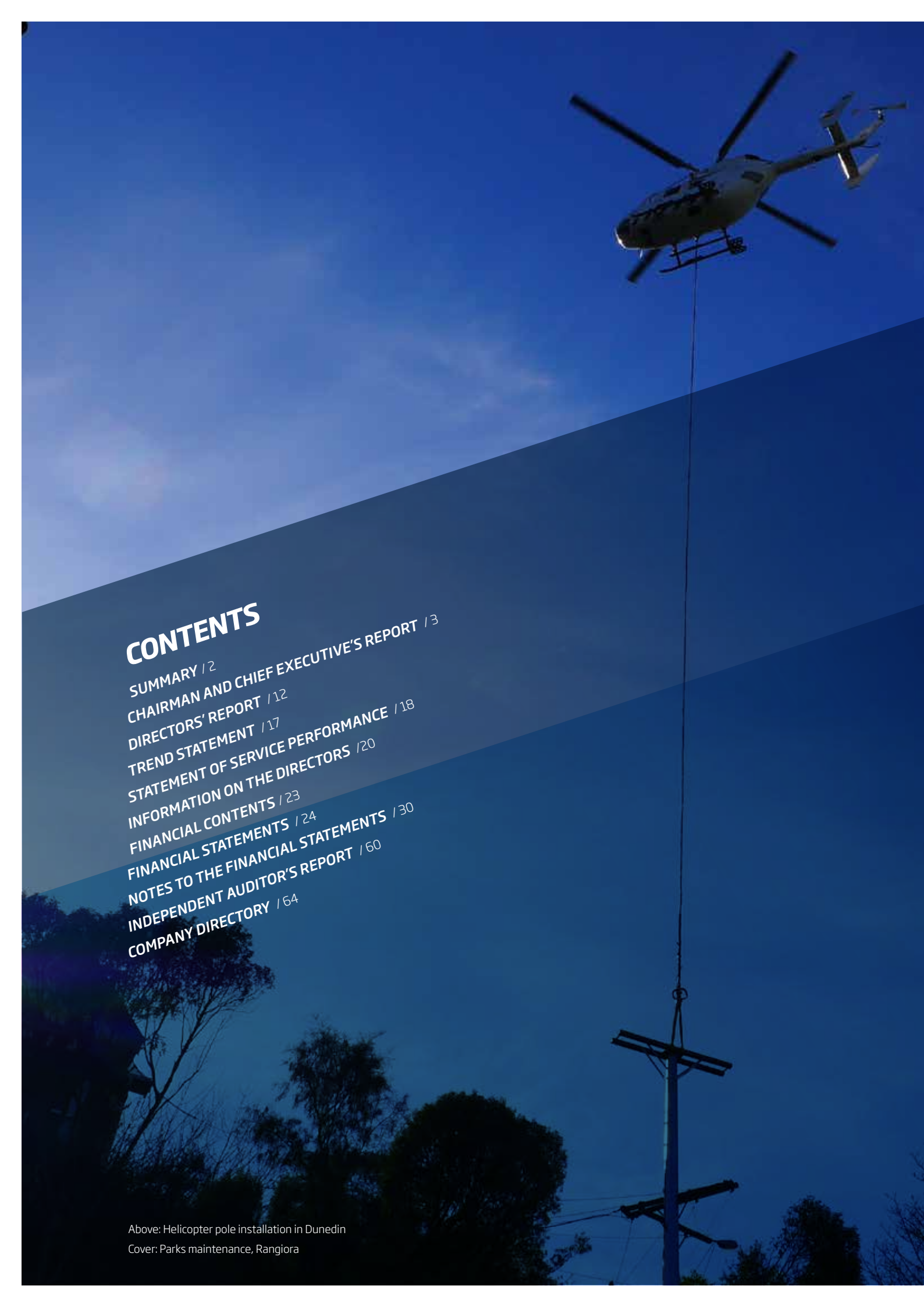


ANNUAL REPORT 2017

DELTA
THINK.INFRASTRUCTURE

A low-angle photograph of a helicopter in flight, lifting a large power pole by a thick cable. The helicopter is positioned in the upper right corner, with its main rotor blades blurred from motion. The power pole is suspended vertically, extending from the helicopter down towards the bottom of the frame. The background is a clear blue sky with some light clouds. In the bottom left corner, the silhouettes of trees and a building are visible.

CONTENTS

SUMMARY	/ 2
CHAIRMAN AND CHIEF EXECUTIVE'S REPORT	/ 3
DIRECTORS' REPORT	/ 12
TREND STATEMENT	/ 17
STATEMENT OF SERVICE PERFORMANCE	/ 18
INFORMATION ON THE DIRECTORS	/ 20
FINANCIAL CONTENTS	/ 23
FINANCIAL STATEMENTS	/ 24
NOTES TO THE FINANCIAL STATEMENTS	/ 30
INDEPENDENT AUDITOR'S REPORT	/ 60
COMPANY DIRECTORY	/ 64

Above: Helicopter pole installation in Dunedin

Cover: Parks maintenance, Rangiora

THE YEAR

IN NUMBERS

616

People employed from
Invercargill to Nelson

46,980

Smart meters installed

375,640

Meter reads

275,000

Recycling and waste
collections made

57,640

Tonnes of waste received
into landfills operated
by Delta

1,785

Hectares maintained for
local authority customers

136,650

Consumers on
Delta-maintained
electricity networks

39

Kilometres vegetation
cleared from power lines

10,000

Kilometres electricity
lines and cables maintained

49

Kilometres fibre
optic installed

SUMMARY

FINANCIAL HIGHLIGHTS

- Revenue of \$105.7 million (FY16: \$106.7 million)
- EBITDA of \$11.1 million (FY16: \$11.5 million)
- Operating profit before income tax of \$5.8 million (FY16: \$6.1 million)
- Net surplus of \$4.8 million after tax (FY16: \$4.7 million)
- Total assets of \$61.9 million (FY16: \$61.2 million)
- Paid dividends of \$2.5 million

OPERATIONAL HIGHLIGHTS

- Managed the transition to a standalone contracting business in advance of separation from Aurora Energy
- Managed \$45.2 million of capital projects on the Aurora Energy electricity network
- Installed 1,580 poles on the Aurora Energy network in Dunedin, Central Otago and Queenstown Lakes
- Tree services aided improved reliability on the Aurora Energy network by clearing 39 kilometres of vegetation away from power lines
- Completed next phase of Glenorchy power supply upgrade with new 33kV line installation near Queenstown
- Continued year seven of electricity network maintenance for Network Tasman
- Deployed 47,000 smart meters across New Zealand
- Retained parks maintenance contract with Christchurch City Council with the addition of the Akaroa-Waiwera region of Banks Peninsula
- Renewed the Waimakariri District Council Park maintenance contract for another seven years



CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

for the Year Ended 30 June 2017

The year in review saw Delta achieve consistent financial performance from our portfolio of energy and environmental customers. Total operating revenues increased, however the competitive nature of contracting and changing market conditions saw margins under pressure in some sectors throughout the year.

Shareholder equity reached \$20.0 million for the first time, reflecting the company's prudent approach to risk and revenue growth that is underpinned by long term infrastructure maintenance partnerships.

For the year ended 30 June 2017 (FY17), Delta recorded an operating profit before income tax of \$5.8 million, in line with the previous year (FY16: \$6.1 million).

Total revenue was \$105.7 million for FY17 (FY16: \$106.7 million). Operating revenue increased by 2.5% to \$105.2 million (FY16: \$102.6 million), achieved from services provided to new and existing energy and environmental customers.

The company recorded a net surplus of \$4.8 million for the year under review (FY16: \$4.7 million).

Cash flows from operations increased to \$9.6 million, up \$6.2 million on the previous year (FY16: \$3.4 million), due to higher receipts from customers and an income tax refund from previous years.

Total assets increased slightly from \$61.2 million to \$61.9 million, and the company's term borrowings decreased by \$3.7 million from \$29.2 million to \$25.5 million during the year.

Delta remains comfortable with progress towards the recovery of its prior period debt related to infrastructure provided for the Yaldhurst Village subdivision. In August 2016, the Yaldhurst Village subdivision was purchased by property development company, Infinity Yaldhurst Limited, at which time Delta entered a new loan agreement with Infinity Yaldhurst Limited to replace the historical debt owed by the previous developer. Delta received an initial debt reduction of \$0.9 million, and is confident that the new loan of \$12.8 million (plus interest thereon) will begin to clear progressively within the next two years.

Delta paid dividends of \$2.5 million during FY17 (FY16: \$2.5 million), as forecasted in its 2016/17 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.



Pole replacement on the Aurora Energy electricity network

COMPANY STRUCTURE

On 1 July 2017, Delta and its sister company, Aurora Energy made the transition to standalone businesses, following a shareholder review of the company structures. The change gives dedicated resources and a clearer focus to the two, different businesses with different customers. The new Delta will be a contracting services company and the new Aurora Energy will continue to be an electricity network company.

From 1 July 2017, Delta's asset management and engineering functions transferred to Aurora Energy. Delta will continue to provide Aurora Energy's core maintenance and faults response services under contract, and also complete capital projects that are awarded from Aurora Energy.

ENERGY

Our energy business provided asset management and distribution maintenance and construction services to Delta's sister company Aurora Energy, New Zealand's seventh largest electricity network. Significant investments have been made during the year on maintaining the network, renewing assets, and catering for future growth in electricity demand. In response, Delta has increased its resources and capabilities to deliver a substantial portion of the increased work programme.

During FY17, we managed \$45.2 million of capital projects for Aurora Energy (FY16: \$37.2 million). These included progress on new substation projects and managing its accelerated pole programme.

Commencing in November, Delta managed the Fast Track pole programme on behalf of Aurora Energy to accelerate the rate at which the network was renewing poles coming to the end of their useful life. The programme, using Delta and external contractor resource completed 1,550 of the 2,910 identified poles by replacing with a new pole or remediating or reassessing the existing pole.

During the year, Delta and external contractors replaced or installed 1,580 power poles on the Aurora Energy network, double last year's total, through business-as-usual and Fast Track pole programme activity.

Initial site preparation and detailed designs were completed for Aurora Energy's new Carisbrook zone substation in Dunedin that will eventually replace the existing Neville Street substation, the network's oldest. Plans for a new switching substation at Riverbank Road in Wanaka and associated high voltage powerline upgrade were also developed to the detailed design stage. The next phase of the project to upgrade the supply to Glenorchy, beside Lake Wakatipu was completed with installation of a section of 33kV overhead line in Sunshine Bay, Queenstown.

Delta provides the core maintenance and faults response for Aurora Energy. During the year, our specialist tree services team cleared 39 kilometres of vegetation growing near overhead power lines to improve the reliability of the network and public safety. We delivered the network's earth testing programme and continued the conversion of pole-mounted transformers to ground-based.

When natural events occur, our lines crews are called on to repair damage and restore power as quickly as possible to customers. Delta crews responded to fix damage caused by extreme events ranging from severe winds, heavy rain, bush fire and even tornadoes across the Aurora Energy network in Dunedin and Central Otago.



Smart meter installation

Chorus' programme to roll out ultrafast broadband fibre in Dunedin continued and where it installed new telecommunications poles, Delta also changed over the electricity equipment to the new pole.

Delta provides specialist electricity services throughout New Zealand to distribution, generation and transmission customers.

The company entered the seventh year of its long term electricity network maintenance contract with Network Tasman that runs to March 2021. We provide electricity network maintenance and construction services to Network Tasman and neighbouring Nelson Electricity.

We continued to provide after-hours first response services for national grid operator Transpower in Frankton and maintained Trustpower's 33-kilovolt transmission line between its Waipori hydro power scheme and the Berwick substation.

We continued to maintain, install and test advanced and legacy meters for electricity retailers and electricity meter owners throughout New Zealand, predominately in the South Island. During the year, Delta installed 47,000 smart meters as electricity meter owners continued to convert the remainder of their infrastructure to the newer technology. As the coverage of smart meters increases, the demand for manual reads of legacy meters continues to trend down.

Since 2014, Delta has maintained Contact Energy generators at the Clyde and Roxburgh hydro power stations and its Brewery Creek tunnel system which monitors land movement through the Cromwell Gorge. During FY17, we commenced the replacement work of the Generator 1 transformer at Roxburgh.

Our contract to maintain Dunedin's street lighting network was extended for a further 12 months to June 2018. We maintained a 98.5 per cent lighting reliability during FY17, against an expectation of 97 per cent. In Central Otago, Delta completed the upgrade of LED luminaires (or lighting heads) to the Lake Wakatipu township of Kingston.



Mowing beside Lake Wakitapu,
Queenstown

ENVIRONMENTAL

Delta's environmental business continued its steady growth in a competitive market through the renewal of long term contracts and winning new business. During FY17, we provided parks and reserves maintenance, sports turf, horticulture and roadside vegetation control services throughout the South Island from Southland, to coastal and inland Otago, Canterbury, Hurunui, Kaikoura and Tasman.

We entered the second year of our nine-year contract with Christchurch City Council to deliver parks services in the south of the city. Our performance and reputation for quality saw the addition of the Akaroa-Waiwera region of Banks Peninsula to our responsibilities from September. We were proud to continue our partnership with Waimakariri District Council through the renewal of our park maintenance contract for a further seven years.

At the start of FY17, we began two newly issued contracts for Dunedin City Council, being parks maintenance for the northern region, including the central city, and cemeteries' maintenance citywide. Our greenspace teams have proudly served the local community for many years and we are pleased to maintain our involvement in enhancing Dunedin's public spaces.

Our specialist tree services business cleared a total of 39 kilometres of vegetation away from power lines on the Aurora Energy network for improved reliability. During FY17, we made 11 major safety improvements to our operational practices, one example being the introduction of helmet communications for our tree services teams.

We provided waste services to Dunedin City and the Clutha District Councils, handling 57,640 tonnes of waste disposed to landfill and making 275,000 rubbish and recycling collections during FY17. In the Clutha District, we provided integrated solid waste services for the fifth consecutive year, managing the Mount Cooee landfill and rubbish and recycling kerbside collections.

We operated Dunedin city's main landfill at Green Island throughout FY17. The Dunedin City Council put the operating contract for Green Island landfill out to market in Q2 via competitive tender process. Unfortunately we were unsuccessful with our proposal, and Delta's long-standing involvement came to a conclusion at year-end. We were pleased to support our skilled solid waste employees in Dunedin through transition to employment with the new operator.



OUR VALUES
DO IT FIRST. DO IT RIGHT. DO IT TOGETHER.



Our team

OUR PEOPLE

Each year, our Minds at Work awards recognise the contribution our employees make to satisfied customers and keeping everyone safe at work. We congratulate our 2016 Minds at Work Awards winners who achieved outstanding success through their positive attitude and commitment to the job:

- Mike McClea (Customer Service Award) for his determination to go beyond the customer's expectations.
- Dave Nelson and Ted Andrews (Doing It Tough Award) for their hard work in the mechanical workshops, maintaining Delta fleet and plant.
- The Dunedin Inspectors (Living the Values Award) for their quality of work and dedication to get the job done right and on time.
- Craig Booth (Safety Leader of the Year) for safety leadership and his high standard of safety on every job he is involved in.
- The Berwick Microwave Tower Installation Team (Project/Team of the Year) for their planning and installation of an 18-metre steel tower at the Aurora Energy Berwick substation

SAFETY AND RISK

Every day, our people operate in working environments with critical risk exposure. We continue to strengthen our current Safety Management System in the areas of capacity and resilience while having an action-based approach to safety improvements. The care and wellbeing of our people remain at the forefront of continuous safety improvement at Delta.

During FY17, managers made regular onsite safety observations and workgroups continued to participate in interactive safety days. The number of leadership safety observations doubled from 60 in FY16 to 120 in FY17. The use of visual safety boards has become common practice at Delta and we continued to use them in conjunction with daily and weekly team briefings.

Our hunt for new and innovative ways to continually improve our organisation was highlighted when work was carried out in asbestos disposal at the Green Island Landfill. Our Environmental team initiated the project to develop a new asbestos disposal procedure that was praised by WorkSafe New Zealand as an example of what should be seen at other landfill sites.

This year we achieved 4.33 in total recordable injuries per 200,000 hours worked (TRIFR), an increase on last year's 3.11. Managing a greater amount of project work with time pressures and additional work hours were contributing factors to the increase which reinforced the necessity of sustained effort in harm reduction and continual improvement.

GPS location devices have been fitted progressively into Delta vehicles and plant since FY13. The Smartrak system tracks vehicle location and worker status. This supports efficient job management, as we can easily locate and dispatch the nearest vehicle to the next work site. It also allows for a quick response in the event of an emergency. During FY17 an additional 65 Smartrak devices were fitted to the Delta fleet, totalling 440 vehicles (plus plant items) throughout the organisation.

Delta continues to actively participate in workplace safety, industry and engineering safety forums including the Business Leaders' Health & Safety Forum, Electrical Distribution Industry Safety Forum, Electricity Engineers' Association and Electricity Networks Association working group. We retained tertiary accreditation, the highest standard attainable, for ACC's Workplace Safety Management Programme at the annual independent audit and improved our contractor prequalification score to 90 per cent this year, well above the industry standard.



Supporting Ronald McDonald House
South Island

OUR COMMUNITIES

We are proud to support the communities in which we operate, by providing both the infrastructure services essential for wellbeing and direct assistance to local organisations and volunteers making a positive difference.

We again helped community sport and volunteer referees in our third year as principal sponsors of the Otago Rugby Referees. Our support helped Otago Rugby Referees recruit and retain referees and purchase new communications equipment. Scholarships were awarded to three young referees to help with their study costs, six additional high school age referees were recruited, and six referees were accepted to attend national age group tournaments during the season.

Safety awareness among employees is the focus of our Charity Challenge campaign that encourages regular reporting of close calls as a valuable way to identify potential hazards and take preventative action. The Charity Challenge fund accrues each time an employee reports a close call or identifies a new hazard. During the year, Delta made donations from the safety fund to organisations doing extraordinary work in our communities: Cancer Society Otago/Southland, Canterbury West Coast Air Rescue Trust, Connections Education and Development Trust, Dunedin Community Care Trust, LandSAR Golden Bay and LandSAR Motueka, Leukaemia & Blood Cancer New Zealand, Ronald McDonald House South Island and Save the Otago Peninsula.



Chief executive, Mike Costelloe

GOVERNANCE AND LEADERSHIP

Following a shareholder review of the company structure of Delta and its sister company, Aurora Energy, separate Boards, Chairs and Chief Executives were established for each company.

Accordingly, effective 1 July 2017, the Delta Board comprises Brian Wood as Chair with directors Trevor Kempton and Steve Grave, with one director vacancy remaining.

Brian Wood joined the Delta Board as non-executive director in December 2016 and was appointed Chair on 1 July 2017. He is a current director of Delta's shareholder, Dunedin City Holdings Limited with wide experience in the civil engineering and energy sectors particularly in electricity distribution. Trevor Kempton continues as a non-executive director of Delta, having joined the Board in October 2013. He is a professional engineer with 40 years' experience in civil and environmental engineering.

Our shareholder Dunedin City Holdings appointed Steve Grave as a non-executive director effective 1 July 2017. Steve is a professional director and business consultant who was previously a General Manager at Fulton Hogan responsible for its southern zone, encompassing Canterbury, West Coast, Central Otago, Coastal Otago and Southland. We welcome him to the Board.

At the beginning of FY17, Delta reviewed its organisational structure in consultation with staff to ensure it best met the challenges of a competitive contracting market and opportunities from new technologies. That resulted in changes to team accountabilities and executive roles, including creation of a new Chief Technology Officer role.

Following the separation of Delta and Aurora Energy, chief executive roles were established for each company. The Board was pleased to appoint Mike Costelloe as Chief Executive of Delta, effective 1 July 2017. Mike brings a track record in the highly competitive contracting sector that positions him well to lead the next phase of Delta as an expert services provider to its energy and environmental customers.



Pole installation, Outram, Dunedin

OUTLOOK

The recent transition to a standalone contracting business is a smart move for our customers, employees and shareholder. On 1 July 2017, Delta became an organisation with more than 550 dedicated staff and its own governance and leadership teams. The company has changed to refocus on its primary role as a contracting organisation owned by Dunedin City Holdings on behalf of the Dunedin City Council.

The core of our business is our technical skills base with experts in electricity distribution and metering, greenspace, tree services and solid waste. We have a clear focus on delivering what our customers need and will continue as the principal maintenance contractor to Aurora Energy.

We thank our people for their work every day to make communities better for people to live, work and play in. As an expert contractor for energy and environmental customers, we're constantly challenging ourselves to do better. While we adapt to new technologies and customer circumstances, we continue to hold true to the core values and commitment to safe service delivery that we pride ourselves on.

We look forward to our continued role in the community, as an employer and trusted service provider to our customers.

Brian Wood
CHAIRMAN

Mike Costelloe
CHIEF EXECUTIVE

31 August 2017



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 2017.

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 2017

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 2017

	\$000
Operating profit before income tax	5,817
Less income tax expense	987
Net profit for the period	<u>4,830</u>

STATE OF AFFAIRS

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

DIVIDENDS

Dividends of \$2.500 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)	2,330
Cash flow hedge reserve to (from)	75

DIRECTORS' REPORT

for the year ended 30 June 2017 – continued

REVIEW OF OPERATIONS

Delta responded to a further uplift in the demand for electricity network maintenance and construction services and established a number of new environmental revenue streams during the year.

Delta's net surplus of \$4.830 million (2016: \$4.673 million) provided a return on average Shareholder's equity of 26% (2016: 28%).

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2017 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 2017 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

Dr I M Parton and Mr S J McLauchlan retired as Directors on 12 December 2016.

Mr S R Thompson was appointed as Chairman on 12 December 2016.

Mr B J Wood was appointed as a Director on 12 December 2016.

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' REMUNERATION

The remuneration paid to Directors during the year was:

Stephen R Thompson	\$	54,029
David J Frow	\$	26,250
Trevor J Kempton	\$	23,763
Dr Ian M Parton	\$	18,271
Brian J Wood	\$	15,182
Stuart J McLauchlan	\$	12,354
	\$	149,849

DIRECTORS' REPORT

for the year ended 30 June 2017 – continued

EMPLOYEES' REMUNERATION

The number of employees and former employees whose remuneration and benefits exceeded \$100,000 for the year ended 30 June 2017 is listed below. Remuneration includes all non-cash benefits and redundancy payments at total cost to the company, where applicable:

\$100,001 - \$110,000	38
\$110,001 - \$120,000	28
\$120,001 - \$130,000	15
\$130,001 - \$140,000	5
\$140,001 - \$150,000	8
\$150,001 - \$160,000	1
\$160,001 - \$170,000	5
\$170,001 - \$180,000	3
\$190,001 - \$200,000	2
\$210,001 - \$220,000	2
\$220,001 - \$230,000	1
\$300,001 - \$310,000	2
\$980,001 - \$990,000	1
	111

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 continues as internal auditor to the Company. Specific areas for its review were identified and a number of reviews have been completed, with the results reported to the Audit and Risk Committee and the Board. Review of further areas is on-going and progress is satisfactory.

DIRECTORS' REPORT

for the year ended 30 June 2017 – 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.

NOMINATION COMMITTEE

All directors were members of the Nomination Committee throughout their tenure as directors of the Company. The Committee's principal responsibility is to identify and nominate, for approval by the Shareholder, external candidates to fill board vacancies as they arise.

REMUNERATION COMMITTEE

All directors were members of the Remuneration Committee throughout their tenure as directors of the Company. The Remuneration Committee's role is to develop and implement policies relating to the remuneration and other terms and conditions of service of the Chief Executive and senior staff and to oversee remuneration practices.

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

Following a decision by the company's shareholder to separate the Delta and Aurora businesses, Delta was contracted to provide network maintenance and asset construction services to Aurora Energy Ltd from 1 July 2017. Delta was previously contracted to manage and operate the Aurora electricity network, however those functions will now be self-performed by Aurora Energy.

A new Board and management structure has been established to manage Delta's contracting business. Brian Wood commenced as Chairman and Mike Costelloe was appointed Delta's new Chief Executive with effect from 1 July 2017.

On behalf of the Directors



Brian Wood
CHAIRMAN



Trevor Kempton
DIRECTOR

31 August 2017

TREND STATEMENT

Years ended 30 June	Note	DELTA GROUP CONSOLIDATED ³				
		2017 \$000	2016 \$000	2015 \$000	2014 \$000	2013 \$000
Total Recordable Injury Frequency Rate	1	4.33	3.11	4.16	8.79	N/A
Lost Time Injury Frequency Rate	2	N/A	N/A	N/A	6.17	1.97
Revenue		105,733	106,663	102,471	96,624	105,733
EBITDA		11,092	11,473	11,055	12,000	11,507
EBIT		7,192	7,875	7,700	7,784	6,123
Profit before tax		5,817	6,135	6,212	5,700	3,385
Net surplus		4,830	4,673	4,657	4,377	4,606
Total assets		61,864	61,163	59,835	56,530	77,104
Ordinary dividends		2,500	2,500	2,500	2,500	2,000
Cash flow from operating activities		9,612	3,439	10,390	5,553	7,018
Shareholder's equity		20,023	17,618	15,469	13,757	11,675
Term debt		25,465	29,165	26,490	29,775	44,375
Return on average Shareholder's equity		26%	28%	32%	34%	45%
EBIT / average funds employed		12%	13%	13%	12%	8%
Equity to assets		32%	29%	26%	24%	15%
FTE (Full time equivalent) employee numbers as at year end		616	607	572	505	605

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.
- 2 From the beginning of the 2015 financial year, Delta changed its harm reporting metric from lost time injuries per 1 million hours worked to total recordable injuries per 200,000 hours worked to align with industry best practice.
- 3 The trend statement figures include items from both continuing and discontinued operations. Note the 2015, 2016 and 2017 results are for Delta Utility Services Limited only as there were no trading subsidiaries.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2017

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 2017 financial year was submitted to and accepted by DCHL prior to 30 June 2016.
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 financial results were 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 \$45,000 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	During the year, 19 staff were involved in an apprenticeship scheme.
Monitor absences due to illness.	Lower than 2.5% sick leave based on hours.	Achieved	Staff sick leave was 1.47% of total hours during the year.
Monitor voluntary leavers relative to permanent staff.	Below 15.0% staff turnover	Not Achieved	Voluntary staff turnover was 15.7% over the 2016/17 year.

Safety

Reduce harm to employees and contractors.	≤ 5.00 total recordable injury frequency rate (TRIFR) per 200,000 hours worked.	Achieved	The TRIFR achieved for the year was 4.33 per 200,000 hours worked.
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 2017 - 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.	≤10.00 litres fuel used per 100 kilometres.	Achieved	Fuel efficiency across the Delta light commercial fleet was calculated at 9.7 litres per 100 kilometres.
• Introduce electric vehicles to Delta's business and promote uptake of electric vehicles.	≥3 electric vehicles in Delta's fleet.	Not Achieved	Delta owned and operated one electric vehicle throughout the year.

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 all contracts held with Aurora Energy and the Dunedin City Council throughout the year.
---	---	----------	--

FINANCIAL OBJECTIVES

	TARGET	OUTCOME	RESULT
	\$000		\$000
• EBITDA	11,839	Not achieved	11,092
• Net profit after income tax ¹	4,119	Achieved	4,830
• Shareholder's funds	19,693	Achieved	20,023
• Cash flow from operations	10,245	Not achieved	9,612
• Capital expenditure	≤ 9,167	Achieved	4,965
• Term debt	≤ 29,569	Achieved	25,465
• Dividends	2,500	Achieved	2,500
• Shareholder's funds to total assets	30%	Achieved	32%

¹ The company referenced a net profit after income tax target of \$5.567 million in its 2016/2017 Statement of Intent. It has since been noted that \$5.567 million was in fact the target for net profit **before** tax. The correct target for net profit after tax was \$4.119 million per the table above.

INFORMATION ON THE DIRECTORS

DIRECTOR	QUALIFICATIONS	DATE APPOINTED	DECLARATIONS OF INTERESTS
Stephen R Thompson Non-Executive Chairman	BCom, FCA (PP), CF.Inst.D.	June 2016	Chairman and shareholder – Thompson Bloodstock Limited Chairman – Alpine Energy Limited Chairman – Aurora Energy Limited Chairman – Infratec Limited Chairman – Infratec Renewables (Rarotonga) Limited Chairman – NETcon Limited Chairman – Timaru Electricity Limited Director and shareholder – Cairnmuir Road Winery Limited Director and shareholder – Passmore Consulting Services Limited Director – F.S. Investments Limited Director – Integrated Contract Solutions Limited Director – Keano’s Trustee Company Limited Director – Millenium Solutions Limited Director – NT Partnership Director – Owhiro River Limited Director – Sarita Holdings Ltd Director – Wanaka Bay Limited Director – Westminster Resources Limited Director – Whitestone Contracting Limited Partner – Queensberry Hills Development
David J Frow Non-Executive Director	B.Sc.Eng CF.Inst.D.	October 2012	Chairman and shareholder – Major Consulting Group Limited Chairman – Holmes Farsight LP Chairman – Holmes Fire LP Director – Aurora Energy Limited Director – ETEL Limited Director – ETEL Transformers Pty Ltd (Aus) Director – HydroWorks Limited (Resigned May 2017) Director – Rataworks Limited (Resigned March 2017)
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 Director – Constructing Excellence (NZ) Limited Director – The Academy of Construction Excellence (NZ) Limited Director – Trevian Properties Limited Councillor – Otago Regional Council Shareholder – Naylor Love Enterprise Group of companies
Brian J Wood Non-Executive Director	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

INFORMATION ON THE DIRECTORS – continued

DIRECTOR	QUALIFICATIONS	DATE APPOINTED	DECLARATIONS OF INTERESTS
			Director – Aurora Energy Limited Director – Dunedin City Holdings Limited Director – Dunedin City Treasury Limited Director – Harrison Grierson Holdings Limited Director – Interpret Geospatial Solutions Limited (Resigned March 2017) Director – Lyttelton Port of Christchurch Limited Member – Governance Board for Maintenance Contract, West Coast State Highways Fulton Hogan 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)
Dr Ian M Parton Non-Executive Chairman	BE (Hons), PhD, Dist.F.IPENZ, CF.Inst.D.	October 2012 (Resigned 12 December 2016)	Chairman – Aurora Energy Limited Director – Auckland Transport Limited Director – Construction Techniques Group Limited Director – Skellerup Holdings Limited Chancellor – University of Auckland
Stuart J McLauchlan Non-Executive Director	BCom, FCA (PP), CF.Inst.D.	June 2007 (Resigned 12 December 2016)	Chairman and shareholder – Scott Technology Limited Chairman – Compass Agribusiness Management Limited Chairman – Dunedin International Airport Limited Chairman – NZ Sports Hall of Fame Chairman – Pharmac Chairman – University of Otago Foundation Studies Limited Chairman – UDC Finance Limited Director and shareholder – Dunedin Casinos Limited Director and shareholder – Rosebery Holdings Limited Director – AD Instruments Pty Limited Director – Aurora Energy Limited Director – BPAC Clinical Solutions Management Limited Director – Cargill Hotel 2002 Limited Director – HTS 110 Limited Director – Ngai Tahu Tourism Board Director – Otago & Southland Employers Association Director – Scenic Circle Hotels Limited and subsidiaries Director – University of Otago Holdings Limited Director – USC Investments Limited Member – Marsh Advisory Board Partner – G S McLauchlan & Co Limited Pro Chancellor – University of Otago Trustee/Shareholder – Three Hills Limited





FINANCIAL STATEMENTS

for the year ended 30 June 2017

CONTENTS

Statement of comprehensive income / 24

Statement of changes in equity / 25

Balance sheet / 26

Statement of cash flows / 28

Notes to the financial statements / 30

Independent auditor's report / 60

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2017

	Note	2017 \$000	2016 \$000
Operating revenue	3	105,178	102,545
Financial revenue	4	555	4,118
Total revenue		105,733	106,663
Less expenses			
Operating expenses	5	98,541	98,790
Financial expenses	6	1,375	1,738
Total expenses		99,916	100,528
Profit before tax		5,817	6,135
Income tax expense	9	987	1,462
Net profit for the year		4,830	4,673
Other comprehensive income			
Cash flow hedges		75	(24)
Total other comprehensive income		75	(24)
Total comprehensive income		4,905	4,649

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 2017

	Note	2017 \$000	2016 \$000
Equity at beginning of the year		17,618	15,469
Total comprehensive income		4,905	4,649
Less distribution to owner	8	2,500	2,500
Equity at end of the year		20,023	17,618

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

BALANCE SHEET

as at 30 June 2017

	Note	2017 \$000	2016 \$000
EQUITY			
Share capital	10	17,000	17,000
Cash flow hedge reserve	11	(110)	(185)
Retained earnings	12	3,133	803
Total equity		20,023	17,618
CURRENT LIABILITIES			
Trade and other payables	13	8,394	7,540
GST payable		1,007	857
Provisions	15	4,905	4,859
Taxation payable		1,031	-
Cash flow hedge instruments	14	17	-
Total current liabilities		15,354	13,256
NON-CURRENT LIABILITIES			
Cash flow hedge instruments	14	136	257
Term borrowings	16	25,465	29,165
Provisions	15	886	867
Total non-current liabilities		26,487	30,289
Total liabilities		41,841	43,545
TOTAL EQUITY AND LIABILITIES		61,864	61,163

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

BALANCE SHEET

as at 30 June 2017 – continued

	Note	2017 \$000	2016 \$000
CURRENT ASSETS			
Cash and cash equivalents	21	169	202
Trade and other receivables	22	16,099	27,365
Work in progress	23	3,520	3,733
Inventories – materials and stores		2,964	2,927
Taxation receivable		-	1,307
Prepayments		336	282
Total current assets		23,088	35,816
NON-CURRENT ASSETS			
Term receivable	22	12,841	-
Intangible assets	25	1,436	1,498
Deferred tax asset	17	728	1,068
Property, plant and equipment	24	23,771	22,781
Total non-current assets		38,776	25,347
TOTAL ASSETS		61,864	61,163

For and on behalf of the Board of Directors



Brian Wood
CHAIRMAN



Trevor Kempton
DIRECTOR

31 August 2017

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 2017

	Note	2017 \$000	2016 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from			
Receipts from customers		102,675	100,461
Interest received		4	10
		102,679	100,471
Cash was disbursed to			
Payments to suppliers and employees		93,232	93,158
Interest paid		1,411	1,641
Intra-group tax loss/subvention payments made		-	845
Income tax paid		(1,661)	1,395
Net GST paid		85	(7)
		93,067	97,032
Net cash inflows/(outflows) from operations	26	9,612	3,439
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from			
Sale of property, plant and equipment		699	547
Investment in financial instrument		881	-
		1,580	547
Cash was disbursed to			
Purchase of property, plant and equipment		5,025	4,179
		5,025	4,179
Net cash inflows/(outflows) from investing activities		(3,445)	(3,632)

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 2017 - continued

	Note	2017 \$000	2016 \$000
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from			
Receipts from borrowings		83,825	81,650
		83,825	81,650
Cash was disbursed to			
Repayment of borrowings		87,525	78,975
Dividends paid		2,500	2,500
		90,025	81,475
Net cash inflows/(outflows) from financing activities		(6,200)	175
Net increase/(decrease) in cash, cash equivalents and bank overdraft		(33)	(18)
Cash and cash equivalents at the beginning of the period		202	220
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	21	169	202

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 2017

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 2017.

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 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.

REVENUE RECOGNITION

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

FINANCIAL REVENUE

Financial 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. Financial income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

CONSTRUCTION CONTRACTS

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

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

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

LEASING

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

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are spread on a straight-line basis over the lease term.

BORROWING COSTS

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

EMPLOYEE ENTITLEMENTS

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

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

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 Cash Flows is inclusive of GST.

TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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	

INTANGIBLE ASSETS

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

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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.

WORK IN PROGRESS

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

CASH AND CASH EQUIVALENTS

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

FINANCIAL INSTRUMENTS

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

TRADE AND OTHER RECEIVABLES

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

BORROWINGS

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.

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.

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

CASH FLOW HEDGE INSTRUMENTS AND HEDGE ACCOUNTING

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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.

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
Amendments to NZ IAS 16 <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 leading up to implementation the Company will review the new standard to ensure appropriate disclosure. Lessor accounting remains similar to current practice – i.e. lessors classify leases as finance and operating leases.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

STANDARD

NZ IFRS 15
Revenue from Contracts with Customers
Adoption date: periods beginning on or after 1 January 2018

BRIEF OUTLINE

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 will however review revenue to ensure that it is recognised in line with the standard and contracts in place.

NZ IFRS 9 (2010)
Financial Instruments
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 2017 - continued

	2017 \$000	2016 \$000
3 OPERATING REVENUE		
Sales revenue	105,178	102,545
	105,178	102,545
4 FINANCIAL REVENUE		
Interest revenue	555	4,118
	555	4,118
Interest revenue during the period includes \$551,000 (2016: \$4.108 million) from impaired financial assets and for which a full provision is included within Operating Expenses.		
5 OPERATING EXPENSES		
Included in the operating expenses are the following items:		
Audit fees - for audit of financial statements	66	55
Employee remuneration and benefits	47,154	44,420
Materials	18,466	17,914
Depreciation and amortisation	3,899	3,599
Plant and Vehicle Leases	2,483	2,183
Building rent	601	668
Directors' fees	150	109
Increase/(decrease) in impairment provision for trade and other receivables	81	(9,372)
Bad debts written off ¹	509	13,528
Donations	45	38
(Gain)/loss on sale/disposal assets	(464)	(296)

¹ Bad debts written off includes \$508,000 (2016: \$13.520 million) in regards to counterparties with defaults in the past (refer note 28 Financial Instrument Risks - Counterparties without Credit Ratings).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

	2017 \$000	2016 \$000
6 FINANCIAL EXPENSES		
Interest/facility fees - related parties	1,371	1,703
Interest - other	4	35
Total financial expenses	1,375	1,738

	2017	2016
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	28.41 cents	26.22 cents

		2017 \$000	2016 \$000
8 DIVIDENDS			
Interim dividend	December 2016	7.4 cents/share	
	(December 2015: 7.4 cents/share)	1,250	1,250
Final dividend	June 2017	7.4 cents/share	
	(June 2016: 7.4 cents/share)	1,250	1,250
		2,500	2,500
	Cents per share	14.71	14.71

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

	2017 \$000	2016 \$000
9 INCOME TAX		
Total operating profit before income tax	5,817	6,135
Tax thereon at 28%	1,629	1,718
<i>Plus / (less) the tax effect of differences</i>		
Expenditure non-deductible for taxation	57	74
Non-assessable income	(800)	(239)
Intra-group tax compensation	700	-
Under/(over) tax provision in prior years	(599)	(91)
Tax effect of differences	(642)	(256)
Tax expense /(benefit)	987	1,462
<i>Represented by</i>		
Current tax provision	981	(1,307)
Prior period adjustments to current tax	(304)	(74)
Deferred tax provision	236	2,860
Prior period adjustments to deferred tax	74	(17)
Income tax	987	1,462
Effective tax rate	16.9%	23.8%

During the 2017 income year, Delta identified profits arising on assets constructed for Dunedin City Holdings Limited subsidiary, Aurora Energy Limited. These profits 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 group has decided to recognise the adjustment to remove the profit component of these assets and reflect a tax compensation payment of \$700,000 from Delta to Aurora Energy Limited. This approach has been adopted from 1 July 2015, which contributed the majority of the \$304,000 prior period adjustment to current tax above. The removal of these profits for 2017 income year has also reduced the current period tax charge.

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 2017 - continued

	2017 \$000	2016 \$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	(185)	(161)
Net revaluations	104	(34)
Deferred tax arising on hedges (see Note 17)	(29)	10
Balance at the end of the year	(110)	(185)
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	803	(1,370)
Net profit after tax	4,830	4,673
Dividend distributions	(2,500)	(2,500)
Balance at the end of the year	3,133	803
13 TRADE AND OTHER PAYABLES		
Trade payables	3,655	4,124
Due to related parties	310	280
Other creditors	4,429	3,136
	8,394	7,540

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 2017 - continued

	2017 \$000	2016 \$000
14 CASH FLOW HEDGE INSTRUMENTS		
Interest rate swap revaluations – payable	153	257
Analysed as:		
Current	17	-
Non-current	136	257
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. These interest rate swaps are all due to settle between 1 and 5 years of balance date and the carrying values disclosed also reflect the contractual values. The interest rate agreements are held with independent and high credit quality financial institutions in accordance with Company credit policy.		
15 PROVISIONS		
(i) Current liabilities		
Long service leave	195	213
Annual leave	3,886	3,667
Gratuities	160	189
Sick leave	147	157
Other provisions	517	633
	4,905	4,859
(ii) Non-current liabilities		
Long service leave	508	492
Gratuities	378	375
	886	867

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

	2017 \$000	2016 \$000
16 TERM BORROWINGS (secured)		
Dunedin City Treasury Limited - related party	25,465	29,165
	25,465	29,165
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	25,465	29,165
	25,465	29,165

The weighted average interest rate for the loan at balance date was 5.36% (2016: 6.53%).

17 DEFERRED TAX

	Opening Balance Sheet \$000	Charged to Equity \$000	Charged to Income \$000	Closing Balance Sheet Assets \$000	Closing Balance Sheet Liabilities \$000	Closing Balance Sheet Net \$000
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
YEAR ENDED 30 JUNE 2016:						
Property, plant and equipment	(181)	-	(262)	-	(443)	(443)
Employee benefits	1,418	-	153	1,571	-	1,571
Provisions	2,602	-	(2,734)	(132)	-	(132)
Revaluations of cash flow hedge instruments	62	10	-	72	-	72
Balance at the end of the year	3,901	10	(2,843)	1,511	(443)	1,068

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

	2017 \$000	2016 \$000
18 CONTINGENT LIABILITIES		
Performance bonds	1,124	950
	1,124	950
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. Heritage New Zealand/Department of Conservation In June 2017, the Company was notified of a potential claim for damage caused to an archaeological site in Central Otago. This matter is the subject of continuing discussions with Heritage New Zealand and the Department of Conservation. The Company holds statutory liability insurance. At balance date, the financial consequences of this matter (if any) were not known.		
19 CAPITAL EXPENDITURE COMMITMENTS		
Plant and equipment	910	516
	910	516
20 LEASE COMMITMENTS		
Non-cancellable operating lease commitments:		
payable within one year	2,451	2,188
payable between one to five years	4,370	4,664
payable later than five years	0	0
	6,821	6,852
21 CASH AND CASH EQUIVALENTS		
Cash and bank	169	202

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 2017 - continued

	2017 \$000	2016 \$000
22 TRADE AND OTHER RECEIVABLES		
Trade receivables	5,889	19,590
Less estimated doubtful debts	(59)	(389)
	5,830	19,201
Due from related parties	10,269	8,164
	16,099	27,365
Term receivable	12,841	-
	12,841	-
As at 30 June 2016, Trade receivables included an outstanding debt of \$13.429 million related to infrastructure services provided to a counterparty in default. The debt was secured by a mix of mortgage securities held over a Christchurch development property. In August 2016, the development property was sold in accordance with the terms of a mortgagee sale, and Delta entered a new loan agreement with the purchaser to replace its existing debt owing from the counterparty in default. The new loan agreement was secured by a second mortgage over the development property, and Delta received an immediate debt reduction of \$0.877 million. As at 30 June 2017, the new loan is classified as a term receivable on the basis that the first contracted repayment is not due within 12 months of balance date. The new loan agreement provides for principal plus interest thereon to be repaid in future years. Past due, but not impaired, receivables are:		
Age analysis:		
30 - 60 days	436	84
60 - 90 days	146	300
90 days plus	277	120
	859	504
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	(389)	(9,761)
Additional provisions made during the year	(820)	(4,177)
Receivables written off during the year ¹	509	13,528
Provisions reversed during the year	641	21
Closing doubtful debts provision	(59)	(389)

¹Bad debts written off includes \$508,000 (2016: \$13,520 million) in regards to counterparties with defaults in the past (refer note 28 Financial Instrument Risks - Counterparties without Credit Ratings).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

	2017 \$000	2016 \$000
23 WORK IN PROGRESS		
Work in progress – construction contracts	877	816
Work in progress – other	2,643	2,917
	3,520	3,733
Included within work in progress is \$2.173 million for Dunedin City Council Group entities (2016: \$1.959 million).		
Work in progress – construction contracts		
Gross construction work in progress plus margin to date	24,472	8,833
Progress billings	(23,595)	(8,017)
Total construction work in progress	877	816
Retentions held by customers	224	44
Due from customers under construction contracts	3,402	1,947

Included in sales is \$27.9 million of construction contract revenue (June 2016: \$26.1 million).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

24 PROPERTY, PLANT AND EQUIPMENT

	Land \$000	Buildings \$000	Meters \$000	Plant and Equipment \$000	Motor Vehicles \$000	Assets under Construction \$000	Total \$000
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
YEAR ENDED 30 JUNE 2016:							
Cost							
Balance at the beginning of the year	4,684	5,045	8,464	12,369	22,065	482	53,109
Purchases	-	30	133	1,294	2,040	148	3,645
Sales/disposals	-	(3)	(6,887)	(354)	(692)	-	(7,936)
Transfers	-	-	-	(28)	456	(428)	-
Total cost	4,684	5,072	1,710	13,281	23,869	202	48,818
Accumulated depreciation							
Balance at the beginning of the year	-	1,275	7,358	8,940	13,016	-	30,589
Depreciation	-	106	88	941	2,002	-	3,137
Sales/disposals	-	(3)	(6,839)	(342)	(498)	-	(7,682)
Transfers	-	-	-	(7)	-	-	(7)
Total accumulated depreciation	-	1,378	607	9,532	14,520	-	26,037
Balance at the end of the year	4,684	3,694	1,103	3,749	9,349	202	22,781

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 2017 - continued

	2017 \$000	2016 \$000
25 INTANGIBLES		
SOFTWARE		
Cost		
Balance at beginning of year	6,024	5,492
Purchases	420	338
Transfers	149	194
Disposals	(959)	-
Total cost	5,634	6,024
ACCUMULATED AMORTISATION		
Balance at the beginning of year	4,676	4,207
Amortisation	485	462
Transfers	(959)	7
Total amortisation	4,202	4,676
SOFTWARE WORK IN PROGRESS		
Balance at the beginning of the year	150	226
Purchases	3	118
Transfers	(149)	(194)
Total work in progress	4	150
Balance at the end of year	1,436	1,498

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

	2017 \$000	2016 \$000
26 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/(loss) for the year	4,830	4,673
<i>Items not involving cash flows</i>		
Depreciation	3,899	3,599
Deferred tax	310	2,843
Bad debts	509	13,528
Doubtful debts	81	(9,372)
<i>Impact of changes in working capital items</i>		
(Increase)/decrease in trade and other receivables	(3,044)	(6,278)
(Increase)/decrease in intra group advances	-	350
(Increase)/decrease in inventories	(37)	(301)
(Increase)/decrease in work in progress	213	(454)
(Increase)/decrease in prepayments	(54)	(98)
Increase/(decrease) in trade and other payables	853	(1,181)
Increase/(decrease) in provision for tax	2,338	(3,971)
Increase/(decrease) in employee entitlements	66	15
Increase/(decrease) in GST payable	150	300
<i>Items classified as investing or financing activities</i>		
Net (gain)/loss on sale of property, plant and equipment	(464)	(296)
Movement of capital creditors in accounts payable	(38)	82
Net cash inflows/(outflows) from operating activities	9,612	3,439

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

27 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.

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

	2017 \$000	2016 \$000
SALES OF SERVICES TO DUNEDIN CITY COUNCIL GROUP ENTITIES:		
Capital works constructed	26,526	27,685
Network management and operations	22,720	20,347
Contracting services provided	2,814	1,847
Tax subvention	721	-
Administration and accounting	520	463
Rent	29	-
	53,330	50,342
SALES OF SERVICES TO DUNEDIN CITY COUNCIL:		
Other contracting	7,653	7,154
AT YEAR END THE AMOUNTS RECEIVABLE BY THE COMPANY FROM DUNEDIN CITY COUNCIL ENTITIES:		
Receivable from Dunedin City Council	799	713
Receivable from Dunedin City Council Group entities	9,469	7,451
Work in progress for Dunedin City Council Group entities	2,124	1,959
PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY COUNCIL GROUP ENTITIES:		
Interest	1,371	1,710
Contracting services and supplies	268	202
Rent	26	26
Administration	81	1
Subvention payments/tax loss offsets	-	845
Tax compensation	700	-
	2,446	2,784

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

	2017 \$000	2016 \$000
27 RELATED PARTY TRANSACTIONS - continued		
PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY HOLDINGS LIMITED:		
Management fee	50	50
PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY COUNCIL:		
Contracting services and supplies	167	187
Rates	73	67
Rent	22	21
	262	275
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	5	8
Payable to Dunedin City Council Group entities	1,005	272

No related party debts have been written off or forgiven during the year and no provision has been required for impairment of any receivables from related parties.

TRANSACTIONS WITH COMPANIES IN WHICH DIRECTORS HAVE AN INTEREST:

The Company undertakes transactions with related parties. These are detailed below.

Mr Thompson is a Director of Alpine Energy Limited. During the financial period covered by this report, contracting services to the value of \$24,906 were provided to Alpine Energy Limited (2016: \$27,277). Monies receivable at 30 June 2017 totalled \$9,135 (2016: \$4,807). During the financial period covered by this report, services valued at \$365,324 were purchased from Alpine Energy Limited (2016: \$216,289). Monies payable at 30 June 2017 totalled \$1,954 (2016: \$12,755).

Mr Thompson is the Chairman of NETcon Limited. During the financial period covered by this report, no contracting services were provided to NETcon Limited (2016: \$2,686). No monies were receivable at 30 June 2017 (2016: nil). During the financial period covered by this report, services valued at \$2,835 were purchased from NETcon Limited (2016: \$20,501). No monies were payable as at 30 June 2017 (2016: \$110).

Mr Thompson is a Director of Passmore Consulting Services Limited. During the financial period covered by this report, Director fees (\$36,529) and Consulting Services (\$17,500) were purchased from Passmore Consulting Services Limited (2016: nil). Monies payable as at 30 June 2017 totalled \$5,750 (2016: nil).

Mr Thompson is a Director of Infratec Limited. During the financial period covered by this report, services valued at \$1,650 were provided to Infratec Limited (2016: nil). No monies were receivable as at 30 June 2017 (2016: nil).

Mr Thompson is a Director of Whitestone Contracting Limited. During the financial period covered by this report, services valued at \$339 were provided to Whitestone Contracting Limited (2016: \$3,052). No monies were receivable as at 30 June 2017 (2016: \$195). During the financial period covered by this report, no services were purchased from Whitestone Contracting Limited (2016: \$2,063). No monies were payable as at 30 June 2017 (2016: nil).

Mr DJ Frow is a Director of ETEL Limited. During the financial period covered by this report, materials and services to the value of \$1,628,956 were purchased from ETEL (2016: \$1,621,786). Monies payable as at 30 June 2017 totalled \$102,763 (2016: \$64,119).

Mr DJ Frow was a Director of Hydroworks Limited (resigned May 2017). During the financial period covered by this report, no contracting services were provided to Hydroworks (2016: \$950). No monies were payable as at 30 June 2017 (2016: \$1,093).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

27 RELATED PARTY TRANSACTIONS - continued

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 \$13,973 were provided to Otago Regional Council (2016: \$19,514). Monies receivable at 30 June 2017 totalled \$9,304 (2016: nil). During the financial period covered by this report, services to the value of \$3,999 were purchased from Otago Regional Council (2016: \$3,851). No monies were payable as at 30 June 2017 (2016: nil).

Mr T J Kempton is a Director of Long Beach Consulting Limited. During the financial period covered by this report, services to the value of \$23,763 were purchased from Long Beach Consulting Limited (2016: \$21,470). No monies were outstanding as at 30 June 2017 (2016: nil).

Mr T J Kempton is a Director of Constructing Excellence (NZ) Limited. During the financial period covered by this report, no services were purchased from Constructing Excellence (NZ) Limited (2016: \$10,139). No monies were payable as at 30 June 2017 (2016: nil).

Dr I M Parton was, during his tenure as a Director, Chancellor of the University of Auckland. During the financial period covered by this report, no services were purchased from the University of Auckland (2016: \$5,387). No monies were payable as at 30 June 2017 (2016: nil).

Dr I M Parton was, during his tenure as a Director, a Director of Skellerup Holdings Limited. During the financial period covered by this report, contracting services to the value of \$386 were provided to Skellerup Holdings Limited (2016: \$773). Monies receivable as at 30 June 2017 totalled \$230 (2016: nil).

Mr S J McLauchlan was, during his tenure as a Director, Pro Chancellor of the University of Otago. During the financial period covered by this report, contracting services to the value of \$9,101 were provided to the University of Otago (2016: \$32,386). Monies receivable as at 30 June 2017 totalled \$322 (2016: \$305). During the financial period covered by this report, services valued at \$15,200 were purchased from the University of Otago (2016: \$8,840). No monies were payable as at 30 June 2017 (2016: nil).

Mr S J McLauchlan was, during his tenure as a Director, a Director of Otago & Southland Employers Association. During the financial period covered by this report, training services valued at \$11,136 were purchased from Otago & Southland Employers Association (2016: \$14,717). No monies were payable as at 30 June 2017 (2016: nil).

Mr S J McLauchlan was, during his tenure as a Director, a Director of Scenic Circle Hotels Limited. During the financial period covered by this report, contracting services valued at \$330 were provided to Scenic Circle Hotels Limited (2016: \$75). No monies were outstanding as at 30 June 2017 (2016: \$86). During the financial period covered by this report, no services were purchased from the Scenic Circle Hotels Limited (2016: \$252). No monies were payable as at 30 June 2017 (2016: nil).

Mr S J McLauchlan was, during his tenure as a Director, the Chairman of Scott Technology Limited. During the financial period covered by this report, contracting services valued at \$904 were provided to Scott Technology Limited (2016: nil). No monies were receivable at 30 June 2017 (2016: nil). During the financial period covered by this report, services valued at \$2,513 were purchased from Scott Technology Limited (2016: nil). No monies were payable at 30 June 2017 (2016: nil).

Mr S J McLauchlan was, during his tenure as a Director, a Director of Dunedin Casinos Limited. During the financial period covered by this report, contracting services valued at \$496 were provided to Dunedin Casinos Limited (2016: nil). No monies were receivable at 30 June 2017 (2016: nil).

Mr S J McLauchlan was, during his tenure as a Director, a Director of Rosebery Holdings Limited. During the financial period covered by this report, services to the value of \$12,354 were purchased from Rosebery Holdings Limited (2016: \$24,535). No monies were payable as at 30 June 2017 (2016: nil).

During the financial period covered by this report lawn renovation work was carried out for Mr S J McLauchlan totalling \$195 (2016: \$451). No monies were payable as at 30 June 2017 (2016: \$260).

KEY MANAGEMENT PERSONNEL REMUNERATION

	2017 \$000	2016 \$000
Short-term employment benefits	2,496	1,916
Termination benefits	378	-

Following a decision by the company's shareholder to separate Delta's contracting business from that of its sibling company Aurora Energy Ltd, a new Board and management structure were established and a new Chief Executive was appointed effective from 1 July 2017.

Termination benefits were payable to the former Chief Executive and another member of the Executive Leadership Team.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

28 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.

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:

	2017 \$000	2016 \$000
Maturing in less than one year	2,500	-
Maturing between one and five years	2,500	5,000
Maturing after five years	-	-
	5,000	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 2016, however, there was some concentration of this risk around the secured receivable described under counterparties without credit ratings below.

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	169	202
Trade and other receivables	16,099	27,365
Prepayments	336	282
Work in progress	3,520	3,733
Term receivable	12,841	-
	32,965	31,582

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

28 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.

	2017 \$000	2016 \$000
COUNTERPARTIES WITH CREDIT RATINGS		
Cash and cash equivalents AA-	169	202
Trade and other receivables AA-	799	713
COUNTERPARTIES WITHOUT CREDIT RATINGS		
Trade and other receivables / Term receivable		
Existing counterparties with no defaults in the past	28,141	13,223
Existing counterparties with defaults in the past	-	13,429

As at 30 June 2016, trade receivables included an outstanding debt of \$13.429 million related to infrastructure services provided to a counterparty in default. The debt was secured by a mix of mortgage securities held over a Christchurch development property. In August 2016, the development property was sold in accordance with the terms of a mortgagee sale, and Delta entered a new loan agreement with the successful purchaser to replace its existing debt owing from the counterparty in default. The new loan of \$12.841 million has been classified as a term receivable as at 30 June 2017, and is owing from a counterparty with no defaults in the past (refer also note 22 Trade and Other Receivables).

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 2017 - continued

28 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 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
AS AT 30 JUNE 2016:						
Financial assets						
Cash and cash equivalents	202	-	-	-	-	202
Trade and other receivables	13,936	13,429	-	-	-	27,365
Term receivable	-	-	-	-	-	-
	14,138	13,429	-	-	-	27,567
Financial liabilities						
Trade and other payables	7,540	-	-	-	-	7,540
GST payable	857	-	-	-	-	857
Cash flow hedge instruments	-	-	-	257	-	257
Term borrowings	-	-	-	29,165	-	29,165
	8,397	-	-	29,422	-	37,819

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

28 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 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	-
AS AT 30 JUNE 2016:					
Financial liabilities					
Cash flow hedge instruments	257	-	100	-	(103)
Term borrowings (hedged)	5,000	-	(100)	-	103
Term borrowings (unhedged)	24,165	(242)	-	242	-
	29,422	(242)	-	242	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

28 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).

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

		2016		
		Level 1 \$000	Level 2 \$000	Level 3 \$000
				Total \$000
Financial liabilities				
Derivative financial liabilities		-	257	-
		-	257	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 - continued

29 CAPITAL MANAGEMENT STRATEGY

The capital of the Company is its equity, which is comprised of subscribed capital, retained earnings and cash flow 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.

30 EVENTS AFTER BALANCE DATE

Following a decision by the company's shareholder to separate the Delta and Aurora Energy businesses, Delta was contracted to provide network maintenance and asset construction services to Aurora Energy Ltd from 1 July 2017. Delta was previously contracted to manage and operate the Aurora Energy electricity network, however those functions will now be self-performed by Aurora Energy.

A new Board and management structure has been established to manage Delta's contracting business. Brian Wood commenced as Chairman and Mike Costelloe was appointed Delta's new Chief Executive from 1 July 2017.



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 2017

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 the statement of service performance of the company on his behalf.

Opinion

We have audited:

- the financial statements of the company on pages 24 to 58, that comprise the balance sheet as at 30 June 2017, 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 18 to 19.

In our opinion:

- the financial statements of the company on pages 24 to 58:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2017; 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.
- the statement of service performance of the company on pages 18 to 19 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 2017.

Our audit was completed on 31 August 2017. 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, and we explain our independence.

INDEPENDENT AUDITOR'S REPORT



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 the 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 it 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.

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

INDEPENDENT AUDITOR'S REPORT



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

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 17, but does not include the financial statements and 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 Wood (Chair)
Trevor Kempton
Steven Grave
(As at 1 July 2017)

MANAGEMENT

Mike Costelloe
(appointed 1 July 2017)
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

Gary Dixon
*Chief Financial Officer/
Company Secretary*

Mark Corbitt
Chief Technology Officer
(As at 1 July 2017)

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

