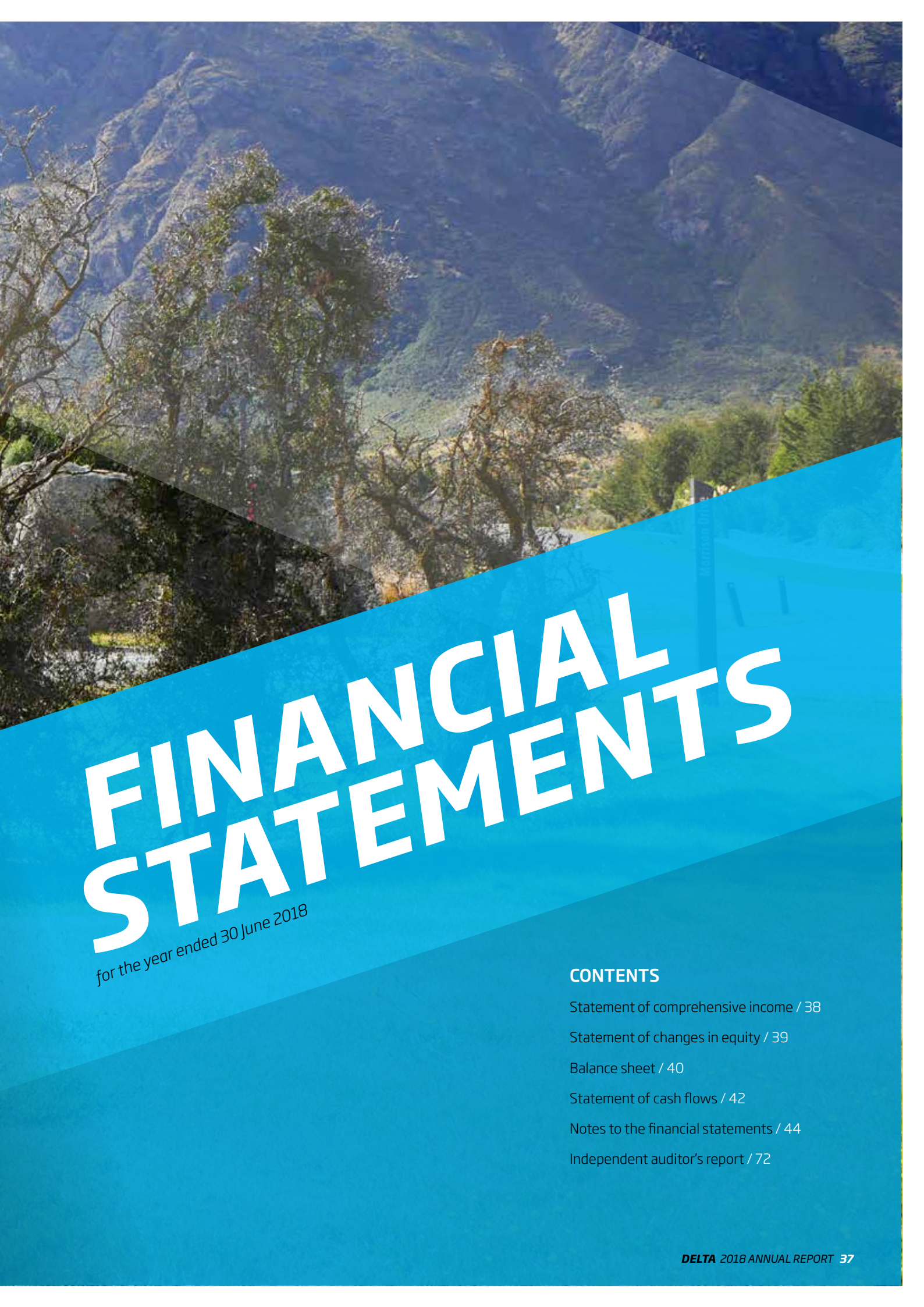
INFORMATION ON THE DIRECTORS

DIRECTOR	QUALIFICATIONS	DATE APPOINTED	DECLARATIONS OF INTERESTS
Brian J Wood Non-Executive Chairman	MBA (Otago) FNZIM CF.Inst.D	December 2016	Chairman – Buller Holdings Limited Chairman – Buller Recreation Limited Chairman – Canterbury Linen Services Limited Chairman – South Island Transport Corridors Reinstatement Group – Ministry of Transport Chairman – Westport Harbour Limited Chairman – Westreef Services Limited Director – Aurora Energy Limited (Resigned 30 June 2017) Director – Dunedin City Holdings Limited (Resigned 31 December 2017) Director – Dunedin City Treasury Limited (Resigned 31 December 2017) Director – Harrison Grierson Holdings Limited Director – Interpret Geospatial Solutions Limited (Resigned March 2017) Director – Lyttleton Port of Christchurch Limited Member – Governance Board for Maintenance Contract, West Coast State Highways, Fulton Hogan (Retired 30 November 2017) Chair – Project Steering Group, Christchurch Library Build, Christchurch City Council Chair – Project Steering Group, Christchurch Town Hall Rebuild, Christchurch City Council Chairman – Abley Transportation Ltd (Resigned 31 January 2017)
Steven W Grave Non-Executive Director		July 2017	Principal, Director and Shareholder – Steve Grave Consulting Ltd Director – Blakely Construction Ltd (Resigned 30 June 2018) Construction Manager – Blakely Construction Ltd (Resigned 30 June 2018) Director – Whitestone Contracting Ltd Shareholder – KM & SW Grave Family Trust – Fulton Hogan Ltd Shareholder – SW Grave – Fulton Hogan Ltd

INFORMATION ON THE DIRECTORS – continued

DIRECTOR	QUALIFICATIONS	DATE APPOINTED	DECLARATIONS OF INTERESTS
Tony D Allison Non-Executive Director	BCom, BA, CA, CM.Inst.D.	November 2017	Director – AA Cleaners (Otago) Limited Director – Dunedin International Airport Limited Director – City Forests Limited (Resigned 31 December 2017) Director – Smith City Finance Limited Director – Smith City (Southern) Limited Director – Smith City Properties Limited Director – SGG Finance Limited Director – Smith City Group Limited CEO – Night 'n Day Group including: Night 'n Day Foodstores Limited Lane Group Limited Two Four Holdings Limited RFC Properties Limited
Trevor J Kempton Non-Executive Director	BE (Hons), M.IPENZ, F.NZIM, CM.Inst.D.	November 2013	Director and Shareholder – Long Beach Consulting Limited Director – Aurora Energy Limited (Resigned 30 June 2017) Director – Constructing Excellence (NZ) Limited (Resigned 1 November 2017) Director – The Academy of Construction Excellence (NZ) Limited (Resigned 1 November 2017) Director and Shareholder – Trevian Properties Limited Councillor – Otago Regional Council Chairman and Shareholder – Naylor Love Enterprise Group of companies





FINANCIAL STATEMENTS

for the year ended 30 June 2018

CONTENTS

Statement of comprehensive income / 38

Statement of changes in equity / 39

Balance sheet / 40

Statement of cash flows / 42

Notes to the financial statements / 44

Independent auditor's report / 72

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2018

	Note	2018 \$000	2017 \$000
Operating revenue	3	92,731	105,178
Financial revenue	4	910	555
Total revenue		93,641	105,733
Less expenses			
Operating expenses	5	88,238	98,541
Financial expenses	6	1,130	1,375
Total expenses		89,368	99,916
Profit before tax		4,273	5,817
Income tax expense/(refund)	9	497	987
Net profit for the year		3,776	4,830
Other comprehensive income			
Cash flow hedges		73	75
Total other comprehensive income		73	75
Total comprehensive income		3,849	4,905

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Note	2018 \$000	2017 \$000
Equity at beginning of the year		20,023	17,618
Total comprehensive income		3,849	4,905
Less distribution to owner	8	1,750	2,500
Equity at end of the year		22,122	20,023

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

BALANCE SHEET

as at 30 June 2018

	Note	2018 \$000	2017 \$000
EQUITY			
Share capital	10	17,000	17,000
Cash flow hedge reserve	11	(37)	(110)
Retained earnings	12	5,159	3,133
Total equity		22,122	20,023
CURRENT LIABILITIES			
Trade and other payables	13	6,471	8,394
GST payable		498	1,007
Provisions	15	3,741	4,905
Taxation payable		1,103	1,031
Cash flow hedge instruments	14	51	17
Total current liabilities		11,864	15,354
NON-CURRENT LIABILITIES			
Cash flow hedge instruments	14	-	136
Term borrowings	16	26,100	25,465
Provisions	15	660	886
Total non-current liabilities		26,760	26,487
Total liabilities		38,624	41,841
TOTAL EQUITY AND LIABILITIES		60,746	61,864

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

BALANCE SHEET

as at 30 June 2018 – continued

	Note	2018 \$000	2017 \$000
CURRENT ASSETS			
Cash and cash equivalents	20	255	169
Trade and other receivables	21	16,548	16,099
Work in progress	22	4,370	3,520
Inventories – materials and stores		2,854	2,964
Prepayments		252	336
Total current assets		24,279	23,088
NON-CURRENT ASSETS			
Term receivable	21	11,968	12,841
Intangible assets	24	1,042	1,436
Deferred tax asset	9	341	728
Property, plant and equipment	23	23,116	23,771
Total non-current assets		36,467	38,776
TOTAL ASSETS		60,746	61,864

For and on behalf of the Board of Directors



Brian Wood
CHAIRMAN



Tony Allison
DIRECTOR

31 August 2018

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

STATEMENT OF CASH FLOWS

for the year ended 30 June 2018

	Note	2018 \$000	2017 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from			
Receipts from customers		93,016	102,675
Interest received		10	4
		93,026	102,679
Cash was disbursed to			
Payments to suppliers and employees		86,334	93,232
Interest paid		1,164	1,411
Intra-group transition payments		902	-
Income tax paid / (received)		417	(1,661)
Net GST paid		285	85
		89,102	93,067
Net cash inflows/(outflows) from operations	25	3,924	9,612
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from			
Sale of property, plant and equipment		1,027	699
Investment in financial instrument		-	881
		1,027	1,580
Cash was disbursed to			
Purchase of property, plant and equipment		3,750	5,025
		3,750	5,025
Net cash inflows/(outflows) from investing activities		(2,723)	(3,445)

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

STATEMENT OF CASH FLOWS

for the year ended 30 June 2018 - continued

	Note	2018 \$000	2017 \$000
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from			
Receipts from borrowings		83,790	83,825
		83,790	83,825
Cash was disbursed to			
Repayment of borrowings		83,155	87,525
Dividends paid		1,750	2,500
		84,905	90,025
Net cash inflows/(outflows) from financing activities		(1,115)	(6,200)
Net increase/(decrease) in cash, cash equivalents and bank overdraft		86	(33)
Cash and cash equivalents at the beginning of the period		169	202
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	20	255	169

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

1 REPORTING ENTITY

The financial statements presented are for the reporting entity Delta Utility Services Limited.

Delta Utility Services Limited ("the Company") is a Council Controlled Trading Organisation as defined in the Local Government Act 2002. The Company, incorporated in New Zealand under the Companies Act 1993, is a wholly owned subsidiary of Dunedin City Holdings Limited. Dunedin City Holdings Limited is wholly owned by Dunedin City Council.

The financial statements have been prepared in accordance with the requirements of the Local Government Act 2002 and the Companies Act 1993.

The financial statements are presented in New Zealand dollars (the functional currency of the company) and have been rounded to the nearest thousand.

2 SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The Company is a Tier 1 for-profit entity as defined by the External Reporting Board (expenses over \$30 million) and has reported in accordance with Tier 1 For-profit Accounting Standards. These annual financial statements are general purpose financial reports which have been prepared in accordance with NZIAS1, additional information as requested by Directors, and in accordance with NZ GAAP. They comply with New Zealand Equivalents to IFRS, and other applicable Financial Reporting Standards, as appropriate for profit orientated entities.

The financial statements were authorised for issue by the Directors on 31 August 2018.

BASIS OF ACCOUNTING

The financial statements have been prepared on the historic cost basis, except for the revaluation of cash flow hedge instruments. The going concern assumption has been applied.

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

CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these financial statements, the Company has made judgements, estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated. The critical accounting judgements, estimates and assumptions of the Company are contained within the following policies and notes.

GOODS AND SERVICES TAX (GST)

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

INVENTORIES

Inventories are stated at the lower of cost or net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

IMPAIRMENT OF ASSETS

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset, or cash-generating unit, is estimated to be less than its carrying amount, the carrying amount of the asset, or cash-generating unit, is reduced to its recoverable amount. Any impairment loss is immediately expensed to the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset, or cash-generating unit, is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset, or cash-generating unit, in prior years. A reversal of an impairment loss is recognised as income immediately.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the financial year. Any standards introduced or amended had no material impact on the Company or its reporting.

STANDARDS AMENDED OR ISSUED DURING THE YEAR

During the period, there were no new or amended accounting standards which materially affected the Company or its reporting.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following accounting standards are relevant to the Company, but as they are not yet compulsory have not been adopted.

STANDARD	BRIEF OUTLINE
NZ IFRS16 <i>Leases</i> Adoption date: periods beginning on or after 1 January 2019	NZ IFRS 16 removes the classification of leases as either operating or finance leases – for the lessee – effectively treating all leases as finance leases. This is likely to have a material impact on the Company's financial statements and has been factored into future budgets. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.
NZ IFRS 15 <i>Revenue from Contracts with Customers</i> Adoption date: periods beginning on or after 1 January 2018	The standard specifies how and when the company will recognise revenue as well as requiring the financial statements to include more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. This amendment is unlikely to have a major impact on the recognition and reporting of the Company's revenue. The Company is in the process of reviewing its major contracts to ensure that revenue is recognised in line with the standard.
NZ IFRS 9 (2010) <i>Financial Instruments</i> Adoption date: periods beginning on or after 1 January 2018	A revised version of NZ IFRS 9 will be released which includes changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of NZ IFRS 9 at the same time. The Company does not expect any material changes to current treatment or disclosure of its financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

3 OPERATING REVENUE

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 goods and services tax (GST).

Revenue from services rendered is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity.

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.

	2018 \$000	2017 \$000
Electrical Services	67,383	78,284
Greenspace Services	18,822	21,016
Tree Services	5,987	5,420
Other Sundry Revenue	539	458
	92,731	105,178

4 FINANCIAL REVENUE

Interest revenue	910	555
	910	555

Finance revenue is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

There was no interest revenue from impaired financial assets during the 2018 financial year. In the 2017 financial year interest revenue included \$551,000 from impaired financial assets for which a full provision was included within Operating Expenses.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

	2018 \$000	2017 \$000
5 OPERATING EXPENSES		
Included in the operating expenses are the following items:		
Audit fees – for audit of financial statements	66	66
Employee remuneration and benefits	39,180	47,154
Materials	19,666	18,466
Depreciation and amortisation	3,976	3,899
Plant and Vehicle Leases	2,500	2,483
Building rent	616	601
Directors' fees	190	150
Increase/(decrease) in impairment provision for trade and other receivables	(30)	81
Bad debts written off	38	509
Donations	14	45
(Gain)/loss on sale/disposal assets	(272)	(464)
Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.		
6 FINANCIAL EXPENSES		
Interest/facility fees – related parties	1,129	1,371
Interest – other	1	4
Total financial expenses	1,130	1,375
	2018	2017
7 EARNINGS PER SHARE		
Basic earnings per share is calculated by dividing the net profit/(loss) attributable to the Shareholder of the Company by the weighted average number of ordinary shares on issue during the year		
Number of shares		
Weighted average number of ordinary shares	17,000,000	17,000,000
Basic earnings per share	22.21 cents	28.41 cents

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

		2018 \$000	2017 \$000
8 DIVIDENDS			
Interim dividend December 2017 (December 2016: 7.4 cents/share)	5.2 cents/share	875	1,250
Final dividend June 2018 (June 2017: 7.4 cents/share)	5.2 cents/share	875	1,250
		1,750	2,500
	Cents per share	10.3	14.7

9 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 plus any adjustments to income tax payable in respect of prior years.

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.

Current tax and deferred tax is charged or credited to the income statement except when deferred tax relates to items charged directly to equity, in which case the tax is dealt with in equity.

The Company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

	2018 \$000	2017 \$000
9 TAXATION - continued		
INCOME TAX		
Total operating profit before income tax	4,273	5,817
Tax thereon at 28%	1,196	1,629
<i>Plus / (less) the tax effect of differences</i>		
Expenditure non-deductible for taxation	48	57
Non-assessable income	(975)	(800)
Intra-group tax compensation	394	700
Under/(over) tax provision in prior years	(166)	(599)
Tax effect of differences	(699)	(642)
Tax expense /(benefit)	497	987
<i>Represented by:</i>		
Current tax provision ¹	(37)	631
Intra-group tax compensation ¹	394	700
Prior period adjustments to current tax ¹	131	(654)
Deferred tax provision	306	236
Prior period adjustments to deferred tax	(297)	74
Income tax	497	987
Effective tax rate	11.6%	16.9%

¹Prior year disclosure has been amended in line with current year.

Profits arising on assets constructed for DCHL subsidiary, Aurora Energy Limited have been deducted from the calculation of taxable income for the consolidated tax group, and have also been removed from the cost of the assets for tax depreciation purposes. For accounting purposes, the Company has recognised the adjustment to remove the profit component of these assets and has reflected a tax compensation payment of \$394,000 (FY17: \$700,000) from Delta to Aurora Energy.

Imputation credit account

Delta Utility Services Limited is a member of an income tax consolidated group and has access to the income tax consolidated group's imputation credit account.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

9 TAXATION - continued

DEFERRED TAX

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.

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.

	Opening Balance Sheet \$000	Charged to Equity \$000	Charged to Income \$000	Transfer of Employees \$000	Closing Balance Sheet Assets \$000	Closing Balance Sheet Liabilities \$000	Closing Balance Sheet Net \$000
YEAR ENDED 30 JUNE 2018:							
Property, plant and equipment	(535)	-	37	-	-	(498)	(498)
Employee benefits	1,426	-	34	(351)	1,109	-	1,109
Provisions	(206)	-	(79)	-	-	(285)	(285)
Revaluations of cash flow hedge instruments	43	(28)	-	-	15	-	15
Balance at the end of the year	728	(28)	(8)	(351)	1,124	(783)	341
YEAR ENDED 30 JUNE 2017:							
Property, plant and equipment	(443)	-	(92)	-	-	(535)	(535)
Employee benefits	1,571	-	(145)	-	1,426	-	1,426
Provisions	(132)	-	(74)	-	-	(206)	(206)
Revaluations of cash flow hedge instruments	72	(29)	-	-	43	-	43
Balance at the end of the year	1,068	(29)	(311)	-	1,469	(741)	728

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

	2018 \$000	2017 \$000
10 SHARE CAPITAL		
Issued capital		
17,000,000 fully paid ordinary shares	17,000	17,000
11 RESERVES		
Cash flow hedge reserve		
Balance at the beginning of the year	(110)	(185)
Net revaluations	101	104
Deferred tax arising on hedges (see Note 9)	(28)	(29)
Balance at the end of the year	(37)	(110)
The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to interest payments that have not yet occurred.		
12 RETAINED EARNINGS		
Balance at the beginning of the year	3,133	803
Net profit after tax	3,776	4,830
Dividend distributions	(1,750)	(2,500)
Balance at the end of the year	5,159	3,133
13 TRADE AND OTHER PAYABLES		
Trade payables	4,128	3,655
Due to related parties	397	310
Other creditors	1,946	4,429
	6,471	8,394

The Directors consider that the carrying amount of trade payables approximates their fair value. Creditors and other payables are non-interest bearing and are normally settled on 30-day terms.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

	2018 \$000	2017 \$000
14 CASH FLOW HEDGE INSTRUMENTS		
Interest rate swap revaluations – payable	51	153
Analysed as:		
Current	51	17
Non-current	–	136

The Company's activities expose it to the financial risks of changes in interest rates and foreign currency exchange rates. The Company uses cash flow hedge instruments (interest rate swap contracts) and foreign exchange forward contracts to protect itself from these risks.

The Company does not use cash flow hedge instruments for speculative purposes. Any derivatives that do not qualify for hedge accounting, under the specific NZ IFRS Rules, are accounted for as trading instruments with fair value gains and losses recognised directly in the income statement. The use of cash flow hedge instruments is governed by policy approved by the Board of Directors in consultation with the Shareholder.

Cash flow hedge instruments are recognised as an asset or a liability. Cash flow hedge instruments are recognised at fair value on the date the hedge is entered into and are subsequently re-measured to their fair value. The fair value on initial recognition is the transaction price. Subsequent fair values are based on independent bid prices quoted in active markets for these instruments.

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. Any ineffective portion is recognised immediately in the income statement. Hedges that do not result in the recognition of an asset or a liability are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

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 year.

Any financial derivatives or cash flow hedge instruments embedded in other financial instruments or other host contracts are treated as separate instruments 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

15 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.

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

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

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

	2018 \$000	2017 \$000
(i) Current liabilities		
Long service leave	149	195
Annual leave	3,126	3,886
Gratuities	79	160
Sick leave	57	147
Other provisions	330	517
	3,741	4,905
(ii) Non-current liabilities		
Long service leave	407	508
Gratuities	253	378
	660	886

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

16 TERM BORROWINGS (secured)

Borrowings are initially recorded at fair value 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.

	2018 \$000	2017 \$000
Dunedin City Treasury Limited – related party	26,100	25,465
	26,100	25,465
The term borrowings are secured by a General Security Agreement over all the assets of the Company. The facility available is \$32.500 million. The repayment period on the term borrowings is as follows:		
Repayable between one to two years	-	-
Repayable between two to five years	26,100	25,465
	26,100	25,465

The weighted average interest rate for the loan at balance date was 4.33% (2017: 5.36%).

17 CONTINGENT LIABILITIES

Performance bonds	1,269	1,124
	1,269	1,124

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

Workplace fatality

In November 2017 a Delta employee was fatally injured on one of our worksites in Banks Peninsula. WorkSafe continue to investigate this incident and at balance date the financial consequences of this matter (if any) were unknown.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

	2018 \$000	2017 \$000
18 CAPITAL EXPENDITURE COMMITMENTS		
Plant and equipment	400	910
	400	910
19 LEASE COMMITMENTS		
Non-cancellable operating lease commitments:		
payable within one year	2,162	2,451
payable between one to five years	3,441	4,370
payable later than five years	78	-
	5,681	6,821
20 CASH AND CASH EQUIVALENTS		
Cash and bank	255	169

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

	2018 \$000	2017 \$000
21 TRADE AND OTHER RECEIVABLES		
Trade receivables	6,197	5,889
Less estimated doubtful debts	(26)	(59)
	6,171	5,830
Due from related parties	10,377	10,269
	16,548	16,099
Term receivable	11,968	12,841
	11,968	12,841

Trade and other receivables are classified as financial assets at fair value less any allowances for estimated irrecoverable amounts.

The term receivable arose from the supply of infrastructure services on a Christchurch Development property and it is secured by a second mortgage over that development property. Interest is payable on this balance and loan repayments are scheduled to commence in February 2019. As at 30 June 2018 \$1.773mil was reclassified as a Trade Receivable as it was due within 12 months of balance date.

Past due, but not impaired, receivables are:

	2018 \$000	2017 \$000
Age analysis: 30 - 60 days	1,201	436
60 - 90 days	283	146
90 days plus	992	277
	2,476	859

All past due balances are considered collectable. A summary of all receivables impaired or otherwise, is included at Note 28. The estimated doubtful debts provision relates entirely to individually impaired trade receivable balances.

Opening doubtful debts provision	(59)	(389)
Additional provisions made during the year	(36)	(820)
Receivables written off during the year	38	509
Provisions reversed during the year	31	641
Closing doubtful debts provision	(26)	(59)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

22 WORK IN PROGRESS

Work in progress is stated at estimated realisable value, after providing for non-recoverable amounts. Work in progress represents unbilled revenue.

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

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

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

	2018 \$000	2017 \$000
Work in progress - construction contracts	678	877
Work in progress - other	3,692	2,643
	4,370	3,520
Included within work in progress is \$2.806 million for Dunedin City Council Group entities (2017: \$2.173 million).		
Work in progress - construction contracts		
Gross construction work in progress plus margin to date	16,020	24,472
Progress billings	(15,342)	(23,595)
Total construction work in progress	678	877
Retentions held by customers	251	224
Due from customers under construction contracts	2,857	3,402

Included in sales is \$25.6 million of construction contract revenue (June 2017: \$27.9 million).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

23 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

Depreciation rates and methods used are as follows:

	Rate	Method
Buildings	1% to 14%	straight line
Metering equipment	7% to 100%	straight line
Plant and equipment	1% to 100%	straight line
Motor vehicles	5% to 33%	straight line
Assets under construction	no depreciation charged	

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

23 PROPERTY, PLANT AND EQUIPMENT - continued

	Land \$000	Buildings \$000	Meters \$000	Plant and Equipment \$000	Motor Vehicles \$000	Assets under Construction \$000	Total \$000
YEAR ENDED 30 JUNE 2018:							
Cost							
Balance at the beginning of the year	4,684	5,121	1,772	12,381	24,770	330	49,058
Purchases	-	154	220	970	2,252	109	3,705
Sales/disposals	-	-	-	(1,642)	(2,636)	(27)	(4,305)
Transfers	-	43	-	45	210	(298)	-
Total cost	4,684	5,318	1,992	11,754	24,596	114	48,458
Accumulated depreciation							
Balance at the beginning of the year	-	1,467	648	8,420	14,752	-	25,287
Depreciation	-	132	99	988	2,315	-	3,534
Sales/disposals	-	-	-	(1,290)	(2,189)	-	(3,479)
Transfers	-	-	-	-	-	-	-
Total accumulated depreciation	-	1,599	747	8,118	14,878	-	25,342
Balance at the end of the year	4,684	3,719	1,245	3,636	9,718	114	23,116
YEAR ENDED 30 JUNE 2017:							
Cost							
Balance at the beginning of the year	4,684	5,072	1,710	13,281	23,869	202	48,818
Purchases	-	66	114	1,302	2,752	308	4,542
Sales/disposals	-	(17)	(52)	(2,206)	(2,027)	-	(4,302)
Transfers	-	-	-	4	176	(180)	-
Total cost	4,684	5,121	1,772	12,381	24,770	330	49,058
Accumulated depreciation							
Balance at the beginning of the year	-	1,378	607	9,532	14,520	-	26,037
Depreciation	-	106	93	1,061	2,155	-	3,415
Sales/disposals	-	(17)	(52)	(2,173)	(1,923)	-	(4,165)
Transfers	-	-	-	-	-	-	-
Total accumulated depreciation	-	1,467	648	8,420	14,752	-	25,287
Balance at the end of the year	4,684	3,654	1,124	3,961	10,018	330	23,771

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

24 INTANGIBLES

Intangibles contains software which is recognised at cost and amortised to the Income Statement on a straight-line basis over the estimated useful life – which is a maximum period of seven years.

	2018 \$000	2017 \$000
SOFTWARE		
Cost		
Balance at beginning of year	5,634	6,024
Purchases	172	420
Transfers	3	149
Disposals	(611)	(959)
Total cost	5,198	5,634
ACCUMULATED AMORTISATION		
Balance at the beginning of year	4,202	4,676
Amortisation	442	485
Disposals	(426)	(959)
Total amortisation	4,218	4,202
SOFTWARE WORK IN PROGRESS		
Balance at the beginning of the year	4	150
Purchases	61	3
Transfers	(3)	(149)
Total work in progress	62	4
Balance at the end of year	1,042	1,436

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

	2018 \$000	2017 \$000
25 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/(loss) for the year	3,776	4,830
<i>Items not involving cash flows</i>		
Depreciation	3,976	3,899
Deferred tax	359	310
Bad debts	38	509
Doubtful debts	(30)	81
<i>Impact of changes in working capital items</i>		
(Increase)/decrease in trade and other receivables	415	(3,044)
(Increase)/decrease in inventories	110	(37)
(Increase)/decrease in work in progress	(850)	213
(Increase)/decrease in prepayments	84	(54)
Increase/(decrease) in trade and other payables	(1,922)	853
Increase/(decrease) in provision for tax	72	2,338
Increase/(decrease) in employee entitlements	(1,390)	66
Increase/(decrease) in GST payable	(509)	150
<i>Items classified as investing or financing activities</i>		
Net (gain)/loss on sale of property, plant and equipment	(273)	(464)
Movement of capital creditors in accounts payable	68	(38)
Net cash inflows/(outflows) from operating activities	3,924	9,612

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

26 RELATED PARTY TRANSACTIONS

Delta Utility Services Limited is a wholly owned subsidiary of Dunedin City Holdings Limited. Dunedin City Holdings Limited is wholly owned by Dunedin City Council.

TRANSACTIONS WITH DUNEDIN CITY COUNCIL

The Company undertakes transactions with Dunedin City Council and other Dunedin City Council controlled entities.

The amounts owing to/from related parties are payable in accordance with the Company's normal terms of trade. No related party debts have been written off or forgiven during the year and no provision has been required for impairment of any receivables to related parties.

During the year, the Company provided services and traded with the Dunedin City Council Group in respect of the following transactions:

	2018 \$000	2017 \$000
SALES OF SERVICES TO DUNEDIN CITY COUNCIL GROUP ENTITIES:		
Capital construction works	29,127	26,526
Network maintenance and Contracting Services ¹	17,772	25,534
Tax loss offsets	-	721
Administration and accounting	-	520
Rent	434	29
	47,333	53,330
 SALES OF SERVICES TO DUNEDIN CITY COUNCIL:		
Other contracting	5,861	7,653
 AT YEAR END THE AMOUNTS RECEIVABLE FROM RELATED PARTIES WERE:		
Receivable from Dunedin City Council	763	799
Receivable from Dunedin City Council Group entities	9,614	9,469
 PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY COUNCIL GROUP ENTITIES:		
Interest	1,129	1,371
Contracting services and supplies	384	268
Rent	63	26
Administration	1,212	81
Tax loss offsets	79	-
Management fee	50	50
Tax compensation	440	700
	3,357	2,496

¹Prior year disclosure has been amended in line with current year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

	2018 \$000	2017 \$000
26 RELATED PARTY TRANSACTIONS - continued		
PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY COUNCIL:		
Contracting services and supplies	167	167
Rates	63	73
Rent	20	22
Tax loss offsets	173	-
	423	262
AT YEAR END THE AMOUNTS PAYABLE TO DUNEDIN CITY COUNCIL ENTITIES EXCLUSIVE OF TERM BORROWINGS SHOWN IN NOTE 16 ARE:		
Payable to Dunedin City Council	31	5
Payable to Dunedin City Council Group entities	1,506	1,005

TRANSACTIONS WITH ENTITIES IN WHICH DIRECTORS HAVE AN INTEREST:

The Company undertakes transactions with entities in which Directors have an interest. These are detailed below.

Mr T J Kempton is a Councillor on the Otago Regional Council. During the financial period covered by this report, services to the value of \$13,288 were provided to Otago Regional Council (2017: \$13,973). Monies receivable at 30 June 2018 totalled to \$1,495 (2017: \$9,304). During the financial period covered by this report, services to the value of \$3,934 were purchased from Otago Regional Council (2017: \$3,999). No monies were payable as at 30 June 2018 (2017: Nil).

Mr T J Kempton is the Chairman and a Shareholder of the Naylor Love Enterprise Group of Companies. During the financial period covered by this report, services to the value of \$6,194 were provided to the Naylor Love Group (2017: \$366). Monies receivable at 30 June 2018 totalled to \$545 (2017: \$nil). During the financial period covered by this report, services to the value of \$76,225 were purchased from the Naylor Love Group (2017: \$6,561). Monies payable as at 30 June 2018 totalled \$42,828 (2017: \$nil).

KEY MANAGEMENT PERSONNEL REMUNERATION

	2018 \$000	2017 \$000
Short-term employment benefits	1,350	2,646
Termination benefits	-	378

Key management personnel comprises the director's of the company and senior management.

During the financial period under review the Chief Financial Officer / Company Secretary, Chief Technology Officer and Financial Controller were employed by Aurora Energy Ltd and provided services to the company (along with other administration, information and communications technology and external relations staff) as part of a Shared Services agreement. The yearly fee for the shared services function was \$1.200 million and the exact proportion which related to key management personnel services is unable to be split out separately.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

27 FINANCIAL INSTRUMENTS RISKS

Dunedin City Treasury Limited, which is part of Dunedin City Holdings Group, co-ordinates access to domestic markets for all group members and provides advice on the management of financial instrument risks to the Company. These risks include market risk, credit risk and liquidity risk.

Financial instruments are contracts that give rise to financial assets or liabilities that are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

INTEREST RATE RISK

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

The interest rate agreements are held with independent and high credit quality financial institutions in accordance with group credit policy.

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

	2018 \$000	2017 \$000
Maturing in less than one year	2,500	2,500
Maturing between one and five years	-	2,500
Maturing after five years	-	-
	2,500	5,000

CREDIT RISK

Credit risk on cash flow hedge instruments is limited through the counterparties being banks with high credit ratings assigned by international credit rating agencies. The Company's credit risk is primarily attributable to its trade and term receivables. The amounts presented in the balance sheet are net of allowances for impairments.

The Company's exposure to credit risk is generally spread over a large number of counterparties and customers. As at 30 June 2018, however, there was some concentration of this risk around the secured Term receivable described in Note 21.

The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk.

The maximum credit risk for each class of financial instrument is:

Cash and cash equivalents	255	169
Trade and other receivables	16,548	16,099
Prepayments	252	336
Work in progress	4,370	3,520
Term receivable	11,968	12,841
	33,393	32,965

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

27 FINANCIAL INSTRUMENTS RISKS - continued

CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard & Poor's credit ratings (if available) or to historical information about counterparty default rates.

	2018 \$000	2017 \$000
COUNTERPARTIES WITH CREDIT RATINGS		
Cash and cash equivalents AA-	255	169
Trade and other receivables AA-	763	799
COUNTERPARTIES WITHOUT CREDIT RATINGS		
Trade and other receivables / Term receivable		
Existing counterparties with no defaults in the past	27,753	28,141
Existing counterparties with defaults in the past	-	-

LIQUIDITY RISK

Liquidity risk represents the Company's ability to meet its contractual obligations. The Company evaluates its liquidity requirements on an on-going basis. In general, the Company generates sufficient cash flows from its operating activities to meet its obligations arising from financial liabilities and has credit lines in place to cover potential shortfalls. The Company maintains credit management and accounts receivable processes aimed at collecting all trade debtors and other receivable balances in cash by their agreed date(s) for payment.

Contractual obligations in respect of interest expense on term borrowings have not been included in the liquidity risk table as the term debt does not have a contractual end date and the interest is currently payable on a month-by-month basis. Details of the term loan balance and effective interest rate are included in note 16.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

27 FINANCIAL INSTRUMENTS RISKS - continued

The following tables analyse the exposure of the Company's financial instruments to liquidity risk:

	Maturity Dates Less than 1 Month \$000	1 - 3 Months \$000	3 Months to 1 Year \$000	1 - 5 Years \$000	More than 5 Years \$000	Carrying Value \$000
AS AT 30 JUNE 2018:						
Financial assets						
Cash and cash equivalents	255	-	-	-	-	255
Trade and other receivables	14,775	-	1,773	-	-	16,548
Term receivable	-	-	-	7,092	4,876	11,968
	15,030	-	1,773	7,092	4,876	28,771
Financial liabilities						
Trade and other payables	6,471	-	-	-	-	6,471
GST payable	498	-	-	-	-	498
Cash flow hedge instruments	-	-	51	-	-	51
Term borrowings	-	-	-	26,100	-	26,100
	6,969	-	51	26,100	-	33,120
AS AT 30 JUNE 2017:						
Financial assets						
Cash and cash equivalents	169	-	-	-	-	169
Trade and other receivables	16,099	-	-	-	-	16,099
Term receivable	-	-	-	7,091	5,750	12,841
	16,268	-	-	7,091	5,750	29,109
Financial liabilities						
Trade and other payables	8,394	-	-	-	-	8,394
GST payable	1,007	-	-	-	-	1,007
Cash flow hedge instruments	-	-	17	136	-	153
Term borrowings	-	-	-	25,465	-	25,465
	9,401	-	17	25,601	-	35,019

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

27 FINANCIAL INSTRUMENTS RISKS - continued

SENSITIVITY ANALYSIS

The table below illustrates the potential profit and loss and equity (excluding retained earnings) impact for the reasonably possible market movements, with all other variables held constant, based on the Company's financial instrument exposures at the balance date.

Based on historic movements and volatilities, market interest rate movements of plus or minus 1% (100bps) have been used in this analysis.

		+100bps		-100bps	
	Fair Value at Balance Date	Profit	Equity	Profit	Equity
	\$000	\$000	\$000	\$000	\$000
AS AT 30 JUNE 2018:					
Financial liabilities					
Cash flow hedge instruments	51	-	13	-	-
Term borrowings (hedged)	2,500	-	(13)	-	-
Term borrowings (unhedged)	23,600	(236)	-	236	-
	26,151	(236)	-	236	-
AS AT 30 JUNE 2017:					
Financial liabilities					
Cash flow hedge instruments	153	-	50	-	(51)
Term borrowings (hedged)	5,000	-	(50)	-	51
Term borrowings (unhedged)	20,465	(205)	-	205	-
	25,618	(205)	-	205	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

27 FINANCIAL INSTRUMENTS RISKS – continued

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements recognised in the statement of financial position:

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

- Level 1 Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2018			
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial liabilities				
Derivative financial liabilities	-	51	-	51
	-	51	-	51

	2017			
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial liabilities				
Derivative financial liabilities	-	153	-	153
	-	153	-	153

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 - continued

28 CAPITAL MANAGEMENT STRATEGY

The capital of the Company is its equity, which is comprised of subscribed capital, retained earnings and cashflow hedge reserves. Equity is represented by net assets. The Company manages its capital to ensure that it will be able to continue to operate as a going concern and optimises the balance of debt to equity on a prudent basis in consultation with its Shareholder.

The Directors perform continual reviews of operating strategies and financial performance, and include in those reviews, any strategies required to protect the capital of the Company. The Board seeks to maximise overall returns to the Shareholder Dunedin City Holdings Limited and to maintain the Company's financial strength.

The Company is required to provide to its Shareholder an annual Statement of Intent. This Statement of Intent includes information on planned distributions by way of dividend for the following three years.

29 EVENTS AFTER BALANCE DATE

There were no significant post balance sheet date events.



INDEPENDENT AUDITOR'S REPORT



To the readers of Delta Utility Services Limited's financial statements and statement of service performance for the year ended 30 June 2018

The Auditor-General is the auditor of Delta Utility Services Limited (the company). The Auditor-General has appointed me, Julian Tan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the company on his behalf.

Opinion

We have audited:

- the financial statements of the company on pages 38 to 70, that comprise the balance sheet as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on pages 32 and 33.

In our opinion:

- the financial statements of the company on pages 38 to 70:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2018; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with the New Zealand Equivalents to International Financial Reporting Standards; and
- the statement of service performance of the company on pages 32 and 33 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2018.

Our audit was completed on 31 August 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the statement of service performance, we comment on other information, 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 Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the statement of service performance

The Board of Directors is responsible on behalf of the company for preparing the financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the statement of service performance for the company.

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

In preparing the financial statements and the statement of service performance, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

Responsibilities of the auditor for the audit of the financial statements and the statement of service performance

Our objectives are to obtain reasonable assurance about whether the financial statements and the statement of service performance, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the statement of service performance.

For the target information reported in the statement of service performance, our procedures were limited to checking that the information agreed to the company's statement of intent.

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report - continued

We did not evaluate the security and controls over the electronic publication of the financial statements and the statement of service performance.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the statement of service performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported statement of service performance within the company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of service performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the statement of service performance, including the disclosures, and whether the financial statements and the statement of service performance represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Independent Auditor's Report - continued

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 31 and pages 34 and 35, but does not include the financial statements and the statement of service performance, and our auditor's report thereon.

Our opinion on the financial statements and the statement of service performance does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the statement of service performance, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the statement of service performance or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

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



Julian Tan
Audit New Zealand
On behalf of the Auditor General
Dunedin, New Zealand

COMPANY DIRECTORY

DIRECTORS

Brian J Wood (Chair)
Steven Grave
Tony Allison
Trevor Kempton
Kate Hesson (Intern)

MANAGEMENT

Mike Costelloe
Chief Executive

Michael Price
*General Manager Operational
Service Delivery*

Richard King
*General Manager
Environmental Services*

Lynne Bas
Manager, Retailer Services

John Llewellyn
Manager, Human Resources

Matt Sadgrove
Manager, Health and Safety

Hayden Wingfield
Financial Controller

REGISTERED OFFICE

10 Halsey Street
Dunedin
New Zealand

BANKER

Westpac Banking Corporation

SOLICITORS

Gallaway Cook Allan
Anderson Lloyd

AUDITOR

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

TAXATION ADVISOR

Deloitte



