

ANNUAL REPORT
2019

DELTA
THINK.INFRASTRUCTURE



CONTENTS

CHAIRMAN AND CHIEF EXECUTIVE'S REPORT	12
DIRECTORS' REPORT	124
TREND STATEMENT	129
STATEMENT OF SERVICE PERFORMANCE	130
INFORMATION ON THE DIRECTORS	132
FINANCIAL CONTENTS	135
FINANCIAL STATEMENTS	136
NOTES TO THE FINANCIAL STATEMENTS	142
INDEPENDENT AUDITOR'S REPORT	170
COMPANY DIRECTORY	174

THE YEAR

IN NUMBERS

2,423

Training courses and events

541

People employed across New Zealand

34

Average number of apprentices/trainees

60%

Response rate in the staff engagement survey

430

Plant/vehicles fitted with Smartrak

6,677

Revenue meters tested

19,000

Smart meters installed

52,751

Metres of vegetation cleared from power lines

2,355

Hectares of vegetation maintained for local authority customers

9,791

Power poles inspected

5,696

Electricity faults attended to (approx.)

43,100

Metres of fibre optic cable installed

CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

for the year ended 30 June 2019

Financial Year 2019 (FY19) proved to be a challenging year for Delta. Whilst good progress has been made refining business process, creating clear understanding of strategy and engaging our people in positive change, we failed to meet the financial and safety targets set for the year.



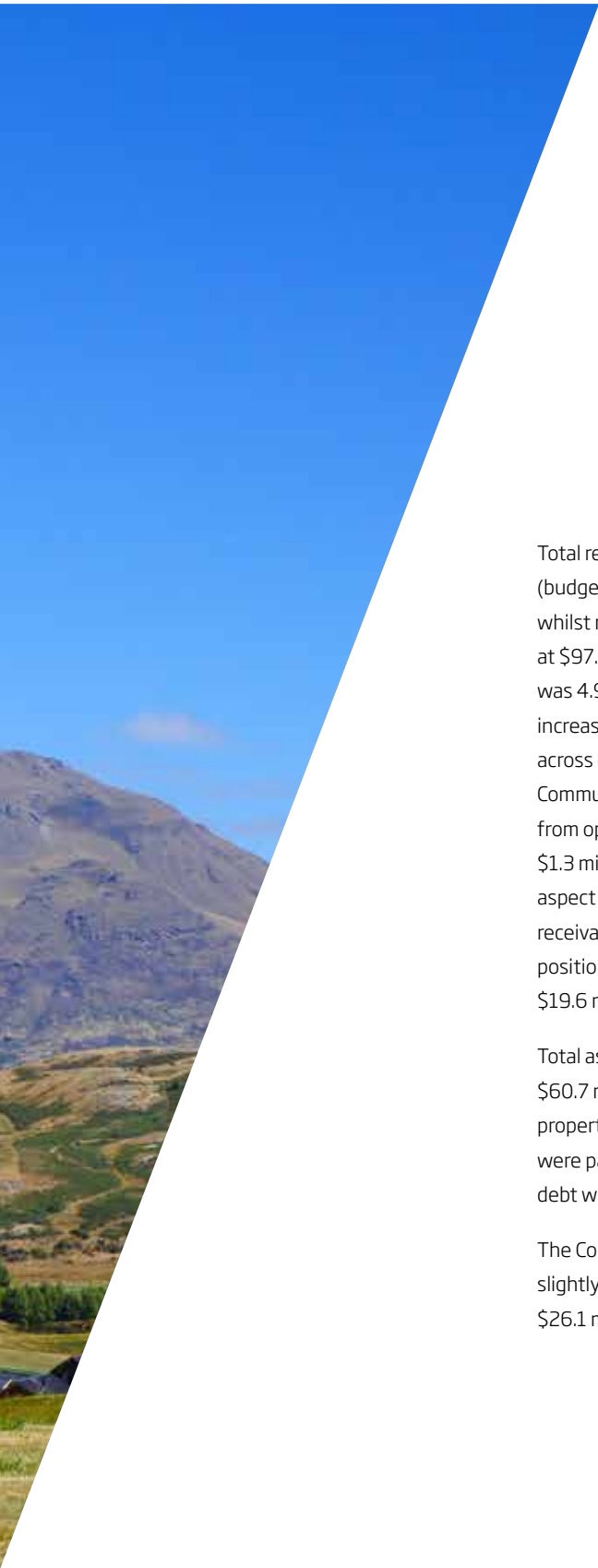
The year was one of contrasts. We managed to secure a long term contract with Aurora for their Field Services Maintenance. Work for Aurora currently represents almost fifty percent of our revenue base so understandably securing our long term future with this customer is a significant milestone.

FY19 also saw us take steps to further diversify our current revenue profile with long term contracts secured with Central Otago District Council and Network Waitaki. These contract wins make use of our existing skill set, taking what we do well to new customers. Additionally we have continued to develop relationships with customers (new and existing) in the electricity generation sector that has enabled us to secure a number of quality short term contract/projects that offer variety to our base work programmes.

We can also be satisfied that during FY19 our teams involved in delivering services in the core energy and environmental sectors continued to provide high quality service that consistently met customer KPI requirements.

Delta recorded net profit before tax of \$1.705 million in FY19 compared with a budget expectation for the year of \$3.274 million. After tax profit was recorded at \$1.922 million in comparison with budget expectation of \$2.357 million. This result represents a significant reduction on profit achieved in FY18, however this can be attributed to specific one-off issues. During the year we addressed a number of deferred maintenance projects on our facilities and made adjustments to the remuneration rates for our field staff to meet market conditions. These adjustments added significant cost to our operation but these issues needed to be addressed to ensure the future sustainability of our business. Additionally challenging weather conditions (mainly related to rain events) impacted on our productivity in our Greenspace operations and reduced work volumes for our metering operations created additional strain on the delivery of profit.





Total revenue was \$98.2 million for FY19 (budget \$103.2 million). Operating revenue whilst not meeting budget expectation at \$97.3 million (budget \$101.9 million) was 4.9% up on revenue for FY18. This increase represents good work volumes across our Environmental and Power and Communication groups. Cash flows from operations at \$5.2 million were up \$1.3 million from the previous year. This aspect was buoyed by high opening trade receivable and WIP balances (FY19 opening position \$20.9 million vs FY18 opening \$19.6 million).

Total assets increased slightly from \$60.7 million to \$61.0 million. Increases in property, plant and equipment of \$1.2 million were partially offset by reduction in Delta's debt with Infinity Yaldhurst circa \$900k.

The Company's term borrowings reduced slightly, down \$750k to \$25.4 million (FY18 \$26.1 million).

Delta remains comfortable with progress towards recovery of debt associated with the Yaldhurst development. The debt arose from the supply of infrastructure services on a Christchurch subdivision. In August 2016 the subdivision was purchased by property development group Infinity Yaldhurst Limited at which time Delta entered a new loan agreement to replace the historical debt owed by the previous developer. The subdivision is proceeding well with many of the historical issues that were previously stalling or slowing down the development resolved. Delta received a loan repayment of \$1.8 million in FY19 and remains confident that the current loan balance of \$12.8 million (plus interest thereon) will be repaid.

Despite delivering below budget profitability in FY19, Delta still paid a dividend of \$1.5 million as forecasted in its 2018/19 Statement of Intent. Equity also increased by 2% to \$22.6 million. In approving the dividend payment 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.



OUR VISION

To be a leading infrastructure service provider.

OUR PURPOSE

We deliver innovative, high quality infrastructure services. We do this by providing smart, sustainable thinking to our customers, and by always working safe.



OUR VALUES

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

POWER & COMMUNICATION SERVICES

Delta's electrical contracting business has faced a year of considerable change. This has seen Delta secure its position as principle service provider to our major customer Aurora Energy in the new Field Services Agreement. The introduction of two secondary service providers has put Delta in a truly competitive environment for Aurora Energy's work. In addition to this, Delta has continued to provide distribution services to Network Tasman and Nelson Electricity networks in FY19, as well as grow our footprint in the generation sector.





FIELD MAINTENANCE SERVICES

Delta continued to provide a wide range of field services to the Aurora Energy network in Dunedin, Central Otago and Queenstown Lakes. During FY19, Delta provided the majority of maintenance services for Aurora Energy's planned work schedules, including the inspection of approximately 1,050 distribution transformers, 1,170 ring main units and 9,700 poles, as well as zone substation equipment maintenance and thermographic and corona surveys of sub-transmission lines and zone substations. As part of the new Aurora Energy Field Services Agreement, Delta has secured the exclusive provision of faults services. During FY19 our crews responded to more than 3,700 faults on the Aurora Energy network.

Further north, Delta provided operation and maintenance services to Network Tasman and Nelson Electricity. Throughout the year, our crews responded to 1,699 faults on the Network Tasman network and 219 faults on the Nelson Electricity network.

Delta's delivery of the annual maintenance programmes for all networks was well received and our commitment to safety and quality remains our top priority across the business. During FY19, Delta retained its AS/NZS ISO 9001 accreditation, and have committed to the pursuit of ISO 14001 and ISO 45001 by December 2020 and 2021 respectively.

**POWER &
COMMUNICATION
SERVICES**
continued...

KEY DISTRIBUTION PROJECTS

Aurora Energy

One of Delta's largest projects for the year was the upgrade of the Smith Street 33kV cables in Dunedin. Delta installed three kilometres of new high-voltage underground cables that connect the Halfway Bush Transpower substation to the Aurora Energy Smith Street zone substation. The new cables replaced two 33kV gas-filled pressurised cables that had reached their end of life. This design-build project took 12 months to complete, and was very successful - particularly given the significant disruption to Dunedin residents in regards to road changes.

During FY19, Delta completed the work that saw two new Aurora Energy major substations commissioned. Delta completed all electrical works for the new zone substation at Carisbrook, comprising of the installation of new 33kV underground cables, power transformers, 33kV and 11kV switchgear, protection panels, local services, and transformer neutral earthing resistors. This project was delivered to a high standard and in accordance with Aurora Energy requirements.

Delta completed the 66kV and 33kV interfacing works for the Riverbank switching substation in Wanaka. This involved the installation of a new 66kV steel pole line, and the undergrounding of the existing 11kV and 400V services on Riverbank Road. Delta teams worked in well with other contractors on this project, to complete it within the required timeframes.

During the year, Delta continued to work on a long term project that will deliver an upgrade of protection scheme and relays, communication network and SCADA functionality for all 33kV feeders being supplied from the Halfway Bush Transpower substation. This project has a high degree

of technical complexity and is scheduled for completion in 2020.

In addition to the above, Delta completed a range of minor capital work projects for Aurora Energy that included pole and hardware replacement, reticulation of subdivisions, and network extensions associated with new connections.

Network Tasman

During FY19, Delta has completed a further 16 re-conductor projects for Network Tasman. We also undertook a significant amount of customer initiated works, predominantly in the new development and subdivision sectors of the Nelson market. During the year, Delta's technical teams completed installations of the worktag function of SEL relays at six substations across the Network Tasman network. This upgrade provides an additional layer of protection when undertaking live line work.

Nelson Electricity

Delta was awarded two major substation projects for Nelson Electricity in FY19. ANZAC Park substation and New Street substation both had their switchgear replaced and their protection systems upgraded. The work was completed and commissioned in May 2019 and ensures a better and more secure supply of electricity to the areas.

GENERATION

Delta has continued to expand its footprint in the generation sector. Our success is based on our reputation for combining technical expertise and a partnership approach with our customers.

During FY19 we were awarded the Meridian Energy, Manapouri power station local service upgrade contract, which included the replacement of two 220kV transformers, the servicing of 11kV circuit breakers and an upgrade of 11 sets of feeder protection.

Delta also continued the operation and maintenance of electrical plant and equipment for Contact Energy's Clutha hydroelectric power stations in Clyde and Roxburgh.

Additionally in Central Otago, Delta was awarded the Fraser Dam 33kV cable installation project for Pioneer Energy. The project involved installing 11 kilometres of 33kV cable from the Lower Fraser power station to the Upper Fraser power station, located in the back hills of Alexandra. The mountainous terrain was a major challenge for the team, however through excellent planning and execution, we completed the project with zero harm.

COMMUNICATIONS

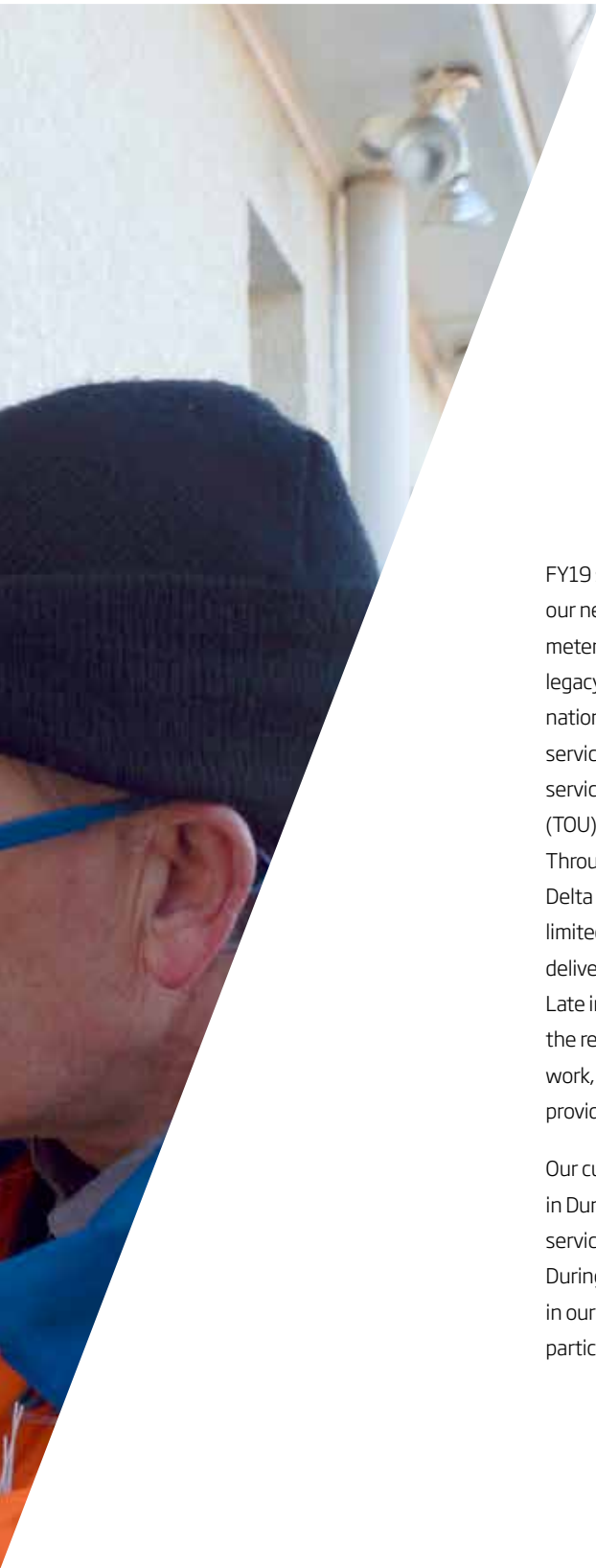
Delta provided communication services to Aurora Energy during the year, through their SCCP project. This involved the utilisation and installation of a series of microwave towers to transmit data quicker and more reliably across their network. We also maintained Network Tasman's consumer fibre optic communications network in Tasman and Marlborough. A total of 43.1 kilometres of new fibre optic cable was installed across all Delta maintained communication networks. A major highlight during the year, was the opportunity to upgrade the CCTV network on behalf of Network Tasman in Nelson city.

OTHER

As we continue to expand our customer portfolio in the electrical market, Delta secured several new contracts across a range of new customers during FY19. In Dunedin, Delta provided services to the Otago Regional Council during the upgrade of the city's bus hub. Delta was also awarded the contract to upgrade the Nelson Marlborough District Health Board's substation for their ICU department at Nelson hospital.

RETAILER SERVICES

Delta's dominant position in the retail metering services industry has continued in FY19, maintaining the largest market share for legacy field services in New Zealand.



FY19 saw Delta commence the remainder of our newly acquired Contact Energy electricity metering services and associated services for legacy metering contract. Delta is providing nationwide disconnection and reconnection services, logistic services, and test house services; as well as South Island Time of Use (TOU) and non TOU metering maintenance. Through the acquisition of this contract, Delta set up a base in Auckland. We have a limited presence in the North Island, but our delivery of work has made a positive impact. Late in FY19, Contact Energy offered Delta the remainder of their North Island metering work, thus securing Delta as their sole service provider in electricity metering.

Our customer service dispatch team based in Dunedin provides a timely and efficient service to a wide range of retail customers. During FY19, they played a significant role in our success with Contact Energy, and in particular, our work in Auckland.

In April 2019, Delta began the Trustpower deployment and maintenance contract in Aurora Energy's Central Otago and Dunedin networks, as well as in the Ashburton Electricity network. The contract started off slower than anticipated, due to difficulties in acquiring resources. However, this issue has been resolved, and as a result the number of installations has increased. We envision a continuation of this increase moving forward into FY20.

In addition to long term contracts, Delta installed 19,000 smart meters into homes and businesses across New Zealand. We also continued to maintain advanced and legacy meters for the majority of electricity retailers and electricity meter owners, and our A Class test laboratory provided meter testing and statistical sampling on selected ICP's during FY19.

ENVIRONMENTAL SERVICES

Faced with a variety of challenges during the year, mainly due to weather related conditions and events, Delta's greenspace business adjusted well and continued to deliver a quality service. Our Greenspace teams specialise in sports turf management, horticulture services, roadside vegetation control and park and reserve maintenance. We provide services to a wide range of customers, including local government bodies and private sector clients, throughout the South Island.



Delta's longstanding relationship with the Dunedin City Council and our commitment to quality has seen us prevail in the contracts we hold with them. Consistently, we achieve excellent quality and completion scores for planned and scheduled workloads in the DCC northern parks maintenance and cemeteries maintenance contracts. During FY19, our sports turf maintenance teams restored the significantly worn sports fields at the Caledonian sportsground and completed another successful cricket season across the city. We were also offered the opportunity to provide landscaping services to the new and highly anticipated Logan Park artificial sportsground. This work was completed to a high standard late in the financial year.

We took a major step towards the strategic goal of diversifying our customer portfolio in the greenspace market in FY19. Via a competitive tender, we secured a five-year contract with Central Otago District Council to deliver open space maintenance, including tree services, burials and park, track and trails maintenance. The contract has a lifetime value of close to \$10 million and strengthens our existing presence in the Central Otago market. In advance of the 1 July 2019 start date, we recruited a new team and established a dedicated greenspace depot within our existing Alexandra yard. Elsewhere in the region, we continue to provide services to the Queenstown Lakes District Council.

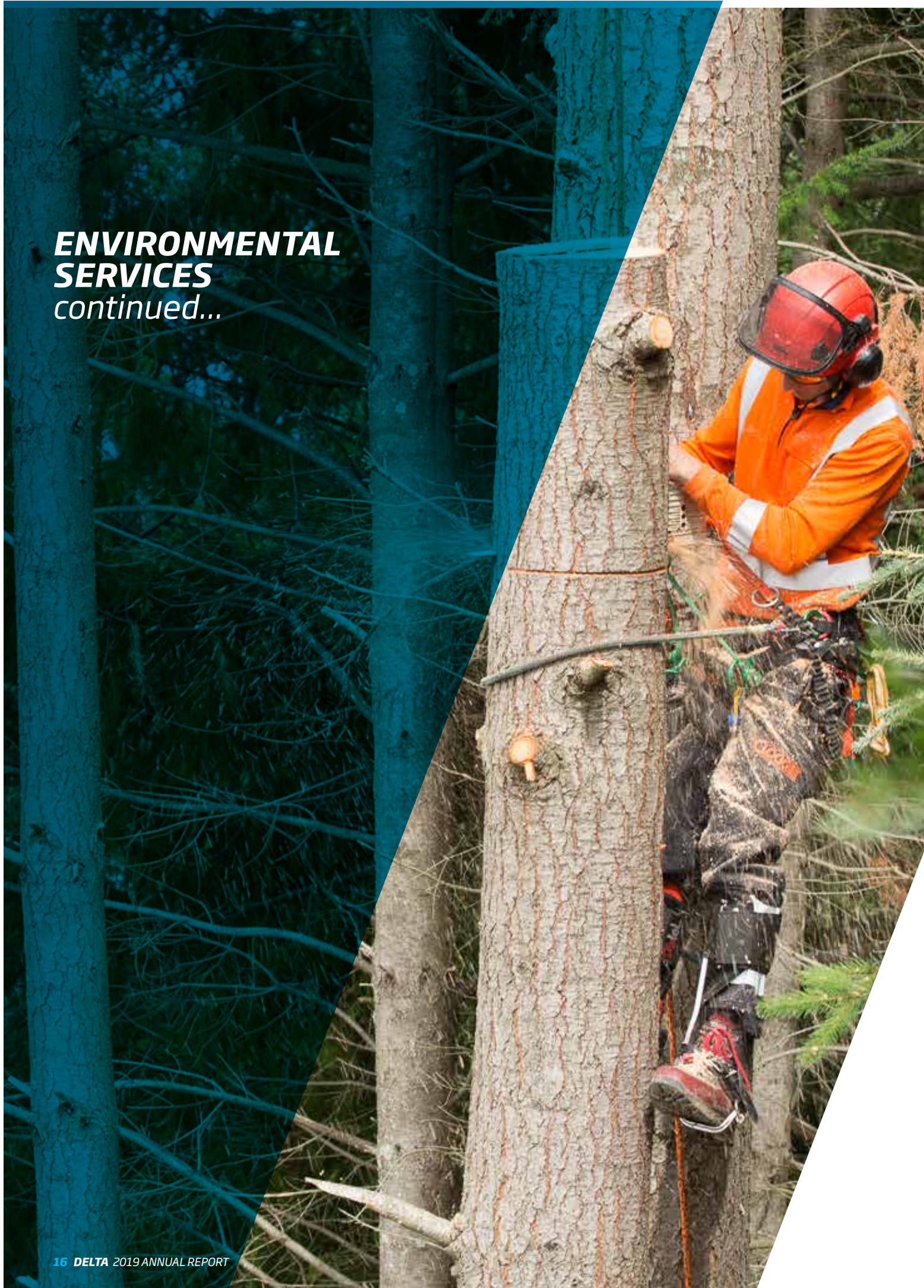
More specifically, Delta entered its second year of the Queenstown Lakes District Council high profile turf contract where we have continued to perform well in the delivery of our services. During the year there has been an increase in the demand for access to the available grounds for a range of events. To ensure we met this demand, Delta increased its resources and engaged specialist equipment on the contract including the transfer of our electrically powered ride-on mower.

On 30 June 2019, Delta's southern area reserves maintenance contract with the Christchurch City Council came to an end. We have held this contract since July 2015, and in this time we have achieved a great deal of work. During the transition, we provided a range of job search assistance to affected employees. We were pleased that almost every employee seeking work found alternative employment within a short space of time.

We still remain active in the Canterbury market. During FY19, Delta was successful in the renewal of the township maintenance contract for the Hurunui District Council, and we entered our second year of the Waimakariri District Council's parks and reserves maintenance contract. The quality of our work has attracted praise from both Councils on several occasions throughout the year.

Further north, Delta continues to provide services to Fulton Hogan on the Nelson networks outcome contract. We deliver roadside vegetation control on local roads in Golden Bay and on all State Highways in the Nelson area. Our results remained solid in FY19, however a major drop in productivity occurred following a fire ban across the Nelson and Tasman Bay areas in February, as a result of the Nelson hill fire. Mowing operation ceased during this period, and resulted in some staff being relocated to assist other regions with their workloads during this ban.

**ENVIRONMENTAL
SERVICES**
continued...





TREE SERVICES

For improved network reliability, our specialist tree services business cleared a total of 52.7 kilometres of vegetation away from powerlines on the Aurora Energy network, this was an increase from our FY18 achievement of 44.3 kilometres. All trees were recorded, and tree owners were notified prior to the commencement of work.

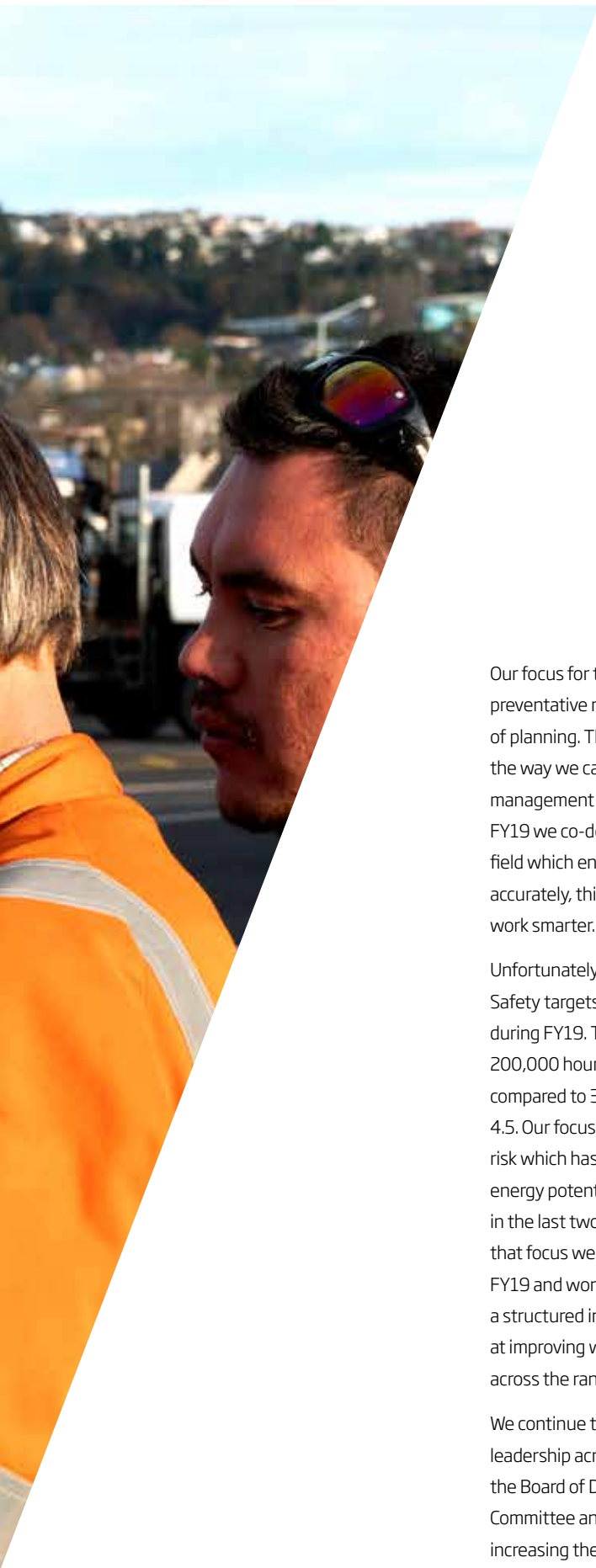
During FY19, Delta provided effective storm response to Aurora Energy in the Central Otago and Queenstown Lakes districts. In January 2019, 4,500 electricity customers lost power due to a storm event that caused many tree related outages. Alongside our Delta electrical fault crews, our tree services team worked diligently to clear trees and debris, allowing power to be restored in a safe and efficient manner.

Delta's experience and knowledge of utility arboriculture played a major part in our success during a competitive tender process for Network Waitaki's tree maintenance contract. We were pleased to secure the three-year contract with the new customer, and have so far provided positive results.

Late in FY19, Delta also engaged with the Christchurch based network provider, Orion. Following many discussions and an extensive audit and induction process, we have secured a small, but solid workload on this network, and we intend on seeing this opportunity flourish in FY20.

SAFETY AND RISK

Our people work with critical risk every day, making health and safety a strategic and operational priority across the company. We are committed to the provision of safe and healthy work environments for our staff and the public - ensuring our safety vision of 'Everyone Home Safe, Every day' is upheld.



Our focus for the year has been on preventative measures and the importance of planning. Therefore, we decided to alter the way we capture and report hazard management data in our business. During FY19 we co-developed an application for the field which enables us to capture data more accurately, this in turn will allow us to design work smarter.

Unfortunately we did not meet the Health and Safety targets that we set out for ourselves during FY19. Total recordable injuries per 200,000 hours worked (TRIFR) was 4.90 compared to 3.76 in FY18, against a target of 4.5. Our focus has been on managing critical risk which has seen the number of high energy potential events drop by over 50% in the last two years. While we will continue that focus we have also increased resource in FY19 and work is underway in implementing a structured internal audit programme aimed at improving work and reducing harm events across the range of severities.

We continue to maintain the visibility of safety leadership across the organisation with both the Board of Directors' Health and Safety Committee and the senior leadership team increasing their field presence.

During FY19, we laid the foundation of a wellness framework for our organisation. Currently we are involved in many wellness initiatives including annual health monitoring, flu vaccinations, ergonomic testing, health alerts, educational seminars, and numerous other initiatives. A dedicated framework in this area will give us a solid structure and better clarity on how we can grow and develop wellness in our business.

Delta continues to actively participate in workplace safety industry and safety forums including the Business Leaders' Health & Safety Forum, Electrical Distribution Industry Safety Forum, Electricity Engineers' Association and the Dunedin Health & Safety Forum. This year we made the commitment to pursue ISO 45001 accreditation by December 2021 and maintained a contractor prequalification score well above the industry standard.

OUR PEOPLE

It is the skill and dedication of our people that makes the difference for our customers and keeps everyone safe at work. During FY19 over 2,000 training events were recorded within Delta. This includes everything from apprentices achieving their qualifications to on the job training, recertification of practicing licences, internally held safety days, externally facilitated refresher courses, and targeted training programmes for professional development. Investing in our people and providing them with the skills and knowledge they need is paramount to enabling them to be successful and in turn deliver safe outcomes and a quality service to the customers and communities we provide for.



Delta maintained an average of 34 apprentices during FY19 - an improvement on our FY18 average of 25. Our aim is to ensure we are able to replenish positions during times of natural attrition, and is part of our overall goal of future proofing our workforce.

Late in FY18, Delta committed to a series of business improvement projects. These have flourished in FY19, and have made a significant difference to the way we operate. One of the most notable improvements has been the necessary facility upgrades in Dunedin and Central Otago. A new fit for purpose cafeteria was built in Dunedin during FY19, alongside the resurfacing of our yard area and the demolition of two non-earthquake compliant buildings in the Dunedin depot. In Wanaka, we seized the opportunity to relocate our depot to a more suitable and fit for purpose area for our teams.

In order to help combat the skill shortage that we and many other businesses are facing in the electrical industry, we decided to look further abroad and actively encourage electrical professionals from overseas to live and work in New Zealand. We launched our World's Best Office campaign, which highlights the beautiful environment and lifestyle New Zealand has to offer. During FY19 we employed eight international candidates through this campaign.

Delta also undertook its first staff survey as a standalone contracting firm. With a 60% response rate, the results were largely encouraging. There was a significant amount of positivity around our health and safety culture and our attitude toward change to remain competitive in our work environment. A few areas of improvement were also highlighted and we are working with our staff to create an action plan on how we progress in these areas.

OUR COMMUNITIES

We continue to be committed to continual improvement in our environmental performance and in supporting the communities in which we operate.

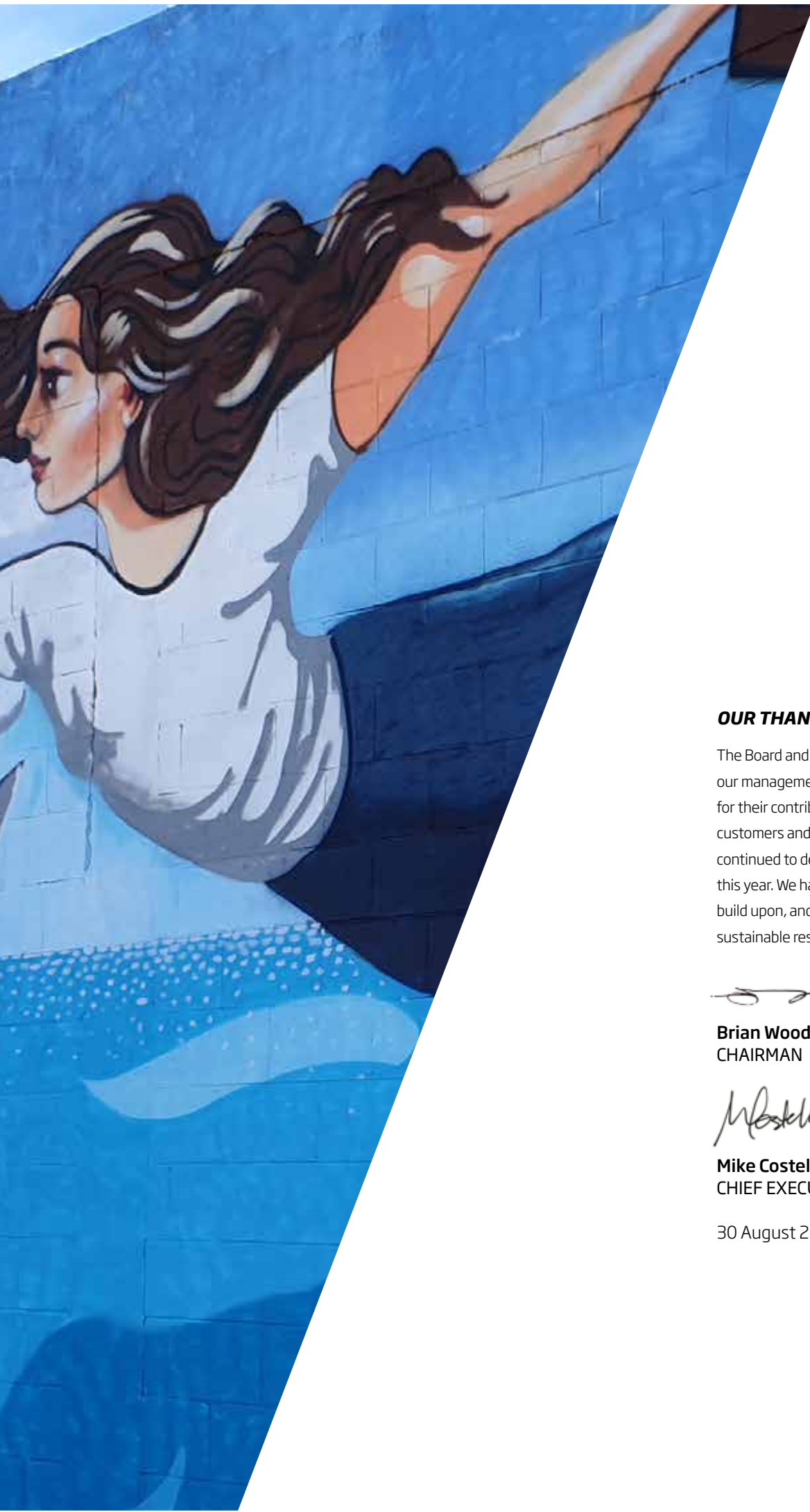
Our most significant contribution has been through the establishment of a new environmental policy and our commitment to pursue ISO 14001 accreditation by December 2020. We will be aligning with councils and community groups to help ensure we keep our communities clean and beautiful and will encourage our employees to contribute to these initiatives and foster sustainable actions.

Delta continues to reduce the number of petrol powered hand tools and endorse electrically powered equipment. Our electric vehicle and electric ride-on mower have been key aspects of our fleet in two major contracts. A company-wide review has been undertaken for Delta's fleet, to find better efficiencies and promote the reduction of carbon emissions from vehicles. We also continue to pursue other initiatives in this area, such as reducing business travel by encouraging videoconferencing, and promoting cycling to work through the establishment of secure bicycle racks on our Dunedin premise.

Furthermore, Delta continues to support our communities through innovative initiatives. During FY19 we aligned with a local artist and the Dunedin Street Art Trust to help beautify our office location and contribute to the overall street art in the city of Dunedin.

Two outward facing walls were commissioned early in 2019, and this has brought life to the industrial area we are situated in.

Our Charity Challenge initiative also helps raise safety awareness amongst our staff while contributing to local charities in the areas we operate in. Each time an employee reports a close call or identifies a new hazard, the charity challenge fund increases. Once the fund reaches a certain threshold, the best entry is selected and that member of staff chooses which charity they would like to support. During the year, Delta made donations to Presbyterian Support Otago and Rape Crisis Dunedin.



OUR THANKS

The Board and Chief Executive wish to thank our management team and all staff at Delta for their contribution this year, as well as our customers and our stakeholders. We have continued to develop and grow as a business this year. We have set a solid foundation to build upon, and look forward to providing sustainable results for the years ahead.

Brian Wood
CHAIRMAN

Mike Costelloe
CHIEF EXECUTIVE

30 August 2019



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 2019.

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

DIRECTORS' REPORT

for the year ended 30 June 2019 – continued

PRINCIPAL ACTIVITIES OF THE COMPANY

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

RESULTS FOR THE YEAR ENDED 30 JUNE 2019

	\$000
Operating profit before income tax	1,705
Income tax credit	217
Net profit for the period	<u>1,922</u>

STATE OF AFFAIRS

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

DIVIDENDS

Dividends of \$1.500 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)	422
Cash flow hedge reserve – to (from)	37

DIRECTORS' REPORT

for the year ended 30 June 2019 – continued

REVIEW OF OPERATIONS

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

Delta's net surplus of \$1.922 million (2018: \$3.776 million) provided a return on average Shareholder's equity of 9% (2018: 18%).

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2019 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 2019 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

There were no changes in director during the year.

DIRECTORS' INSURANCE

In accordance with the Constitution, the Company has arranged policies of Directors' Liability Insurance, which ensure generally that the Directors will incur no monetary loss as a result of actions undertaken by them as Directors, provided that they operate within the law.

DIRECTORS' REPORT

for the year ended 30 June 2019 – continued

DIRECTORS' REMUNERATION

The remuneration paid to Directors during the year was:

Brian J Wood	\$	78,910
Steve W Grave	\$	43,839
Tony D Allison	\$	43,839
Trevor J Kempton	\$	43,839
	\$	<u>210,427</u>

EMPLOYEES' REMUNERATION

The number of employees and former employees, whose remuneration and benefits exceeded \$100,000 for the year ended 30 June 2019 is listed below. Remuneration includes all non-cash benefits and redundancy payments at total cost to the company, where applicable:

\$100,001 - \$110,000	48
\$110,001 - \$120,000	27
\$120,001 - \$130,000	15
\$130,001 - \$140,000	8
\$140,001 - \$150,000	5
\$150,001 - \$160,000	7
\$160,001 - \$170,000	2
\$170,001 - \$180,000	2
\$180,001 - \$190,000	2
\$230,001 - \$240,000	1
\$290,001 - \$300,000	1
\$420,001 - \$430,000	1
	<u>119</u>

AUDIT AND RISK COMMITTEE

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

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

Various specialist third party consultants were engaged to review specific areas throughout the year, with the results reported to the Audit and Risk Committee and the Board.

DIRECTORS' REPORT

for the year ended 30 June 2019 – continued

HEALTH AND SAFETY COMMITTEE

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

AUDITOR

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

EVENTS SUBSEQUENT TO BALANCE DATE

There were no significant post balance sheet date events.

On behalf of the Directors



Brian Wood
CHAIRMAN



Tony Allison
DIRECTOR

30 August 2019

TREND STATEMENT

Years ended 30 June	Note	2019 \$000	2018 \$000	2017 \$000	2016 \$000	2015 \$000
Total Recordable Injury Frequency Rate	1	4.90	3.76	4.33	3.11	4.16
Revenue		98,166	93,641	105,733	106,663	102,471
EBITDA		6,675	9,378	11,092	11,473	11,055
EBIT		2,634	5,402	7,192	7,875	7,700
Profit before tax		1,705	4,273	5,817	6,135	6,212
Net surplus		1,922	3,776	4,830	4,673	4,657
Total assets		61,042	60,746	61,864	61,163	59,835
Ordinary dividends		1,500	1,750	2,500	2,500	2,500
Cash flow from operating activities		5,223	3,924	9,612	3,439	10,390
Shareholder's equity		22,581	22,122	20,023	17,618	15,469
Term debt		25,350	26,100	25,465	29,165	26,490
Return on average Shareholder's equity		9%	18%	26%	28%	32%
EBIT / average funds employed		4%	9%	12%	13%	13%
Equity to assets		37%	36%	32%	29%	26%
FTE (Full time equivalent) employee numbers as at year end		541	512	616	607	572

NOTES:

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

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2019

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 2019 financial year was submitted to and accepted by DCHL prior to 30 June 2018.
• Consult with the Shareholder at the earliest possible time on matters where conflict may or could result	No unnotified potential conflicts	Achieved	Monthly KPI reports and financial information was provided to DCHL in line with the agreed timetable.
• Keep the Shareholder informed of all substantive matters	Report all substantive matters to the Shareholder within 24 hours	Achieved	Board reports were produced and meetings were held each month to review the Company's compliance with goals and objectives stated in the SOI and Strategic Plan.

COMMUNITY, PEOPLE, SAFETY, ENVIRONMENT AND ECONOMIC OBJECTIVES

Community

• Make positive contribution to our community	\$25,000 of sponsorship/ donations per annum	Achieved	Over \$30,000 was paid in sponsorship / donations to community groups during the year.
• Support community recreation and visitor experience in Dunedin	Achieve KPIs on service contracts	Achieved	Target KPIs were maintained or exceeded on average throughout the year.

People

• Develop skill sets and succession planning through Delta's apprenticeship scheme	Average number of apprentices in the scheme of 10 or more per annum	Achieved	The average apprentices in the scheme was over 34 during the period.
• Maintain the health and wellbeing of staff	Lower than 2.5% sick leave based on hours	Achieved	Staff sick leave was 1.7% of total hours during the year.
• Maintain a positive and satisfying working environment with low levels of voluntary staff turnover	Below 15.0% staff turnover	Achieved	Voluntary staff turnover was 13.4% over the 2018/19 year.

Safety

• Reduce harm to employees and contractors	≤ 4.50 total recordable injury frequency rate (TRIFR) per 200,000 hours worked	Not achieved	TRIFR for the year was 4.90 per 200,000 hours worked.
	≤ 1.00 total lost time injury frequency rate (LTIFR) per 200,000 hours worked	Not achieved	LTIFR for the year was 1.68 per 200,000 hours worked.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2019 - continued

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
COMMUNITY, PEOPLE, SAFETY, ENVIRONMENT AND ECONOMIC 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 during the year.	Achieved	There were no RMA breaches
• Maintain or lower fuel efficiency	≤ 9.50 litres fuel used per 100 kilometres	Not Achieved	Fuel efficiency across the Delta light commercial fleet was calculated at 9.70 litres per 100 kilometres.
Economic			
• Maintain essential infrastructure to support Dunedin City Council's strategy to be one of the world's great small cities	Deliver maintenance services per contractual arrangements	Achieved	Delta met or exceeded its KPI's on contracts held with Aurora Energy and the Dunedin City Council throughout the year.

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 during the year. | Achieved | There were no RMA breaches |
| • Maintain or lower fuel efficiency | ≤ 9.50 litres fuel used per 100 kilometres | Not Achieved | Fuel efficiency across the Delta light commercial fleet was calculated at 9.70 litres per 100 kilometres. |

Economic

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

FINANCIAL OBJECTIVES

	TARGET	OUTCOME	RESULT
	\$000		\$000
• EBITDA	8,645	Not achieved	6,675
• Net profit after income tax	2,357	Not achieved	1,922
• Shareholder's equity	21,825	Achieved	22,581
• Cash flow from operations	5,846	Not achieved	5,223
• Capital expenditure	7,167	Achieved	5,245
• Term debt	24,455	Not achieved	25,350
• Dividends	1,500	Achieved	1,500
• Shareholder's equity to total assets	35%	Achieved	37%

INFORMATION ON THE DIRECTORS

DIRECTOR	QUALIFICATIONS	DATE APPOINTED	DECLARATIONS OF INTERESTS
Brian J Wood Non-Executive Chairman	MBA (Otago) FNZIM CF.Inst.D	December 2016	Chairman – Buller Holdings Limited Chairman – Buller Recreation Limited Chairman – Canterbury Linen Services Limited Chairman – South Island Transport Corridors Reinstatement Group – Ministry of Transport Chairman – Westreef Services Limited Director – E-Spatial Limited Director – Harrison Grierson Holdings Limited Director – Lyttleton Port of Christchurch Limited Director – Mainpower New Zealand Chairman – Westport Harbour Limited (Disestablished 3 September 2018) Chairman – Invercargill City Holdings Limited (Appointed 29 October 2018) Chairman – Project Steering Group, Christchurch Library Build, Christchurch City Council (Resigned 30 November 2018) Chairman – Project Steering Group, Christchurch Town Hall Rebuild, Christchurch City Council (Resigned 31 December 2018) Director – Invercargill Properties Limited (Appointed 31 January 2019)
Steven W Grave Non-Executive Director		July 2017	Principal, Director and Shareholder – Steve Grave Consulting Ltd Director – Sicon Ltd Director – Whitestone Contracting Ltd Shareholder – KM & SW Grave Family Trust – Fulton Hogan Ltd Shareholder – SW Grave – Fulton Hogan Ltd

INFORMATION ON THE DIRECTORS – continued

DIRECTOR	QUALIFICATIONS	DATE APPOINTED	DECLARATIONS OF INTERESTS
Tony D Allison Non-Executive Director	BCom, BA, CA, CM.Inst.D.	November 2017	Director – AA Cleaners (Otago) Limited Chairman – Dunedin International Airport Limited Director – Smith City Finance Limited Director – Smith City (Southern) Limited Director – Smith City Properties Limited Director – SGG Finance Limited Director – Smith City Group Limited CEO – Night 'n Day Group including: Night 'n Day Foodstores Limited Lane Group Limited Two Four Holdings Limited RFC Properties Limited (Resigned 1 February 2019) Director and Shareholder – Visionalli Limited (Appointed 16 February 2019) Chairman – Advisory Board, Mornington Health Centre Limited (Appointed 20 February 2019)
Trevor J Kempton Non-Executive Director	BE (Hons), M.IPENZ, F.NZIM, CM.Inst.D.	November 2013	Director – Constructing Excellence (NZ) Limited Director and shareholder – Long Beach Consulting Limited Councillor – Otago Regional Council Chairman and Shareholder – Naylor Love Enterprise Group of companies Director and shareholder – Trevian Properties Limited (Resigned 28 February 2019)





FINANCIAL STATEMENTS

for the year ended 30 June 2019

CONTENTS

Statement of comprehensive income / 36

Statement of changes in equity / 37

Balance sheet / 38

Statement of cash flows / 40

Notes to the financial statements / 42

Independent auditor's report / 70

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2019

	Note	2019 \$000	2018 \$000
Operating revenue	3	97,319	92,731
Financial revenue	4	847	910
Total revenue		98,166	93,641
Less expenses			
Operating expenses	5	95,532	88,238
Financial expenses	6	929	1,130
Total expenses		96,461	89,368
Profit before tax		1,705	4,273
Income tax (credit)/expense	9	(217)	497
Net profit for the year		1,922	3,776
Other comprehensive income			
Cash flow hedges		37	73
Total other comprehensive income		37	73
Total comprehensive income		1,959	3,849

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 2019

	Note	2019 \$000	2018 \$000
Equity at beginning of the year		22,122	20,023
Total comprehensive income		1,959	3,849
Less dividends paid	8	1,500	1,750
Equity at end of the year		22,581	22,122

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

BALANCE SHEET

as at 30 June 2019

	Note	2019 \$000	2018 \$000
EQUITY			
Share capital	10	17,000	17,000
Cash flow hedge reserve	11	-	(37)
Retained earnings	12	5,581	5,159
Total equity		22,581	22,122
CURRENT LIABILITIES			
Trade and other payables	13	6,309	6,471
GST payable		516	498
Provisions	15	4,229	3,741
Taxation payable		1,392	1,103
Cash flow hedge instruments	14	-	51
Total current liabilities		12,446	11,864
NON-CURRENT LIABILITIES			
Term borrowings	16	25,350	26,100
Provisions	15	665	660
Total non-current liabilities		26,015	26,760
Total liabilities		38,461	38,624
TOTAL EQUITY AND LIABILITIES		61,042	60,746

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

BALANCE SHEET

as at 30 June 2019 – continued

	Note	2019 \$000	2018 \$000
CURRENT ASSETS			
Cash and cash equivalents	20	126	255
Trade and other receivables	21	15,002	16,548
Work in progress	22	6,350	4,370
Inventories – materials and stores		2,682	2,854
Prepayments		238	252
Total current assets		24,398	24,279
NON-CURRENT ASSETS			
Term receivable	21	11,041	11,968
Intangible assets	24	828	1,042
Deferred tax asset	9	483	341
Property, plant and equipment	23	24,292	23,116
Total non-current assets		36,644	36,467
TOTAL ASSETS		61,042	60,746

For and on behalf of the Board of Directors



Brian Wood
CHAIRMAN



Tony Allison
DIRECTOR

30 August 2019

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 2019

	Note	2019 \$000	2018 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from			
Receipts from customers		96,771	93,016
Intra-group transition receipts / (payments)		64	(902)
Intra-group tax receipts / (payments)		374	(417)
Net GST received / (paid)		177	(285)
Interest received		2	10
		97,388	91,422
Cash was disbursed to			
Payments to suppliers and employees		91,189	86,334
Interest paid		976	1,164
		92,165	87,498
Net cash inflows/(outflows) from operations	25	5,223	3,924
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from			
Sale of property, plant and equipment		302	1,027
Receipts from Investments		1,773	-
		2,075	1,027
Cash was disbursed to			
Purchase of property, plant and equipment		5,177	3,750
		5,177	3,750
Net cash inflows/(outflows) from investing activities		(3,102)	(2,723)

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 2019 - continued

	Note	2019 \$000	2018 \$000
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from			
Receipts from borrowings		78,105	83,790
		78,105	83,790
Cash was disbursed to			
Repayment of borrowings		78,855	83,155
Dividends paid		1,500	1,750
		80,355	84,905
Net cash inflows/(outflows) from financing activities		(2,250)	(1,115)
Net increase/(decrease) in cash, cash equivalents and bank overdraft		(129)	86
Cash and cash equivalents at the beginning of the period		255	169
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	20	126	255

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 2019

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.

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 (annual 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 presented 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 to for-profit orientated entities.

The financial statements were authorised for issue by the Directors on 30 August 2019.

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 basis of accounting has been applied.

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

CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

GOODS AND SERVICES TAX (GST)

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

INVENTORIES

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

IMPAIRMENT OF ASSETS

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

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset 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 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

CHANGES IN ACCOUNTING POLICIES

In line with the introduction of NZ IFRS 15 Revenue from Contracts with Customers, the Company introduced a new Revenue Recognition and WIP Standard. There were no other material changes to Accounting Policies.

STANDARDS AMENDED OR ISSUED DURING THE YEAR

Both NZ IFRS 15 Revenue from Contracts with Customers and a revised NZ IFRS 9 Financial Instruments were introduced during the year.

IFRS 15 Revenue from Contracts with Customers provides a single, principles based five-step model to be applied to all contracts with customers and also requires more informative, relevant disclosures. As part of implementing NZ IFRS 15 Contracts with Customers the Company reviewed major contracts across all work types. No material change to the revenue levels disclosed is required, however further disclosures are added in Note 3.

NZ IFRS 9 Financial Instruments included changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. This revision as well as the consequential amendments to IFRS 7 Financial Instrument disclosures had minimal impact on the Company reporting. As part of implementing the revised standard the Company determined the historical loss rate on trade receivables balances and provided in the doubtful debt provision for an expected credit loss in the future.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

STANDARD	BRIEF OUTLINE
NZ IFRS16 <i>Leases</i> Adoption date: periods beginning on or after 1 January 2019	NZ IFRS 16 removes the classification of leases as either operating or finance leases – for the lessee – effectively treating all leases as finance leases. This will have a material impact on the Company's financial statements and has been factored into future budgets. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

3 OPERATING REVENUE

The Company applied IFRS 15 Revenue from Contracts with Customers from the 1 July 2018 and elected to use the modified retrospective approach in that prior year numbers were not restated and any impact to prior year revenue is recognised by an adjustment to opening retained earnings. Other than increased qualitative disclosures regarding revenue, there was no impact on the level of revenue disclosed as a result of adopting this standard and therefore no adjustment to opening retained earnings was required.

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, net of discounts and goods and services tax (GST).

Revenue from contracts with customers is recognised over time based on the output method, as the consumer is able to receive and consume the respective benefits as the Company performs the work. The works the Company provides generally creates or enhances assets which the customer controls and the customer simultaneously receives and consumes the benefits. In all instances the Company has an enforceable right to payment for performance completed / revenue recognised to date.

It is common for the Company to agree a monthly claim at the end of the month prior to recognising revenue and revenue is only recognised for those goods or services that are not expected to be returned / work is not expected to have to be redone. Consideration is fixed and the Company's standard terms and conditions are for payment on the 20th of the month following invoice.

The Company has not factored in a finance component to revenue levels as the Company expects at contract inception that the period between when a customer receives a good or service and when the customer pays for that good or service will be less than one year.

All revenue recognised is managed in a job costing system and can be matched back to the underlying labour, plant or material source documents as transferred to the customer.

Where costs are incurred to obtain or fulfil a contract these costs are held on the balance sheet and amortised over either the life of the contract or in the case of a construction contract, in line with the stage of completion.

The Company has applied the practical expedient in paragraph B16 of IFRS 15 Revenue from Contracts with Customers in that disclosure information regarding future performance obligations is not required as the Company has a right to consideration from the customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

3 OPERATING REVENUE - continued

The Company earns revenue from the following main sources:

Electrical Services revenue includes both capital and maintenance work for a variety of customers predominantly in the South Island. These works generally create or enhance an existing asset which the customer controls and that customer simultaneously receives / consumes the benefit as Delta performs the work. Work is generally performed based on a quoted price, a schedule of rates or a contract milestone. Revenue is generally recognised as invoiced for services rendered on a monthly basis, Work in progress based on stage of completion or Work in progress based on an approved claim.

Meters and related services works are provided to retailers and the public throughout New Zealand and are generally based on fixed amounts / unit rates for specific services provided. Generally works are completed in a 1-2 hour timeframe and monthly claims are agreed with customers prior to billing. Revenue is generally recognised as invoiced for services rendered during the month.

Greenspace and Tree services works are mainly provided to councils and electricity distribution businesses throughout the South Island. These works generally create or enhance an existing asset which the customer controls and that customer simultaneously receives / consumes the benefit as Delta performs the work. Work is generally performed based on a quoted price or a schedule of rates. Revenue is generally recognised as invoiced for services rendered on a monthly basis.

Other Sundry Revenue relates to rent revenue and the sale of scrap metal.

	2019 \$000	2018 \$000
Revenue from contracts with customers		
Electrical services	62,196	57,862
Meters and related services	8,441	9,521
Greenspace services	19,227	18,822
Tree services	6,901	5,987
Other		
Other sundry revenue	554	539
	97,319	92,731

Prior year disclosure has been amended to provide further detail in line with the current year presentation.

4 FINANCIAL REVENUE

Interest revenue	847	910
	847	910

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

	2019 \$000	2018 \$000
5 OPERATING EXPENSES		
Included in the operating expenses are the following items:		
Audit fees – for audit of financial statements	70	66
Employee remuneration and benefits	44,553	39,180
Materials	18,031	19,666
Depreciation and amortisation	4,041	3,976
Plant and Vehicle Leases	2,803	2,500
Building rent	596	616
Directors' fees	210	190
Increase/(decrease) in impairment provision for trade and other receivables	(22)	(30)
Bad debts written off	4	38
Donations	9	14
(Gain)/loss on sale/disposal assets	(134)	(272)
Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.		
6 FINANCIAL EXPENSES		
Interest/facility fees – related parties	927	1,129
Interest – other	2	1
Total financial expenses	929	1,130
	2019	2018
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	11.31 cents	22.21 cents

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

		2019 \$000	2018 \$000
8	DIVIDENDS		
Interim dividend December 2018 (December 2017: 5.2 cents/share)	4.4 cents/share	750	875
Final dividend June 2019 (June 2018: 5.2 cents/share)	4.4 cents/share	750	875
		1,500	1,750
	Cents per share	8.82	10.29

9 TAXATION

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

The tax currently payable is based on taxable profit for the year plus any adjustments to income tax payable in respect of prior years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

	2019 \$000	2018 \$000
9 TAXATION - continued		
INCOME TAX		
Total operating profit before income tax	1,705	4,273
Tax thereon at 28%	477	1,196
<i>Plus / (less) the tax effect of differences</i>		
Expenditure non-deductible for taxation	27	48
Non-assessable income	(1,162)	(975)
Intra-group tax compensation	549	394
Under/(over) tax provision in prior years	(108)	(166)
Tax effect of differences	(694)	(699)
Tax expense /(benefit)	(217)	497
<i>Represented by:</i>		
Current tax provision	(459)	(37)
Intra-group tax compensation	549	394
Prior period adjustments to current tax	(175)	131
Deferred tax provision	(199)	306
Prior period adjustments to deferred tax	67	(297)
Income tax	(217)	497
Effective tax rate	-12.7%	11.6%

Profits arising on assets constructed for DCHL subsidiary, Aurora Energy Limited have been deducted from the calculation of taxable income for the consolidated tax group, and have also been removed from the cost of the assets for tax depreciation purposes. For accounting purposes, the Company has recognised the adjustment to remove the profit component of these assets and has reflected a tax compensation payment of \$549,000 (FY18: \$394,000) from Delta to Aurora Energy.

Imputation credit account

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

9 TAXATION - continued

DEFERRED TAX

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

	Opening Balance Sheet \$000	Charged to Equity \$000	Charged to Income \$000	Transfer of Employees \$000	Closing Balance Sheet Assets \$000	Closing Balance Sheet Liabilities \$000	Closing Balance Sheet Net \$000
YEAR ENDED 30 JUNE 2019:							
Property, plant and equipment	(498)	-	158	-	-	(340)	(340)
Employee benefits	1,109	-	143	25	1,277	-	1,277
Provisions	(285)	-	(169)	-	-	(454)	(454)
Revaluations of cash flow hedge instruments	15	(15)	-	-	-	-	-
Balance at the end of the year	341	(15)	132	25	1,277	(794)	483
YEAR ENDED 30 JUNE 2018:							
Property, plant and equipment	(535)	-	37	-	-	(498)	(498)
Employee benefits	1,426	-	34	(351)	1,109	-	1,109
Provisions	(206)	-	(79)	-	-	(285)	(285)
Revaluations of cash flow hedge instruments	43	(28)	-	-	15	-	15
Balance at the end of the year	728	(28)	(8)	(351)	1,124	(783)	341

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

	2019 \$000	2018 \$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	(37)	(110)
Net revaluations	52	101
Deferred tax released (see Note 9)	(15)	(28)
Balance at the end of the year	-	(37)
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. All cash flow hedges had expired as at balance date.		
12 RETAINED EARNINGS		
Balance at the beginning of the year	5,159	3,133
Net profit after tax	1,922	3,776
Dividend distributions	(1,500)	(1,750)
Balance at the end of the year	5,581	5,159
13 TRADE AND OTHER PAYABLES		
Trade and other payables are stated at cost and include:		
Trade payables	4,472	4,128
Due to related parties	60	397
Other creditors	1,777	1,946
	6,309	6,471

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 within 30-day terms.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

	2019 \$000	2018 \$000
14 CASH FLOW HEDGE INSTRUMENTS		
Interest rate swap revaluations – payable	–	51
Analysed as:		
Current	–	51
Non-current	–	–

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

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

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

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity. Any ineffective portion is recognised immediately in the income statement. Hedges that do not result in the recognition of an asset or a liability are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the year.

Any financial derivatives or cash flow hedge instruments embedded in other financial instruments or other host contracts are treated as separate instruments when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

15 PROVISIONS

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

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

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

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

	2019 \$000	2018 \$000
(i) Current liabilities		
Long service leave	176	149
Annual leave	3,486	3,126
Gratuities	191	79
Sick leave	95	57
Other provisions	281	330
	4,229	3,741
(ii) Non-current liabilities		
Long service leave	467	407
Gratuities	198	253
	665	660

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

16 TERM BORROWINGS (secured)

Borrowings are initially recorded at fair value net of directly attributable transaction costs and are measured at subsequent reporting dates at amortised cost. Finance charges, premiums payable on settlement or redemption and direct costs are accounted for on an accrual basis to the Income Statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

	2019 \$000	2018 \$000
Dunedin City Treasury Limited - related party	25,350	26,100
	25,350	26,100
The total 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	25,350	26,100
	25,350	26,100

The weighted average interest rate for the loan at balance date was 3.95% (2018: 4.33%).

17 CONTINGENT LIABILITIES

Performance bonds	1,119	1,269
	1,119	1,269

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

	2019 \$000	2018 \$000
18 CAPITAL EXPENDITURE COMMITMENTS		
Plant and equipment	894	400
	894	400
19 LEASE COMMITMENTS		
Non-cancellable operating lease commitments:		
payable within one year	2,806	2,162
payable between one to five years	3,669	3,441
payable later than five years	193	78
	6,668	5,681
20 CASH AND CASH EQUIVALENTS		
Cash and bank	126	255

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 2019 - continued

	2019 \$000	2018 \$000
21 TRADE AND OTHER RECEIVABLES		
Trade receivables	7,367	6,197
Less estimated doubtful debts	(5)	(26)
	7,362	6,171
Due from related parties	7,640	10,377
	15,002	16,548
Term receivable	11,041	11,968
	11,041	11,968

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

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

Past due, but not impaired, receivables are:

	2019 \$000	2018 \$000
Age analysis: 30 - 60 days	145	1,201
60 - 90 days	631	283
90 days plus	745	992
	1,521	2,476

All past due balances are considered collectable, however in line with NZ IFRS 9 the Company applies a simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure credit losses, trade receivables are grouped based on similar credit risk and aging. The expected loss rates factor in the credit losses experienced over the three year period prior to the period end. The historical loss rates are then adjusted for where necessary based on current and forward-looking macroeconomic factors affecting the Company's customers.

A summary of all receivables impaired or otherwise, is included at Note 27. The estimated doubtful debts provision relates entirely to the general provision for estimated credit loss and there were no individually impaired trade receivable balances at year end.

Opening doubtful debts provision	(26)	(59)
Additional provisions made during the year	(11)	(36)
Receivables written off during the year	3	38
Provisions reversed during the year	29	31
Closing doubtful debts provision	(5)	(26)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

22 WORK IN PROGRESS

Work in progress is stated at estimated realisable value, after providing for non-recoverable amounts. Work in progress represents work from contracts which has been performed, but which is unable to be billed as the right to consideration remains conditional.

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 and the performance obligations have been satisfied.

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 and where Delta believes the identified performance obligations have been satisfied. 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.

	2019 \$000	2018 \$000
Work in progress - construction contracts	1,112	678
Work in progress - other	5,238	3,692
	6,350	4,370
Included within work in progress is \$4.232 million for Dunedin City Council Group entities (2018: \$2.806 million).		
Work in progress - construction contracts		
Gross construction work in progress plus margin to date	21,029	16,020
Progress billings	(19,917)	(15,342)
Total construction work in progress	1,112	678
Retentions held by customers	299	251
Due from customers under construction contracts	3,033	2,857

Included in sales is \$34.5 million of construction contract revenue (June 2018: \$25.6 million).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

23 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

Depreciation rates and methods used are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

23 PROPERTY, PLANT AND EQUIPMENT - continued

	Land \$000	Buildings \$000	Meters \$000	Plant and Equipment \$000	Motor Vehicles \$000	Assets under Construction \$000	Total \$000
YEAR ENDED 30 JUNE 2019:							
Cost							
Balance at the beginning of the year	4,684	5,318	1,992	11,754	24,596	114	48,458
Purchases	-	619	481	1,526	2,063	319	5,008
Sales/disposals	(118)	(8)	-	(577)	(401)	-	(1,104)
Transfers	-	40	-	-	68	(108)	-
Total cost	4,566	5,969	2,473	12,703	26,326	325	52,362
Accumulated depreciation							
Balance at the beginning of the year	-	1,599	747	8,118	14,878	-	25,342
Depreciation	-	122	126	1,137	2,253	-	3,638
Sales/disposals	-	(6)	-	(503)	(401)	-	(910)
Transfers	-	-	-	-	-	-	-
Total accumulated depreciation	-	1,715	873	8,752	16,730	-	28,070
Balance at the end of the year	4,566	4,254	1,600	3,951	9,596	325	24,292
YEAR ENDED 30 JUNE 2018:							
Cost							
Balance at the beginning of the year	4,684	5,121	1,772	12,381	24,770	330	49,058
Purchases	-	154	220	970	2,252	109	3,705
Sales/disposals	-	-	-	(1,642)	(2,636)	(27)	(4,305)
Transfers	-	43	-	45	210	(298)	-
Total cost	4,684	5,318	1,992	11,754	24,596	114	48,458
Accumulated depreciation							
Balance at the beginning of the year	-	1,467	648	8,420	14,752	-	25,287
Depreciation	-	132	99	988	2,315	-	3,534
Sales/disposals	-	-	-	(1,290)	(2,189)	-	(3,479)
Transfers	-	-	-	-	-	-	-
Total accumulated depreciation	-	1,599	747	8,118	14,878	-	25,342
Balance at the end of the year	4,684	3,719	1,245	3,636	9,718	114	23,116

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 2019 - continued

24 INTANGIBLES

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

	2019 \$000	2018 \$000
SOFTWARE		
Cost		
Balance at the beginning of the year	5,198	5,634
Purchases	185	172
Transfers	62	3
Disposals	(1,005)	(611)
Total cost	4,440	5,198
ACCUMULATED AMORTISATION		
Balance at the beginning of year	4,218	4,202
Amortisation	403	442
Disposals	(957)	(426)
Total amortisation	3,664	4,218
SOFTWARE WORK IN PROGRESS		
Balance at the beginning of the year	62	4
Purchases	52	61
Transfers	(62)	(3)
Total work in progress	52	62
Balance at the end of year	828	1,042

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

	2019 \$000	2018 \$000
25 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the year	1,922	3,776
<i>Items not involving cash flows</i>		
Depreciation	4,041	3,976
Deferred tax	(157)	359
Bad debts	4	38
Doubtful debts	(22)	(30)
<i>Impact of changes in working capital items</i>		
(Increase)/decrease in trade and other receivables	2,493	415
(Increase)/decrease in inventories	172	110
(Increase)/decrease in work in progress	(1,980)	(850)
(Increase)/decrease in prepayments	14	84
Increase/(decrease) in trade and other payables	(163)	(1,922)
Increase/(decrease) in provision for tax	289	72
Increase/(decrease) in employee entitlements	492	(1,390)
Increase/(decrease) in GST payable	19	(509)
<i>Items classified as investing or financing activities</i>		
Net (gain)/loss on sale of property, plant and equipment	(134)	(273)
Investment in Financial Instrument	(1,773)	-
Movement of capital creditors in accounts payable	6	68
Net cash inflows from operating activities	5,223	3,924

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

26 RELATED PARTY TRANSACTIONS

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

TRANSACTIONS WITH DUNEDIN CITY COUNCIL

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

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

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

	2019 \$000	2018 \$000
SALES OF SERVICES TO DUNEDIN CITY COUNCIL GROUP ENTITIES:		
Capital construction works	32,430	29,127
Network maintenance and Contracting Services	16,434	17,772
Administration and accounting	3	-
Rent	404	434
	49,271	47,333
SALES OF SERVICES TO DUNEDIN CITY COUNCIL:		
Other contracting	6,878	5,861
AT YEAR END THE AMOUNTS RECEIVABLE FROM RELATED PARTIES WERE:		
Receivable from Dunedin City Council	977	763
Receivable from Dunedin City Council Group entities	6,676	9,614
INTRAGROUP TRANSFERS:		
Tax compensation received	374	-
PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY COUNCIL GROUP ENTITIES:		
Interest	927	1,129
Contracting services and supplies	469	384
Rent	54	63
Administration	620	1,212
Tax loss offsets	-	79
Management fee	50	50
Tax compensation	549	440
	2,669	3,357

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

	2019 \$000	2018 \$000
26 RELATED PARTY TRANSACTIONS - continued		
PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY COUNCIL:		
Contracting services and supplies	151	167
Rates	65	63
Rent	17	20
Tax loss offsets	-	173
	233	423
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	9	31
Payable to Dunedin City Council Group entities	1,957	1,506

TRANSACTIONS WITH ENTITIES IN WHICH DIRECTORS HAVE AN INTEREST:

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

Mr B J Wood is a Director of Mainpower New Zealand Limited. During the financial period covered by this report, metering services to the value of \$109,149 were purchased from Mainpower New Zealand (2018: \$470,340). Monies payable at 30 June 2019 totalled to \$352 (2018: \$8,103).

Mr B J Wood is a Director of E-Spatial Limited. During the financial period covered by this report, services to the value of \$10,000 were purchased from E-Spatial (2018: \$10,000). No monies were payable as at 30 June 2019 (2018: Nil).

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 \$5,200 were provided to Otago Regional Council (2018: \$13,288). There were no monies receivable at 30 June 2019 (2018: \$1,495). During the financial period covered by this report, rates to the value of \$4,308 were paid to Otago Regional Council (2018: \$3,934). No monies were payable as at 30 June 2019 (2018: Nil).

Mr T J Kempton is the Chairman and a Shareholder of the Naylor Love Enterprise Group of Companies. During the financial period covered by this report, contracting services to the value of \$4,278 were provided to the Naylor Love Group (2018: \$6,194). Monies receivable at 30 June 2019 totalled to \$201 (2018: \$545). During the financial period covered by this report, contracting services to the value of \$254,872 were purchased from the Naylor Love Group (2018: \$76,225). No monies were payable as at 30 June 2019 (2018: \$42,828).

Mr T D Allison is the Chairman of Dunedin International Airport Limited. During the financial period covered by this report, contracting services to the value of \$41,049 were provided to Dunedin International Airport (2018: \$39,645). Monies receivable at 30 June 2019 totalled to \$3,799 (2018: \$3,799).

Mr T D Allison is the Chairman of the Advisory Board of Morningson Health Centre Limited. During the financial period covered by this report, services to the value of \$2,165 were purchased from Morningson Health Centre (2018: \$1,754). Monies payable at 30 June 2019 totalled to \$93 (2018: \$39).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

26 RELATED PARTY TRANSACTIONS - continued

KEY MANAGEMENT PERSONNEL REMUNERATION

	2019 \$000	2018 \$000
Short-term employment benefits – Senior Management	1,952	1,350
Short-term employment benefits – Directors	210	190

During the 2018 year the Financial Controller, Business Accountant and Executive Assistant were employed by Aurora Energy Ltd and provided services to the company (along with other administration, information and communications technology and external relations staff) as part of a Shared Services agreement. The yearly fee for the shared services function was \$1.200 million and the exact proportion which related to Key Management personnel is unable to be split out separately.

27 FINANCIAL INSTRUMENTS RISKS

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

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

In line with NZ IFRS 9 Financial Instruments, all of the financial assets and liabilities are measured at amortised cost, fair value through profit of loss, or fair value through other comprehensive income on the basis of the company's business model for managing the financial instrument and the contractual cash flow characteristics of the financial instrument.

Apart from derivative financial instruments, the Company's financial assets and liabilities including cash and cash equivalents, trade and other receivables, trade and other payables, accruals and term borrowings continue to be measured at amortised cost as they meet the conditions under NZ IFRS 9.

INTEREST RATE RISK

During the year the Company used 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 were held with independent and high credit quality financial institutions in accordance with group credit policy.

As at balance date all interest rate swaps had expired.

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

	2019 \$000	2018 \$000
Maturing in less than one year	-	2,500
Maturing between one and five years	-	-
Maturing after five years	-	-
	-	2,500

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

27 FINANCIAL INSTRUMENTS RISKS - continued

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 2019, however, there was some concentration of this risk around the secured Term receivable described in Note 21.

Under NZ IFRS 9, the new impairment model requires the recognition of an expected credit loss provision based on expected / historic credit losses. It applies to financial assets classified at amortised cost. This standard has had an immaterial impact on the carrying value of Trade receivables and an impairment provision has been accrued for the expected credit losses based on historic defaults.

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:

	2019 \$000	2018 \$000
Cash and cash equivalents	126	255
Trade and other receivables	15,002	16,548
Prepayments	238	252
Work in progress	6,350	4,370
Term receivable	11,041	11,968
	32,757	33,393

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.

	2019 \$000	2018 \$000
COUNTERPARTIES WITH CREDIT RATINGS		
Cash and cash equivalents AA-	126	255
Trade and other receivables AA-	977	763
COUNTERPARTIES WITHOUT CREDIT RATINGS		
Trade and other receivables / Term receivable		
Existing counterparties with no defaults in the past	25,066	27,753
Existing counterparties with defaults in the past	-	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

27 FINANCIAL INSTRUMENTS RISKS – continued

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.

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 2019:						
Financial assets						
Cash and cash equivalents	126	-	-	-	-	126
Trade and other receivables	13,230	886	886	-	-	15,002
Term receivable	-	-	-	11,041	-	11,041
	13,356	886	886	11,041	-	26,169
Financial liabilities						
Trade and other payables	6,309	-	-	-	-	6,309
GST payable	516	-	-	-	-	516
Cash flow hedge instruments	-	-	-	-	-	-
Term borrowings	-	-	-	25,350	-	25,350
	6,825	-	-	25,350	-	32,175
AS AT 30 JUNE 2018:						
Financial assets						
Cash and cash equivalents	255	-	-	-	-	255
Trade and other receivables	14,775	-	1,773	-	-	16,548
Term receivable	-	-	-	7,092	4,876	11,968
	15,030	-	1,773	7,092	4,876	28,771
Financial liabilities						
Trade and other payables	6,471	-	-	-	-	6,471
GST payable	498	-	-	-	-	498
Cash flow hedge instruments	-	-	51	-	-	51
Term borrowings	-	-	-	26,100	-	26,100
	6,969	-	51	26,100	-	33,120

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

27 FINANCIAL INSTRUMENTS RISKS - continued

SENSITIVITY ANALYSIS

The Company enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange risks. As at balance date the Company had no derivative financial instruments in place.

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 2019:					
Financial liabilities					
Cash flow hedge instruments	-	-	-	-	-
Term borrowings (hedged)	-	-	-	-	-
Term borrowings (unhedged)	25,350	(254)	-	254	-
	25,350	(254)	-	254	-
AS AT 30 JUNE 2018:					
Financial liabilities					
Cash flow hedge instruments	51	-	13	-	-
Term borrowings (hedged)	2,500	-	(13)	-	-
Term borrowings (unhedged)	23,600	(236)	-	236	-
	26,151	(236)	-	236	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

27 FINANCIAL INSTRUMENTS RISKS – continued

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements recognised in the statement of financial position:

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. Note that the Company's remaining interest rate swaps expired during the year and at balance date there were no derivative financial assets or liabilities:

- 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 (ie as prices) or indirectly (ie 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).

	2019			
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial liabilities				
Derivative financial liabilities	-	-	-	-
	-	-	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 - continued

28 CAPITAL MANAGEMENT STRATEGY

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

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

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

29 EVENTS AFTER BALANCE DATE

There were no significant post balance sheet date events.



INDEPENDENT AUDITOR'S REPORT



To the readers of Delta Utility Services Limited's financial statements and statement of service performance for the year ended 30 June 2019

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

Opinion

We have audited:

- the financial statements of the company on pages 36 to 68, that comprise the balance sheet as at 30 June 2019, 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 30 to 31.

In our opinion:

- the financial statements of the company on pages 36 to 68:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2019; 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 New Zealand equivalents to International Financial Reporting Standards; and
- the statement of service performance of the company on pages 30 to 31 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 2019.

Our audit was completed on 30 August 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the statement of service performance, we comment on other information, and we explain our independence.

Independent Auditor's Report - continued

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 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

Independent Auditor's Report - continued

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Independent Auditor's Report - continued

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 29, 32 to 35 and 74 to 75, but does not include the financial statements and the statement of service performance, and our auditor's report thereon.

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

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

Independence

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

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



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

COMPANY DIRECTORY

DIRECTORS

Brian Wood (Chair)
Steven Grave
Tony Allison
Trevor Kempton

MANAGEMENT

Mike Costelloe
Chief Executive

Michael Price
*General Manager Power and
Communication Services*

Richard King
*General Manager
Environmental Services*

Lynne Bas
Manager, Retailer Services

Hayden Wingfield
Financial Controller

Daryl Putt
Business Accountant

John Llewellyn
Manager, Human Resources

Matt Sadgrove
Manager, Health and Safety

Shane Spicer
Commercial Manager

Glenda McGowan
Executive Assistant

REGISTERED OFFICE

33 Sturdee 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



