



ANNUAL REPORT 2012

DELTA
THINK.INFRASTRUCTURE

CONTENTS

SUMMARY / 02

CHAIRMAN AND CHIEF EXECUTIVE'S REPORT / 03

DIRECTORS' REPORT / 08

TREND STATEMENT / 13

STATEMENT OF SERVICE PERFORMANCE / 14

INFORMATION ON THE DIRECTORS / 16

FINANCIAL CONTENTS / 19

FINANCIAL STATEMENTS / 20

NOTES TO THE FINANCIAL STATEMENTS / 26

INDEPENDENT AUDITOR'S REPORT / 61

COMPANY DIRECTORY / 63



OUR VALUES

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

SUMMARY

- Increased turnover by 5 per cent to \$108.6 million
- Total assets of \$75.6 million
- EBITDA before impairment charges of \$10.5 million
- Operating profit before income tax and impairment charges of \$2.1 million
- Pre-tax impairment charges of \$9.0 million due mostly to a \$7.5 million write down to the carrying value of development properties
- Net loss after tax and impairment charges of \$5.9 million
- Paid dividends of \$4.5 million to our shareholder, Dunedin City Holdings Limited. Delta has returned total dividends of \$47.1 million to our shareholder since the company was formed in 1998
- Re-branded Delta to position as the infrastructure specialist in energy, water, waste, communications, transport and land
- Achieved company's lowest ever lost time injury frequency rate of 1.22 per million hours worked

Operational highlights included:

- First full year of electricity network operations and maintenance services in the Nelson and Tasman regions
- Capital works for Transpower at the Benmore hydropower station
- Successfully completed two industrial electricity distribution projects at Oceana Gold's Macraes goldmine
- Smart metering deployment in Dunedin, Christchurch and Central Otago
- Participation in horizontal infrastructure rebuild for Christchurch
- Water infrastructure installation at Dunedin's Tahuna waste water treatment plant
- Selected as preferred design and build contractor on proposed 6,800-hectare Tarras irrigation scheme in Central Otago
- Appointed Clutha District Council solid waste management provider
- Commissioned gas-to-energy plant at Dunedin's Green Island landfill
- Participated in the Government's ultrafast and rural broadband deployment initiatives
- New vegetation control and grounds maintenance contracts in Tasman, Canterbury and Otago

CHAIRMAN AND CHIEF EXECUTIVE'S REPORT



In the face of the sustained economic downturn, operating conditions for Delta were mixed during the financial year ended 30 June 2012 (FY12). Our core business within the energy infrastructure sector remained solid as the demand for asset management and energy-related services increased. The demand for other infrastructure services weakened in the face of reduced local government expenditure and the company experienced a difficult start to its participation in the Christchurch rebuild.

The continuing weakness in residential property markets outside of Auckland and Christchurch also caused the company to re-assess its current strategy and the carrying value of our development property. As a result, the decision was taken to exit from development property ownership and book a \$7.5 million pre-tax write down to the carrying value of our current property holdings at Luggate and Jack's Point.

The decision to exit from development property ownership is consistent with Delta's positioning as infrastructure specialist, particularly in the sectors of energy, water and waste. It also reflects the current investment risk profile of our shareholder and is intended to release the capital presently employed within development property investments.

The Group recorded turnover of \$108.6 million for FY12, an increase of 5 per cent on the previous year (FY11: \$103.7 million).

Earnings before interest, tax, depreciation and amortisation (EBITDA) before impairment charges were \$10.5 million for FY12 (FY11: \$13.5 million) and the Group recorded an operating profit before income tax and impairment charges of \$2.1 million (FY11: \$11.9 million).

Pre-tax impairment charges of \$9.0 million were booked to the Group accounts during

FY12, reflecting the \$7.5 million write down to the carrying value of development properties referred to above, plus a \$1.5 million goodwill write-off in respect of historical business acquisitions.

The Group recorded a net loss of \$5.9 million for the year under review (FY11: net surplus \$5.4 million).

As a member of the Dunedin City Council group of companies, Delta is committed to providing financial returns to our shareholder Dunedin City Holdings Limited and to ensuring projected dividend levels are maintained. During FY12, we paid dividends of \$4.5 million, as forecast in our 2011/12 Statement of Intent. Delta has returned total dividends of \$47.1 million to our shareholder since the company was formed in July 1998.



STRATEGIC REFOCUS

During the period covered by this report, we have undertaken reviews across the business to reposition Delta in line with the changing market conditions and to address financial underperformance in some parts of the business.

As a result, we restructured our Utilities and Environment management team and our Central Otago operations, reducing the number of positions in the management team and in Central Otago civil construction to improve business efficiencies and reflect a reduction in market demand. We also reviewed the management structure of our Technical Solutions group that includes electrician services, electrical inspections, meter testing and calibration and electrical workshop services. The new structure strengthens our market presence as a technical solutions provider.

More recently, we have integrated a previously standalone major projects team into our water and civil business unit, as the team was doing the majority of its work for that business unit.

The review across all parts of the business will be ongoing and is expected to result in further changes to our market positioning and organisational structure. The objectives are to improve our financial performance and better align Delta to expected customer demands and market opportunities.

In November we launched a new brand for Delta to reflect our strategic positioning as infrastructure specialist in the sectors of energy, water, waste, communications, transport and land. The new brand clearly conveys who we are and what we do for our customers, employees and stakeholders. The phased implementation of the new brand commenced in FY12.

CHRISTCHURCH

Horizontal infrastructure (stormwater, sewer and water networks, roads and bridges) was severely damaged in the Christchurch earthquakes of September 2010 and February 2011. While Delta, which has had a presence in Christchurch since 2001, was well-placed to participate in the city's infrastructure repair and rebuild, the operating environment was extremely challenging.

The Stronger Christchurch Infrastructure Rebuild Team (SCIRT), responsible for rebuilding horizontal infrastructure, has a target of completing \$2 billion of repair and rebuild work within five years. That will drive a significant increase in demand. The first quarter of FY13 has already seen signs of the pace of the Christchurch rebuild picking up and Delta has been successful in securing significant waste water infrastructure projects.

DELTA INVESTMENTS LIMITED

Delta Investments Limited (formerly Newtons Coachways 1993 Limited) is a wholly-owned Delta subsidiary for the purposes of property investment and development.

As outlined above, Delta has decided to exit development property ownership and will seek to conclude sales as market conditions allow.

ENERGY

Delta reorganised its asset management team to enhance our offering to the owners of infrastructure assets in energy, 3 waters and facilities. We also further developed our asset management portfolio in energy generation, providing a range of engineering consulting services to Genesis Energy.

We continued to deliver asset management services to the Aurora Energy electricity network, managing \$18.5 million of capital projects including upgrades to the Frankton and Halfway Bush (Dunedin) substations.

FY12 saw us complete the first full year of operations and maintenance services on the Nelson and Tasman electricity networks. The initial investment in establishing a service centre in the region and a series of extreme weather events constrained profitability in the initial phases of our long term agreement.



We continued our expansion in the transmission market, contributing to a one-in-50 year project to build pole 3 of the high voltage direct current link for Transpower at the Benmore hydropower station.

Two significant industrial distribution projects were undertaken for Oceana Gold at its Macraes goldmine - New Zealand's largest goldmine - where we installed a 1.5 kilometre, 11 kilovolt overhead line and participated in the upgrade of the 45 kilometre, high voltage electricity supply line between Macraes and Ranfurly.

Delta was an active participant in the transition from legacy to smart metering, deploying smart metering installations in Dunedin, Christchurch and Central Otago during FY12. We are seeing a steady shift from traditional meter-reading services to smart meter deployment and testing as electricity meter owners meet recertification requirements by April 2015.

WATER

During the year we developed a comprehensive and fully-costed proposal to our shareholder for the combined Dunedin City Council and Delta delivery of 3 waters services in Dunedin, drawing on the strengths of the Council and its infrastructure specialist, Delta. If accepted, the proposal has the potential to achieve significant efficiency gains for the city and provide a platform for earnings growth in the sector.

Delta participated in rebuilding earthquake-damaged infrastructure in Christchurch, primarily underground waste water replacements, with workloads already confirmed for the first quarter of FY13. We also worked on the new Yaldhurst Village residential subdivisions during FY12. Yaldhurst Village will provide much-needed new building platforms for Christchurch residents.

We continued pipe fabrication and installation work for a significant upgrade to Dunedin City Council's Tahuna waste water treatment plant. We completed stage one of the replacement of Dunedin City Council's Opoho Road water main.

Irrigation is a significant market opportunity for Delta and our involvement in the sector saw us appointed as preferred design and build contractor on the proposed 6,800-hectare Tarras irrigation scheme in Central Otago.

WASTE

From April, we were appointed as solid waste provider to Clutha District Council, delivering kerbside collection, recycling and landfill management services. The appointment enhances our position as a provider of integrated solid waste services.

In June, a new gas-to-energy plant was successfully commissioned at the Green Island landfill (operated by Delta on behalf of the Dunedin City Council). The new

plant, which Delta designed and installed in partnership with equipment supplier Entec, will convert waste methane from the landfill into electricity and heat. By reducing emissions liabilities and generating valuable electricity, the plant is expected to pay for itself within four to five years.

COMMUNICATIONS

The Government, through Crown Fibre Holdings, awarded the bulk of the nationwide ultrafast broadband rollout to Chorus in May 2011. The agreement with Chorus covers nearly 70 per cent of the network build initiative, including Dunedin. Delta had submitted a proposal to expand its existing fibre optic network and bring fibre-to-the-premises in Dunedin.

The decision significantly constrains the ability for Delta to grow in the communications infrastructure sector. We continue to monitor opportunities in the developing communications network environment.

During FY12, we provided fibre installation services to Chorus' build partners and will seek to participate as a service provider in the coming years as the ultrafast broadband rollout proceeds. New customer connections were added to the existing fibre network in Dunedin during FY12.



TRANSPORT

Transport infrastructure is a highly competitive sector with a number of large national companies active in the market characterised by reduced central and local government roading expenditure outside Auckland and Christchurch. Delta has focused on specialist urban roading services, forestry roading and highway vegetation control.

We continued to maintain access roads for City Forests in Dunedin and began construction of the extension to the cycle way from Maia to St Leonards. Delta carried out vegetation control on the state highway and local authority networks across the South Island.

LAND

During FY12 our greenspace and sports turf management business performed well, including expansion into new geographic areas.

We performed vegetation control and weed management for Clutha District Council and in Central Otago for the New Zealand Transport Agency. We expanded our greenspace presence in the Canterbury region with new contracts for vegetation control in Selwyn and Hurunui Districts.

Looking ahead, we secured new vegetation control and grounds maintenance contracts in Tasman and North Otago early in FY13.

Delta provided year-round sports turf management services to a range of customers from local authorities to sports clubs in Dunedin and Waimakariri. A highlight in FY12 was our preparation of the playing surface for the South Africa versus New Zealand international cricket test at the University Oval, a venue which Delta had previously redeveloped.

OUR PEOPLE

Safety

We made excellent progress towards our goal of zero harm to ensure everyone returns home safe from work, every day. One of our key measures for safety performance is the Lost Time Injury Frequency Rate for employees and contractors working on Delta sites. The outcome for FY12 was 1.22 lost time injuries per million hours worked, our lowest on record and a significant improvement on the prior period (FY11: 12.17).

We are committed to making further gains in safety performance through proactive management of workplace safety. Our strong health and safety focus is driven by the Safety Leadership Group

and Safety Action Groups comprised of operational staff from across the business. The philosophy is one of continuous improvement, with a focus on preventative measures and the open exchange of recommendations aimed at eliminating hazards from the workplace.

Close calls are monitored and reported regularly on the basis that they provide free learning opportunities and serve as a lead indicator of potential hazards and safety performance. We encourage the reporting of close calls, including employee incentives.

New safety initiatives were introduced during FY12 to reduce the frequency and severity of incidents including implementing medical provider agreements, operational staff hazard assessment training and enhanced incident investigation processes.

Our commitment to continuous review and implementation of best practice health and safety protocols was recognised by continued accreditation at the highest level of ACC's Workplace Safety Management Programme (tertiary).

Our communities

Our Charity Challenge campaign raises safety awareness among employees with the goal of ensuring everyone goes home safe, every day from work. The Charity Challenge fund accrues each time an



employee reports a close call or identifies a new hazard. During the year, Delta made donations to IHC New Zealand, Central Otago Riding for the Disabled, DEBRA New Zealand, Salvation Army, St John Ambulance and Make-A-Wish® Foundation - helping out good causes in the community and supporting our journey towards zero harm.

In FY12 we became a commercial sponsorship partner to the Super 15 rugby franchise, the Highlanders. In June we joined forces with the Highlanders to help refurbish a new community facility in Dunedin being developed by the Methodist Mission for young children and their families. The facility includes a new early childhood and community centre and we helped build safety fences and tidy up vegetation.

Leadership team

We welcomed Gary Dixon as the new chief financial officer in October, following the retirement of Stephen Wilson. Stephen was instrumental in the development of Delta

and we acknowledge his long and valuable association with the company.

A chartered accountant, Gary brings wide knowledge and experience to the role from his career in banking and financial services, most recently as chief financial officer of a food production and distribution company.

GOVERNANCE

Long-serving director Paul Hudson resigned from the Board in March following a governance review by Dunedin City Council which recommended that elected Councillors not hold directorships on Council-owned companies. We acknowledge Paul Hudson's significant contribution to Delta from our early days as an electricity business to today's multi-sector infrastructure specialist.

THINKING FORWARD

Looking ahead, we expect the operating environment will remain challenging in the face of uncertain economic conditions and ongoing pressure on local government expenditure. We will continue the ongoing review of all areas of our business and make changes where needed to ensure Delta is responsive to changing customer needs and market trends.

While we expect little movement in general economic conditions in FY13, our business is based on providing essential infrastructure services where demand is relatively inflexible and tends to show year-on-year growth.

We thank everyone at Delta for their hard work during the year and their ongoing commitment to continuous improvement. By refocusing on opportunities in energy, water and waste and harnessing our asset management capability, Delta is repositioning itself for success in the infrastructure sector.

Ray Polson
CHAIRMAN

Grady Cameron
CHIEF EXECUTIVE

26 September 2012



DIRECTORS' REPORT

The Directors of the Delta Utility Services Limited consolidated group (the Group) report on the activities and results of the Group for the year ended 30 June 2012.

The financial accounts in this report include the activities of Delta Utility Services Limited (Parent) and of the Group which is a full consolidation of Delta Utility Services Limited and its wholly owned subsidiary, Delta Investments Limited. Lakes Contract Services Limited is a non-trading company and a wholly owned subsidiary of Delta Utility Services Limited and is not consolidated.

DIRECTORS' REPORT

for the year ended 30 June 2012

PRINCIPAL ACTIVITIES OF THE GROUP

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

	GROUP	PARENT
RESULTS FOR THE YEAR ENDED 30 JUNE 2012	\$000	\$000
Operating profit before income tax and impairment charges	2,131	11,942
Less impairment charges	9,044	10,489
Operating profit before income tax	(6,913)	1,453
Less income tax expense (refund)	(1,033)	(92)
Net profit for year	(5,880)	1,545

STATE OF AFFAIRS

The Directors believe that the state of affairs of the Company and Group are satisfactory.

DIVIDENDS

Dividends of \$4.5 million were declared and paid during the year.

RESERVES

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

	\$000	\$000
Retained earnings - to (from)	(10,380)	(2,955)
Cash flow hedge reserve to (from)	(14)	(14)

DIRECTORS' REPORT

for the year ended 30 June 2012 – continued

REVIEW OF OPERATIONS

The sustained economic downturn has resulted in difficult operating conditions for Delta during the financial year ending 30 June 2012. While demand for the company's energy sector services remained solid, demand for other infrastructure services weakened in the face of reduced local government expenditure and suffered from a slower than expected start to the Christchurch earthquake recovery. These factors have constrained earnings growth and profitability.

The Group's net profit before income tax and impairment charges of \$2.131 million (2011: \$6.059 million) provided a return on average Shareholder's equity of 15% (2011: 33%).

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2012 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 2012 or existed at that date are disclosed in the related parties section of this report.

DIRECTORS' BENEFITS

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

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

CHANGE OF DIRECTORS

Mr Paul Hudson resigned from the Board in March 2012. The company acknowledges the substantial contribution made by Mr Hudson, during his more than 12 year tenure as a Director.

DIRECTORS' REPORT

for the year ended 30 June 2012 – continued

DIRECTORS' INSURANCE

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

DIRECTORS' REMUNERATION

The audited financial statements for the year ended 30 June 2012 are attached to this report.

DIRECTORS' INTERESTS IN CONTRACTS

The remuneration paid to Directors during the year was:

Raymond S Polson	\$	46,493
Ross D Liddell	\$	34,436
Michael O Coburn	\$	20,850
Dr Norman G Evans	\$	20,850
Paul R Hudson	\$	14,513
Stuart J McLauchlan	\$	22,850
	\$	159,992

EMPLOYEES' REMUNERATION

The number of employees and former employees who received remuneration and benefits above \$100,000:

\$100,001 - \$110,000	18
\$110,001 - \$120,000	7
\$120,001 - \$130,000	9
\$130,001 - \$140,000	4
\$140,001 - \$150,000	4
\$150,001 - \$160,000	2
\$160,001 - \$170,000	1
\$170,001 - \$180,000	1
\$200,001 - \$210,000	3
\$210,001 - \$220,000	1
\$220,001 - \$230,000	1
\$240,001 - \$250,000	1
\$460,001 - \$470,000	1
	53

DIRECTORS' REPORT

for the year ended 30 June 2012 – continued

AUDIT COMMITTEE

Messrs Liddell, Polson and McLauchlan comprised the Audit and Risk Committee of the Board during the year. The Audit and Risk Committee has the responsibility for agreeing the arrangements for audit of the Company's financial accounts and 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.

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

REMUNERATION COMMITTEE

Messrs Polson and Liddell and Dr Evans comprised the Remuneration Committee of the Board during the year. The Remuneration Committee's role is to develop and implement policies relating to the remuneration and other terms and conditions of service of the Chief Executive and senior staff and to oversee remuneration practices.

AUDITOR

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

EVENTS SUBSEQUENT TO BALANCE DATE

The Directors are not aware of any matter or circumstance since the end of the financial period, not otherwise dealt with in this report or the Company's financial statements, that has significantly or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company.

On behalf of the Directors



Ray Polson
CHAIRMAN



Ross Liddell
DEPUTY CHAIRMAN

26 September 2012

TREND STATEMENT

Years ended 30 June	Note	GROUP				
		2012 \$000	2011 \$000	2010 \$000	2009 \$000	2008 \$000
Safety first - lost time injuries	1	1.22	12.17	7.29	10.70	12.50
Turnover		108,633	103,679	87,008	87,891	86,245
EBITDA before impairment charges		10,529	13,484	11,466	13,265	10,124
EBIT before impairment charges		4,699	7,933	5,983	6,734	4,356
Profit before tax and impairment charges		2,131	6,059	4,879	5,324	3,207
Impairment charges	2	9,044	-	-	-	-
Net surplus		(5,880)	5,423	2,929	3,866	1,980
Total assets		75,563	77,792	57,221	48,466	42,962
Ordinary dividends		4,500	4,000	3,500	2,500	2,500
Cash flow from operating activities		863	7,182	9,011	7,931	10,209
Shareholder's equity		8,773	19,167	17,744	18,482	17,616
Term debt		50,925	41,000	23,790	17,945	12,545
Return on average Shareholder's equity before impairment charges		18%	30%	16%	21%	11%
EBIT before impairment charges / average funds employed		6%	12%	11%	15%	11%
Equity to assets		12%	25%	31%	38%	41%
Average number of employees		675	657	571	527	553

NOTES:

- 1 Number of lost time injuries per 1 million hours worked.
- 2 The aftermath of the Global Financial Crisis continues to negatively affect the growth in civil contracting activities and residential property markets, and decisions were taken during the year ended June 2012, to write off goodwill of \$1.544 million and reduce the carrying value of the company's property investments by \$7.5 million.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2012

GENERAL OBJECTIVES

- 1 To review the Statement of Intent and Strategic Plan for consistency with the objectives of Dunedin City Council.
- 2 To review the operating activities of the Group for compliance with the goals and objectives stated in the Statement of Intent and Strategic Plan.
- 3 To report all matters of substance to the Shareholder within five days of occurrence.

OUTCOMES

ACHIEVED.

The Statement of Intent and Strategic Plan were reviewed and confirmed as being consistent with the objectives of Dunedin City Council.

ACHIEVED.

The operating activities are in accordance with the goals and objectives stated in the Statement of Intent and Strategic Plan.

ACHIEVED.

Matters of substance were reported to the Shareholder within the required timeframe.

ECONOMIC OBJECTIVES

- 1 To achieve all financial projections.

OUTCOMES

NOT ALL ACHIEVED.

	PARENT	
	Actual	Target
	\$000	\$000
EBITDA	903	14,506
EBITDA before impairment charges	11,392	14,506
Net surplus after income tax	(7,400)	4,768
Net surplus after income tax before impairment charges	3,089	4,768
Shareholder's funds	9,107	19,627
Dividends	4,500	4,500
Shareholder's funds to total assets	12%	34%
EVA	(13,271)	313
EVA before impairment charges	(4,227)	313

- 2 To obtain management of an additional group of utility assets.

NOT ACHIEVED.

In spite of continuous promotion of contracting out as a best-practice option for asset owners to access large-scale solutions, limited opportunities arose for Delta to bid.

- 3 To monitor the economic value added and financial performance against rates of returns established by Dunedin City Holdings Limited.

ACHIEVED.

Regular monitoring of financial performance and EVA is conducted.

- 4 To ensure that the reporting requirements of the Group and the Shareholder are met.

ACHIEVED.

Group reporting was undertaken within the timeframes as stated in the Statement of Intent.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2012 - continued

SOCIAL AND ENVIRONMENTAL OBJECTIVES

OUTCOMES

1	Compliance with all employment legislation.	ACHIEVED. All employment legislation has been complied with.		
2	No complaints of discrimination are received.	ACHIEVED. No complaints were received during the year.		
3	Operates open and non-discriminatory employment practices.	ACHIEVED. The Group operates employment practices that are open and non-discriminatory.		
4	No transgression of environmental and resource laws occurs.	ACHIEVED. No notification of any breaches of any resource laws has been received.		
5	To review the activities undertaken by the Company for purposes of being a good corporate citizen.	ACHIEVED. The Group regularly reviews its contribution to the community to ensure it acts as good corporate citizen.		
6	Employee safety target.	ACHIEVED.		
			Actual	Target
		Lost time injuries per 1 million hours worked.	1.22	6.00

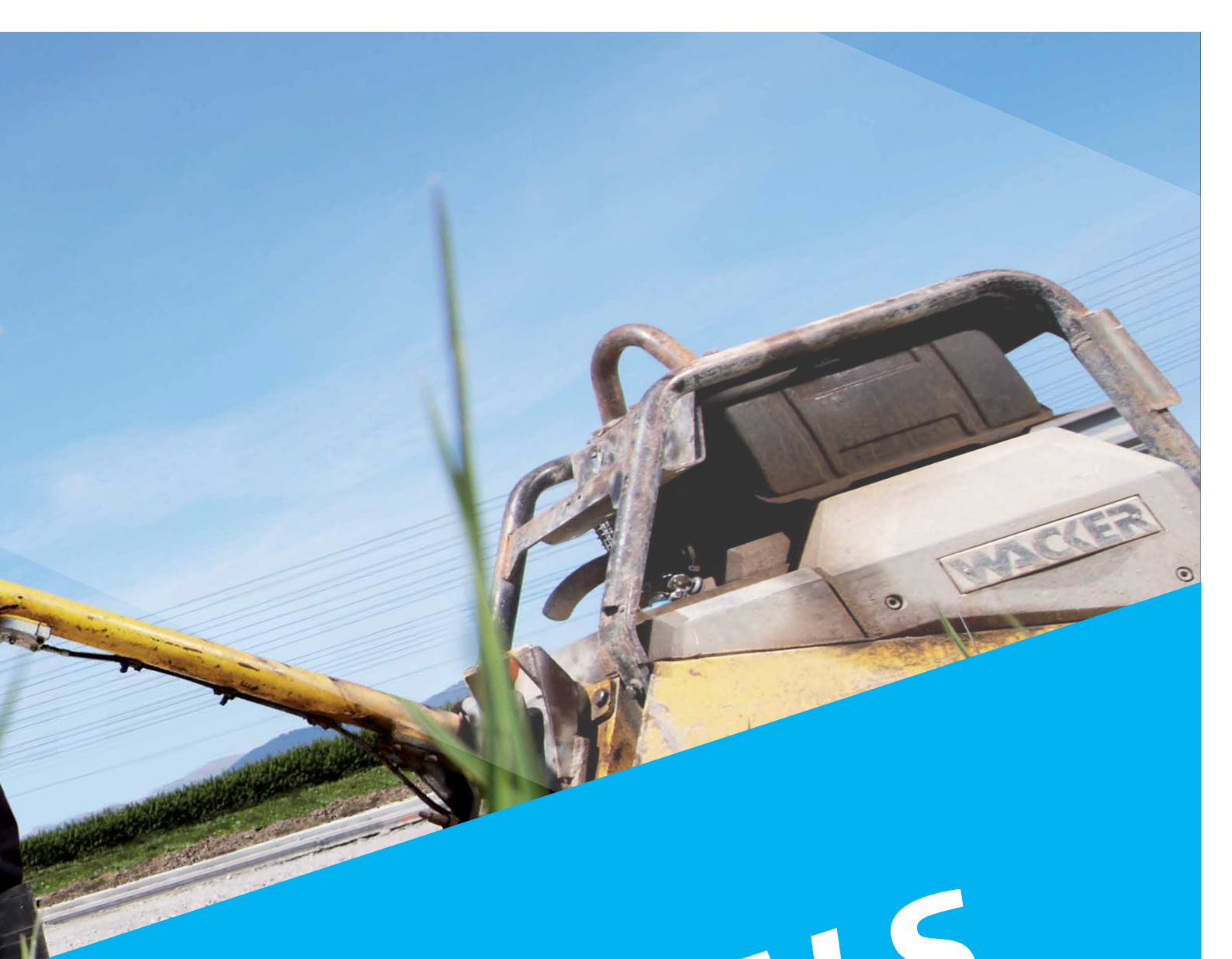
INFORMATION ON THE DIRECTORS

DIRECTOR	QUALIFICATIONS	DATE APPOINTED	DECLARATIONS OF INTERESTS
Raymond S Polson Non-Executive Chairman	BCom, FCA, AF.Inst.D.	October 1994	Chairman – Aurora Energy Limited Chairman – Delta Investments Limited Chairman – Macalister Todd Phillips Chairman – Ophir Gold Limited Chairman – Selwyn Plantation Board Limited Director – Luggate Nominee Limited Director – Marsh Advisory Board
Ross D Liddell Non-Executive Deputy Chairman	BCom, CA (PP), ACIS, AF.Inst.D.	June 1998	Chairman – Browns Barkly Limited Chairman – City Forests Limited Chairman – Dunedin City Treasury Limited Chairman – James Maurice Properties Limited Chairman – Palmer & Son Limited Chairman – Palmer MH Limited Chairman – Palmers Mechanical Limited Chairman – Viblock Limited Chairman – Victory Lime 2000 Limited Deputy Chairman – Aurora Energy Limited Director – A B Lime Limited Director – Hunterfields Investments Limited Director – McMahon Investments Limited Director – Blackhead Quarries Ltd (resigned 31 October 2011) Director – Dunedin City Holdings Limited (resigned 31 October 2011)
Michael O Coburn Non-Executive Director	FNZIM, AF.Inst.D.	October 2003	Deputy Chairman – City Forests Limited Director – Arthur Barnett Limited Director – Aurora Energy Limited Director – Delta Investments Limited Director – Jack Tewa Foundation Appointer Limited Director – Lake Hayes Estate Limited Director – Lakes Environmental Limited Director – New Zealand Aquifer Limited Director – New Zealand Land Fund Limited and subsidiaries Director – Ruboc Holdings Limited Shareholder – Locations Realty Queenstown Limited Trustee – Hayes Trustees Limited Director – Dunedin City Holdings Limited (resigned 31 October 2011) Director – Islington Park Limited (resigned 6 March 2012)

INFORMATION ON THE DIRECTORS – continued

DIRECTOR	QUALIFICATIONS	DATE APPOINTED	DECLARATIONS OF INTERESTS
Dr Norman G Evans Non-Executive Director	DBA, NZCE, M.Inst.D.	July 2005	Chairman – Enabling Pty Limited (Australia) Director – Aurora Energy Limited Director – City Forests Limited Director – Lifetime Health Diary Limited Director – Halo Investment Management Limited Director – Halo Fund No 1 Limited Director – Dunedin City Holdings Limited (resigned 31 October 2011) Director – Enabling NZ Limited (resigned 5 September 2011)
Paul R Hudson Non Executive Director	JP, BCom, CA	November 1999 Resigned 31 March 2012	Councillor – Dunedin City Council Chairman – Dunedin City Holdings Limited (resigned 31 October 2011) Director – City Forests Limited (resigned 31 March 2012) Director – Delta Utility Services Limited (resigned 31 March 2012)
Stuart J McLauchlan Non-Executive Director	BCom, FCA (PP), AF.Inst.D.	June 2007	Chairman – Dunedin International Airport Limited Chairman – NZ Sports Hall of Fame Chairman – Pharmac Chairman – Scott Technology Limited Chairman – UDC Finance Limited Director – AD Instruments Pty Limited Director – Aurora Energy Limited Director – Cargill Hotel 2002 Limited Director – City Forests Limited Director – Delta Investments Limited Director – Dunedin Casinos Limited Director – HTS 110 Limited Director – Lund South Limited Director – Otago & Southland Employers Association Director – Roxdale Foods Limited Director – Scenic Circle Hotels Limited and subsidiaries Director – South Canterbury Finance subsidiaries Director – University of Otago Foundation Studies Limited Director – USC Investments Limited Director – XRock Automation Pty Limited Partner – G S McLauchlan & Co Pro Chancellor – University of Otago Director – Dunedin City Holdings Limited (resigned 31 October 2011) Director – Islington Park Limited (resigned 6 March 2012)





FINANCIALS

for the year ended 30 June 2012

CONTENTS

Statement of comprehensive income / 20

Statement of changes in equity / 21

Balance sheet / 22

Statement of cash flows / 24

Notes to the financial statements / 26

Independent auditor's report / 61

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2012

	Note	GROUP		PARENT	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
Operating revenue	3	107,974	103,394	108,070	103,981
Financial revenue	4	659	285	1,377	959
Total revenue		108,633	103,679	109,447	104,940
Less expenses					
Operating expenses	5	112,978	95,746	114,371	96,257
Financial expenses	6	2,568	1,874	2,568	1,832
Total expenses		115,546	97,620	116,939	98,089
Profit before tax and subvention		(6,913)	6,059	(7,492)	6,851
Subvention payment provided		0	0	0	0
Profit before tax		(6,913)	6,059	(7,492)	6,851
Income tax expense/(refund)	9	(1,033)	636	(92)	(32)
Net profit/(loss) for the year		(5,880)	5,423	(7,400)	6,883
Other comprehensive income					
Cash flow hedges		(14)	0	(14)	0
Total other comprehensive income		(14)	0	(14)	0
Total comprehensive income		(5,894)	5,423	(7,414)	6,883

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 2012

	Note	GROUP		PARENT	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
Equity at beginning of the year		19,167	17,744	21,021	18,138
Total comprehensive income		(5,894)	5,423	(7,414)	6,883
Less distribution to owner	8	4,500	4,000	4,500	4,000
Equity at end of the year		8,773	19,167	9,107	21,021

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

BALANCE SHEET

as at 30 June 2012

	Note	GROUP		PARENT	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
EQUITY					
Share capital	10	17,000	17,000	17,000	17,000
Cash flow hedge reserve	11	(552)	(538)	(552)	(538)
Retained earnings	12	(7,675)	2,705	(7,341)	4,559
Total equity		8,773	19,167	9,107	21,021
CURRENT LIABILITIES					
Trade and other payables	13	8,186	10,269	8,172	10,246
Other current liabilities	15	1,625	1,584	765	783
Cash flow hedge instruments	14	767	747	767	747
Provisions	16	4,889	4,329	4,889	4,329
Taxation payable		-	230	-	230
Total current liabilities		15,467	17,159	14,593	16,335
NON-CURRENT LIABILITIES					
Term borrowings	17	50,925	41,000	50,925	41,000
Provisions	16	398	466	398	466
Total non-current liabilities		51,323	41,466	51,323	41,466
Total liabilities		66,790	58,625	65,916	57,801
TOTAL EQUITY AND LIABILITIES		75,563	77,792	75,023	78,822

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

BALANCE SHEET

as at 30 June 2012 – continued

		GROUP		PARENT	
	Note	2012 \$000	2011 \$000	2012 \$000	2011 \$000
CURRENT ASSETS					
Cash and cash equivalents	22	237	327	229	315
Trade and other receivables	23	24,956	20,081	25,025	20,121
Inventories	24	5,132	5,021	5,132	5,021
Prepayments		122	166	122	166
Vendor mortgage	32	11	0	0	0
Development property held for sale	29	9,113	11,131	0	0
Investment in joint venture	28	288	0	0	0
Advance to subsidiaries	30	0	0	9,136	12,318
Taxation receivable		526	0	277	0
Total current assets		40,385	36,726	39,921	37,941
NON-CURRENT ASSETS					
Intangible assets	26	64	1,670	64	1,670
Deferred tax asset	18	1,116	372	1,038	987
Vendor mortgage	32	0	11	0	0
Investment in subsidiaries	30	0	0	0	5,350
Investment		0	25	0	25
Investment in joint venture	28	0	5,288	0	0
Development property held for sale	29	0	454	0	0
Property, plant and equipment	25	33,998	33,246	34,000	32,849
Total non-current assets		35,426	41,066	35,102	40,881
TOTAL ASSETS		75,563	77,792	75,023	78,822

For and on behalf of the Board of Directors



Ray Polson
CHAIRMAN



Ross Liddell
DEPUTY CHAIRMAN

26 September 2012

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 2012

		GROUP		PARENT	
	Note	2012 \$000	2011 \$000	2012 \$000	2011 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from					
Receipts from customers		103,687	97,237	103,758	97,846
Interest received		659	664	1,377	663
Income tax refund		0	1	0	0
		104,346	97,902	105,135	98,509
Cash was disbursed to					
Payments to suppliers and employees		99,562	87,444	99,451	88,007
Interest paid		2,563	2,531	2,549	1,814
Income tax paid		460	550	460	550
Net GST paid		898	195	963	189
		103,483	90,720	103,423	90,560
Net cash inflows/(outflows) from operating activities	27	863	7,182	1,712	7,949
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from					
Sale of investment		0	10	0	0
Sale of development property		36	0	0	0
Sale of property, plant and equipment		635	536	635	457
		671	546	635	457
Cash was disbursed to					
Investment in joint venture		0	0	0	0
Investment		0	0	0	0
Development property		66	1,103	0	0
Purchase of property, plant and equipment		7,050	16,680	7,445	16,280
Advance to subsidiaries		0	0	413	5,166
		7,116	17,783	7,858	21,446
Net cash inflows/(outflows) from investing activities		(6,445)	(17,237)	(7,223)	(20,989)

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 2012 - continued

	Note	GROUP		PARENT	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from					
Receipts from borrowings		70,028	72,884	69,925	72,560
		70,028	72,884	69,925	72,560
Cash was disbursed to					
Repayment of borrowings		60,036	58,670	60,000	55,350
Dividends paid		4,500	4,000	4,500	4,000
		64,536	62,670	64,500	59,350
Net cash inflows/(outflows) from financing activities		5,492	10,214	5,425	13,210
Net increase/(decrease) in cash, cash equivalents and bank overdraft		(90)	159	(86)	170
Cash and cash equivalents at the beginning of the year		327	168	315	145
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	22	237	327	229	315

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

1 REPORTING ENTITY

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

The Group consists of Delta Utility Services Limited and full consolidation of subsidiary, Delta Investments Limited. Lakes Contract Services Limited is a non-trading company and a wholly owned subsidiary of Delta Utility Services Limited, and is not consolidated.

Delta Utility Services Limited 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 Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements are presented in New Zealand dollars, and have been rounded to the nearest thousand.

2 SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

These annual financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand Equivalents to IFRS, and other applicable Financial Reporting Standards, as appropriate for profit orientated entities.

The financial statements were authorised for issue by the Directors on 29 August 2012.

BASIS OF ACCOUNTING

The financial statements have been prepared on the historic cost basis, except for the revaluation of certain assets including derivatives.

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

CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these financial statements, each entity has made judgements, estimates and assumptions concerning the future. These estimates and assumption may differ from the subsequent actual results. Estimates and assumptions are continually evaluated.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

SUBSIDIARIES

Subsidiaries are those entities controlled, directly or indirectly, by the Company (Parent). The financial statements of consolidated subsidiaries are included in the financial statements using the purchase method of consolidation.

JOINT VENTURES

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The Group recognises in its financial statements the assets it controls, the liabilities and expenses it incurs, and the share of income that it earns from the joint venture.

Delta Investments Limited has a 50% interest in Luggate Park Developments joint venture. The financial statements have been prepared using the proportionate method of consolidation.

REVENUE RECOGNITION

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

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

Sales of goods are recognised when significant risks and rewards of owning the goods are transferred to the buyer, when the revenue can be measured reliably and when management effectively ceases involvement or control.

CONSTRUCTION CONTRACTS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

LEASING

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

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

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

BORROWING COSTS

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

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

EMPLOYEE ENTITLEMENTS

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

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

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

GOODS AND SERVICES TAX (GST)

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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, and is accounted for using the balance sheet liability method.

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Self constructed assets include the direct cost of construction to the extent that they relate to bring-ing 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 2 %	straight line
Metering equipment	10% to 100%	straight line
Plant and equipment	2.5% to 25%	straight line
Motor vehicles	5% to 30%	straight line
Office equipment and fittings	5% to 25%	straight line
Construction in progress	no depreciation charged	

INTANGIBLE ASSETS

Goodwill represents the excess of the purchase consideration over the fair value of the net tangible and identifiable intangible assets, acquired at the time of acquisition of a business or an equity interest in a subsidiary or associate Company. Goodwill is tested annually for impairment which is expensed to the Income Statement.

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

IMPAIRMENT OF ASSETS

At each balance sheet date, the Group 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 group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

INVENTORIES

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

DEVELOPMENT PROPERTY INTENDED FOR SALE

Development property intended for resale is stated at the Directors' valuation which reflects estimated fair value less costs to sell. Operating costs including interest are expensed as incurred.

CASH AND CASH EQUIVALENTS

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

FINANCIAL INSTRUMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

TRADE AND OTHER RECEIVABLES

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

TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

INVESTMENTS

Investments include long term equity in joint ventures. These are measured at cost and are assessed annually for impairment. Any resultant loss or impairment is recognised in the income statement for the period in which it occurs.

BORROWINGS

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

CASH FLOW HEDGE INSTRUMENTS AND HEDGE ACCOUNTING

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

The Group 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. Cash flow hedge instruments are recognised as a current asset or liability.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

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

PROVISIONS

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

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

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the financial year.

The Group has adopted the following revisions to accounting standards during the financial year, which have had only a disclosure effect:

- Amendments to NZ IAS 1 Presentation of Financial Statements. The amendments introduce a requirement to present, either in the statement of changes in equity or the notes, for each component of equity, an analysis of other comprehensive income by item.
- FRS-44 New Zealand Additional Disclosures and Amendments to NZ IFRS to harmonise with IFRS and Australian Accounting Standards (Harmonisation Amendments) – The purpose of the new standard and amendments is to harmonise Australian and New Zealand accounting standards with source IFRS and to eliminate many of the differences between the accounting standards in each jurisdiction. The main effect of the amendments on the company is that certain information about property valuations is no longer required to be disclosed.
- Amendments to NZ IFRS 7 Financial Instruments: Disclosures – The amendment reduces the disclosure requirements relating to credit risk.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new accounting standard that is relevant to the Company, NZ IFRS 9 “Financial Instruments”, has been issued but, as it is not yet compulsory, has not been adopted. NZ IFRS 9 will eventually replace NZ IAS 39 “Financial Instrument: Recognition and Measurement”. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the income statement. The new standard is required to be adopted for the year ended 30 June 2014. The Company has not yet assessed the effect of the new standard and does not expect to early adopt.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
3 OPERATING REVENUE				
Sales revenue	107,974	103,394	108,070	103,981
Capital gain on sale of assets	0	0	0	0
	107,974	103,394	108,070	103,981
4 FINANCIAL REVENUE				
Interest received	659	285	1,377	959
	659	285	1,377	959
5 OPERATING EXPENSES				
Included in the operating expenses are the following items:				
Audit fees - for audit of financial statements	57	51	48	46
Employee remuneration and benefits	44,473	39,852	44,473	39,852
Materials	27,367	24,271	27,367	24,271
Depreciation	5,830	5,552	5,826	5,549
Impairment charges	9,044	0	10,489	0
Rental expense	1,516	1,781	1,552	1,808
Directors' fees	160	161	160	161
Bad debts written off	45	120	45	120
Increase/(decrease) in impairment provision for trade and other receivables	16	(84)	16	(84)
Donations	38	30	38	30
(Gain)/loss on sale/disposal assets	(90)	(223)	(122)	(208)
Minimum lease payments	1,126	1,717	1,126	1,717
6 FINANCIAL EXPENSES				
Interest/facility fees - related parties	2,568	1,874	2,568	1,832
Interest capitalised	0	0	0	0
Total financial expenses	2,568	1,874	2,568	1,832

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 2012 - continued

			GROUP		PARENT	
			2012 \$000	2011 \$000	2012 \$000	2011 \$000
7 EARNINGS PER SHARE						
Basic earnings per share is calculated by dividing the net profit/(loss) attributable to the Shareholder of the Group 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	17,000,000	17,000,000
Basic earnings per share before impairment charges			14.50 cents	31.90 cents	18.17 cents	40.49 cents
Basic earnings per share			(34.59) cents	31.90 cents	(43.53) cents	40.49 cents
8 DIVIDENDS						
Interim dividend	December 2011	11.8 cents/share	2,000	1,000	2,000	1,000
(December 2010: 5.88 cents/share)						
Final dividend	June 2012	14.7 cents/share	2,500	3,000	2,500	3,000
(June 2011: 17.65 cents/share)						
			4,500	4,000	4,500	4,000
Cents per share			26.47	23.53	26.47	23.53
9 INCOME TAX						
Operating profit before income tax			(6,913)	6,059	7,492	6,851
Tax thereon at 28% (2011: 30%)			(1,936)	1,818	(2,098)	2,055
<i>Plus / (Less) the Tax Effect of Differences</i>						
Revenue not liable for taxation			0	0	0	0
Expenditure (deductible) non-deductible for taxation			1,879	59	2,982	62
Under/(over) tax provision in prior years			(256)	(515)	(256)	(1,011)
Tax rate change - building depreciation			0	(119)	0	(119)
Current year DCC Group tax losses utilised			(671)	(549)	(671)	(803)
Current year tax consolidation adjustment			(49)	(58)	(49)	(216)
Tax effect of differences			903	(1,182)	2,006	(2,087)
Tax expense			(1,033)	636	(92)	(32)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
9 INCOME TAX - continued				
<i>Represented by</i>				
Current tax provision	23	1,833	23	1,302
Prior period adjustments to current tax	(70)	(1,011)	(70)	(1,011)
Deferred tax provision	(986)	(186)	(45)	(323)
Income tax	(1,033)	636	(92)	(32)
Effective tax rate	14.9%	10.5%	(1.2)%	(0.5)%
Delta Utility Services Limited is a member of an Income Tax Consolidated Group. Tax losses of \$2,397,754 (tax effect of \$671,371) for the current year in other companies in the Dunedin City Council Group were utilised.				
10 EQUITY - SHARE CAPITAL				
ISSUED CAPITAL				
17,000,000 ordinary shares	17,000	17,000	17,000	17,000

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
11 RESERVES				
CASH FLOW HEDGE RESERVE				
Balance at beginning of the year	(538)	(538)	(538)	(538)
Net revaluations	(14)	21	(14)	21
Deferred tax arising on hedges (see Note 18)	0	(21)	0	(21)
Balance at the end of the year	(552)	(538)	(552)	(538)
The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to interest payments that have not yet occurred.				
12 RETAINED EARNINGS				
Balance at the beginning of the year	2,705	1,282	4,559	1,676
Net profit for the year	(5,580)	5,423	(7,400)	6,883
Dividend distributions	(4,500)	(4,000)	(4,500)	(4,000)
Balance at the end of the year	(7,675)	2,705	(7,341)	4,559
13 TRADE AND OTHER PAYABLES				
Trade payables	3,929	6,134	3,929	6,137
Due to related parties	419	452	419	452
Other creditors	3,838	3,683	3,824	3,657
	8,186	10,269	8,172	10,246

The Directors consider that the carrying amount of trade payables approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
14 CASH FLOW HEDGE INSTRUMENTS				
Interest rate swap revaluations - payable	(767)	(747)	(767)	(747)
Analysed as:				
Current	(767)	(747)	(767)	(747)
15 OTHER LIABILITIES				
(i) CURRENT LIABILITIES				
Westpac loan	868	801	0	0
GST payable	757	783	765	783
	1,625	1,584	765	783
16 PROVISIONS				
(i) CURRENT LIABILITIES				
Long service leave	161	194	161	194
Annual leave	4,008	3,495	4,008	3,495
Gratuities	259	210	259	210
Sick leave	108	96	108	96
Other provisions	353	334	353	334
	4,889	4,329	4,889	4,329
(ii) NON-CURRENT LIABILITIES				
Long service leave	280	285	280	285
Gratuities	118	181	118	181
	398	466	398	466

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
17 TERM BORROWINGS (secured)				
Dunedin City Treasury Ltd - related party	50,925	41,000	50,925	41,000
	50,925	41,000	50,925	41,000
The term borrowings are secured by a General Security Agreement over all the assets of the Group. The facility available is \$59.575 million. The repayment period on the term borrowings is as follows:				
Repayable between one to two years	0	0	0	0
Repayable between two to five years	50,925	41,000	50,925	41,000
	50,925	41,000	50,925	41,000

The weighted average interest rate for the loan, inclusive of any current portion, was 4.48% (2011: 5.07%).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

18 DEFERRED TAX

	Opening Balance Sheet \$000	Charged to Equity \$000	Charged to Income \$000	Closing Balance Sheet Assets \$000	Closing Balance Sheet Liabilities \$000	Closing Balance Sheet Net \$000
GROUP						
YEAR ENDED 30 JUNE 2012:						
Property, plant and equipment	(76)	0	55	0	(21)	(21)
Employee benefits	1,273	0	184	1,457	0	1,457
Provisions	(419)	0	(194)	0	(613)	(613)
Revaluations of cash flow hedge instruments	209	6	0	215	0	215
Development costs	(615)	0	693	78	0	78
Balance at the end of the year	372	6	738	1,750	(634)	1,116
YEAR ENDED 30 JUNE 2011:						
Property, plant and equipment	(260)	0	184	0	(76)	(76)
Employee benefits	1,177	0	96	1,273	0	1,273
Provisions	(462)	0	43	0	(419)	(419)
Revaluations of cash flow hedge instruments	230	(21)	0	209	0	209
Development costs	(478)	0	(137)	0	(615)	(615)
Balance at the end of the year	207	(21)	186	1,482	(1,110)	372

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

18 DEFERRED TAX - continued

	Opening Balance Sheet \$000	Charged to Equity \$000	Charged to Income \$000	Closing Balance Sheet Assets \$000	Closing Balance Sheet Liabilities \$000	Closing Balance Sheet Net \$000
PARENT						
YEAR ENDED 30 JUNE 2012:						
Property, plant and equipment	(76)	0	55	0	(21)	(21)
Employee benefits	1,273	0	184	1,457	0	1,457
Provisions	(419)	0	(194)	0	(613)	(613)
Revaluations of cash flow hedge instruments	209	6	0	215	0	215
Balance at the end of the year	987	6	45	1,672	(634)	1,038
YEAR ENDED 30 JUNE 2011:						
Property, plant and equipment	(260)	0	184	0	(76)	(76)
Employee benefits	1,177	0	96	1,273	0	1,273
Provisions	(462)	0	43	0	(419)	(419)
Revaluations of cash flow hedge instruments	230	(21)	0	209	0	209
Balance at the end of the year	685	(21)	323	1,482	(495)	987

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
19 CONTINGENT LIABILITIES				
Performance bonds	3,557	4,194	3,557	4,194
	3,557	4,194	3,557	4,194
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.				
20 CAPITAL EXPENDITURE COMMITMENTS				
Plant and equipment	113	329	113	329
Land development	0	0	0	0
	113	329	113	329
21 LEASE COMMITMENTS				
Non-cancellable operating lease commitments:				
payable within one year	834	959	834	959
payable between one to five years	1,306	1,583	1,306	1,583
payable later than five years	180	135	180	135
	2,320	2,677	2,320	2,677
22 CASH AND CASH EQUIVALENTS				
Cash and bank	237	327	229	315

Cash and short-term deposits comprise cash held by the group 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 2012 - continued

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
23 TRADE AND OTHER RECEIVABLES				
Trade receivables	19,698	13,396	19,651	13,363
Less estimated doubtful debts	(26)	(10)	(26)	(10)
	19,672	13,386	19,625	13,353
Due from related parties				
– other related parties	5,284	6,695	5,400	6,768
	24,956	20,081	25,025	20,121
24 INVENTORIES				
Materials and stores	2,178	2,325	2,178	2,325
Work in progress – construction contracts	281	1,073	281	1,073
Work in progress – other	2,673	1,623	2,673	1,623
	5,132	5,021	5,132	5,021
WORK IN PROGRESS – CONSTRUCTION CONTRACTS				
Gross construction work in progress plus margin to date	40,663	36,702	40,663	36,702
Progress billings	(40,382)	(35,629)	(40,382)	(35,629)
Total construction work in progress	281	1,073	281	1,073
Retentions held by customers	898	407	898	407
Due from customers under construction contracts	14,266	9,655	14,266	9,655

Included in sales is \$40.3 million of construction contract revenue (June 2011: \$35.6 million).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

25 PROPERTY, PLANT AND EQUIPMENT

	Land \$000	Buildings \$000	Meters \$000	Plant Equipment \$000	Motor Vehicles \$000	Office Equipment \$000	Construction \$000	Total \$000
GROUP								
YEAR ENDED 30 JUNE 2012:								
COST								
Balance at the beginning of the year	5,896	5,052	7,243	14,074	36,297	954	11	69,527
Purchases	0	6	232	2,031	4,681	21	0	6,971
Sales/disposals	0	0	0	(1,028)	(641)	(11)	(11)	(1,691)
Total cost	5,896	5,058	7,475	15,077	40,337	964	0	74,807
ACCUMULATED DEPRECIATION								
Balance at the beginning of the year	0	792	6,739	8,314	19,821	615	0	36,281
Depreciation	0	142	381	1,374	3,735	62	0	5,694
Sales/disposals	0	0	0	(598)	(557)	(11)	0	(1,166)
Total accumulated depreciation	0	934	7,120	9,090	22,999	666	0	40,809
Balance at the end of the year	5,896	4,126	355	5,971	17,338	298	0	33,998
YEAR ENDED 30 JUNE 2011:								
COST								
Balance at the beginning of the year	32	2,740	7,243	13,204	30,831	865	6	54,921
Purchases	5,864	2,313	0	1,903	6,263	104	5	16,452
Sales/disposals	0	(1)	0	(1,033)	(797)	(15)	0	(1,846)
Total cost	5,896	5,052	7,243	14,074	36,297	954	11	69,527
ACCUMULATED DEPRECIATION								
Balance at the beginning of the year	0	686	6,281	7,992	17,013	571	0	32,543
Depreciation	0	106	458	1,265	3,448	59	0	5,336
Sales/disposals	0	0	0	(943)	(640)	(15)	0	(1,598)
Total accumulated depreciation	0	792	6,739	8,314	19,821	615	0	36,281
Balance at the end of the year	5,896	4,260	504	5,760	16,476	339	11	33,246

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

25 PROPERTY, PLANT AND EQUIPMENT – continued

	Land \$000	Buildings \$000	Meters \$000	Plant Equipment \$000	Motor Vehicles \$000	Office Equipment \$000	Construction \$000	Total \$000
PARENT								
YEAR ENDED 30 JUNE 2012:								
COST								
Balance at the beginning of the year	5,706	4,842	7,243	14,074	36,297	954	11	69,127
Purchases	190	211	232	2,031	4,681	21	0	7,366
Sales/disposals	0	0	0	(1,028)	(641)	(11)	(11)	(1,691)
Total cost	5,896	5,053	7,475	15,077	40,337	964	0	74,802
ACCUMULATED DEPRECIATION								
Balance at the beginning of the year	0	789	6,739	8,314	19,821	615	0	36,278
Depreciation	0	138	381	1,374	3,735	62	0	5,690
Sales/disposals	0	0	0	(598)	(557)	(11)	0	(1,166)
Total accumulated depreciation	0	927	7,120	9,090	22,999	666	0	40,802
Balance at the end of the year	5,896	4,126	355	5,987	17,338	298	0	34,000
YEAR ENDED 30 JUNE 2011:								
COST								
Balance at the beginning of the year	32	2,740	7,243	13,204	30,831	865	6	54,921
Purchases	5,674	2,103	0	1,903	6,263	104	5	16,052
Sales/disposals	0	(1)	0	(1,033)	(797)	(15)	0	(1,846)
Total cost	5,706	4,842	7,243	14,074	36,297	954	11	69,127
ACCUMULATED DEPRECIATION								
Balance at the beginning of the year	0	686	6,281	7,992	17,013	571	0	32,543
Depreciation	0	103	458	1,265	3,448	59	0	5,333
Sales/disposals	0	0	0	(943)	(640)	(15)	0	(1,598)
Total accumulated depreciation	0	789	6,739	8,314	19,821	615	0	36,278
Balance at the end of the year	5,706	4,053	504	5,760	16,476	339	11	32,849

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 2012 - continued

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
26 INTANGIBLES				
SOFTWARE				
Cost				
Balance at beginning of year	3,721	3,564	3,721	3,564
Purchases	92	157	92	157
Total cost	3,813	3,721	3,813	3,721
ACCUMULATED AMORTISATION				
Balance at beginning of year	3,613	3,398	3,613	3,398
Amortisation	136	215	136	215
Total amortisation	3,749	3,613	3,749	3,613
Balance at end of year	64	108	64	108
GOODWILL				
Cost				
Balance at beginning of year	2,588	2,599	2,588	2,599
Purchases/(Sales)	(18)	(11)	(18)	(11)
Total cost	2,570	2,588	2,570	2,588
ACCUMULATED IMPAIRMENT				
Balance at beginning of year	1,026	1,026	1,026	1,026
Impairment	1,544	0	1,544	0
Total impairment	2,570	1,026	2,570	1,026
Balance at end of year	0	1,562	0	1,562
Total Intangibles	64	1,670	64	1,670

During the year, impairment charges of \$1.544 million were recorded against the value of goodwill, which was written down to nil.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
27 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES				
Net profit/(loss) for the year	(5,894)	5,423	(7,414)	6,883
<i>Items not involving cash flows</i>				
Depreciation	5,830	5,551	5,826	5,548
Impairment charges	9,044	0	10,489	0
Deferred tax	(986)	(165)	(45)	(302)
Other non-cash items	86	69	86	69
(Increase)/decrease in cash flow hedge	14	(21)	14	(21)
<i>Impact of changes in working capital items</i>				
(Increase) / decrease in trade and other receivables	(4,936)	(7,598)	(4,964)	(7,639)
(Increase) / decrease in inventories	(111)	(1,111)	(111)	(1,111)
(Increase) / decrease in pre-payments	66	(40)	66	(40)
Increase / (decrease) in trade and other payables	(2,089)	3,911	(2,079)	4,265
Increase / (decrease) in provision for tax	(507)	280	(507)	(251)
Increase / (decrease) in employee entitlements	492	755	492	755
Increase / (decrease) in other current liabilities	(25)	(16)	(18)	(9)
<i>Items classified as investing or financing activities</i>				
Net (gain)/loss on sale of property, plant and equipment	(90)	(192)	(122)	(208)
Capital creditors in accounts payable	(31)	336	(1)	10
Net cash inflows/(outflows) from operating activities	863	7,182	1,712	7,949

28 INVESTMENT IN JOINT VENTURE

This investment represents a 50% share in the land value of the Luggate Park Developments Joint Venture. During the financial year under review, Delta Investments Limited reassessed the recoverable amount of its Investment in this Joint Venture, upon taking into account the relatively depressed residential property market in the Queenstown Lakes District. This reassessment resulted in an impairment of \$5 million to the estimated fair value less costs to sell of its Investment in the Joint Venture at balance date. This investment is secured by a second mortgage over the land to be developed by the Luggate Park Developments Joint Venture.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
29 DEVELOPMENT PROPERTY				
(i) Current assets				
Land	6,320	8,820	0	0
Land development in progress	2,793	2,311	0	0
Balance at end of year	9,113	11,131	0	0
(ii) Non-current assets				
Land development in progress	0	454	0	0
Balance at end of year	0	454	0	0
Land development in progress includes legal fees, valuation fees, resource consent fees, planning and feasibility costs incurred up to balance date.				
During the financial year under review, Delta Investments Limited reassessed the recoverable amount of its Development Property, upon taking into account the relatively depressed residential property market in the Queenstown Lakes District. This reassessment resulting in an impairment of \$2.5 million to the estimated fair value less costs to sell of its Development Property land that was held for sale at balance date.				
30 ADVANCE TO SUBSIDIARY				
Advance to Delta Investments Limited	0	0	12,731	12,318
Impairment of advance	0	0	(3,595)	0
Balance at end of year	0	0	9,136	12,318

The loan to Delta Investments Limited is unsecured and is on call. Interest is charged on the loan at the floating rate Delta is charged. At 30 June 2012, this was 4.48% (2011: 5.31%).

As a result of write-downs to the carrying value of development property and investment in joint venture by the Subsidiary Company, Delta Investments Limited, the Parent Company has also written down the carrying value of its investment in subsidiary and advance to subsidiary to reflect the current financial position of the subsidiary. The Parent Company's investment in subsidiary and advance to subsidiary was written down by \$5.350 million and \$3.595 million respectively as at balance date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
31 INTEREST IN JOINT VENTURE				
Included in the financial statements are the following items that represent the group's interest in the assets and liabilities of the Luggate Park Developments Joint Venture.				
CURRENT ASSETS				
Cash balances	2	8	0	0
Trade receivables	35	32	0	0
Vendor mortgage	11	0	0	0
Development property	444	0	0	0
GST refund due	1	1	0	0
Total current assets	493	41	0	0
NON-CURRENT ASSETS				
Development property	0	459	0	0
Vendor mortgage	0	11	0	0
Total non-current assets	0	470	0	0
Total assets	493	511	0	0
CURRENT LIABILITIES				
Westpac loan	868	801	0	0
Other current liabilities	5	13	0	0
Total current liabilities	873	814	0	0
Total liabilities	873	814	0	0
EQUITY				
Retained earnings	(380)	(303)	0	0
Total equity and liabilities	493	511	0	0

In addition to this interest, the Group has a \$0.288 million investment over land to be developed by Luggate Park Developments Joint Venture. During the year, the carrying value of the Company's interest in the Joint Venture was written down by \$5 million. This investment is secured by a second mortgage over the land.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
31 INTEREST IN JOINT VENTURE - continued				
Included in the financial statements are the following revenues and expenses that relate to the activities of the Luggate Park Developments Joint Venture:				
Revenues	2	37	0	0
Expenses	79	110	0	0
Net profit/(loss) before income tax	(77)	(73)	0	0
32 VENDOR MORTGAGE				
The mortgage results from the sale of a residential lot in the Luggate Park Developments Joint Venture and is secured by a second mortgage over the land sold. No interest is charged on the loan. Repayment of the loan in full is due in September 2012.				
CURRENT ASSETS				
Vendor mortgage	11	0	0	0
NON-CURRENT ASSETS				
Vendor mortgage	0	11	0	0

33 RELATED PARTY TRANSACTIONS

The Parent in the consolidated group is Delta Utility Services Limited which 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 group undertakes transactions with Dunedin City Council and other Dunedin City Council controlled entities. These transactions are made on commercial terms and conditions and at market rates.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
33 RELATED PARTY TRANSACTIONS - continued				
SALES OF SERVICES TO THE DUNEDIN CITY COUNCIL GROUP ENTITIES:				
Capital works constructed	12,441	14,971	12,441	14,971
Network management and operations	15,617	14,988	15,617	14,988
Contracting services provided	2,063	2,127	2,150	2,736
Administration and accounting	342	293	423	306
Interest	0	0	719	675
	30,463	32,379	31,350	33,676
SALES OF SERVICES TO DUNEDIN CITY COUNCIL:				
Other contracting	11,488	16,926	11,488	16,926
AT YEAR END THE AMOUNTS RECEIVABLE BY THE COMPANY FROM DUNEDIN CITY COUNCIL ENTITIES:				
Receivable from Dunedin City Council	1,483	2,072	1,483	2,072
Receivable from Dunedin City Council Group entities	3,801	4,623	3,917	4,696
Work in Progress for Dunedin City Council Group entities	1,111	367	1,111	367
Interest	2,568	1,831	2,568	1,831
Contracting services and supplies	144	156	144	156
Rent	26	26	62	55
Administration and accounting	0	7	0	0
Subvention payment provided for	0	0	0	0
	2,738	2,020	2,774	2,042
PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY HOLDINGS LIMITED:				
Management fee	50	50	50	50

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
33 RELATED PARTY TRANSACTIONS - continued				
PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY COUNCIL:				
Contracting services and supplies	564	746	564	746
Rent	11	314	11	314
Rates	73	45	73	45
	648	1,105	648	1,105
AT YEAR END THE AMOUNTS PAYABLE TO DUNEDIN CITY COUNCIL ENTITIES EXCLUSIVE OF DEBT SHOWN IN NOTE 17 ARE:				
Payable to Dunedin City Council	109	104	109	104
Payable to Dunedin City Holdings Limited	14	14	14	14
Payable to Dunedin City Council Group entities	296	334	296	334

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.

TRANSACTIONS WITH COMPANIES IN WHICH DIRECTORS HAVE AN INTEREST:

The Delta Group undertakes transactions with related parties in the normal course of business on an arms-length commercial basis.

Mr R D Liddell was a Director of Blackhead Quarries Limited. During the financial period covered by this report, materials valued at \$361,509 were purchased from Blackhead Quarries Limited (2011: \$341,916). \$41,067 was outstanding at 30 June 2012 (2011: \$57,333). Contracting services of \$113,006 were also provided to Blackhead Quarries Limited (2011: \$38,446). No monies were outstanding at 30 June 2012 (2011: nil).

Mr Liddell is the Chairman of Palmers Mechanical Limited. During the financial period covered by this report, materials and services valued at \$5,378 were purchased from Palmers Mechanical Limited (2011: \$5,539). No monies were outstanding as at 30 June 2012 (2011: nil). Contracting services of \$349 were provided to Palmers Mechanical Limited (2011: \$276). No monies were outstanding as at 30 June 2012 (2011: nil).

During the financial period covered by this report, no contracting services were provided to Mr Liddell (2011: \$742). No monies were outstanding as at 30 June 2012 (2011: nil).

Mr M O Coburn is a Director of Ruboc Holdings Limited. During the financial period covered by this report, consultancy services and materials of \$24,971 were purchased from Ruboc Holdings Limited (2011: \$60,912). No monies were outstanding as at 30 June 2012 (2011: \$6,693).

Mr Coburn is a Director of Lake Hayes Estate Limited. During the financial period covered by this report, contracting services of \$5,497 were provided to Lake Hayes Estate Limited (2011: nil). No monies were outstanding as at 30 June 2012 (2011: nil).

Mr S J McLauchlan is the Pro Chancellor of the University of Otago. During the financial period covered by this report, no contracting services were provided to the University of Otago (2011: \$350,000). No monies were outstanding as at 30 June 2012 (2011: \$60,501). During the financial period covered by this report, services valued at \$34,409 were purchased from the University of Otago (2011: \$11,008). No monies were outstanding at 30 June 2012 (2011: nil).

Mr McLauchlan is the Chairman of Scott Technology Limited. During the financial period covered by this report, no contracting services were provided to Scott Technology Limited (2011: \$486). No monies were outstanding at 30 June 2012 (2011: \$100).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

33 RELATED PARTY TRANSACTIONS - continued

Mr McLauchlan is a Director of Otago & Southland Employers Association. During the financial period covered by this report, training services valued at \$13,565 were purchased from Otago & Southland Employers Association (2011: \$19,689). No monies were outstanding at 30 June 2012 (2011: \$389).

Mr McLauchlan is a Director of Lund South Limited. During the financial period covered by this report, contracting services valued at \$675,331 were provided to Lund South Limited (2011: nil). An amount of \$309,680 was outstanding at 30 June 2012 (2011: nil).

Mr McLauchlan is a Director of Cargill Hotel 2002 Limited. During the financial period covered by this report, services of \$2,970 were purchased from Cargill Hotel 2002 Limited (2011: \$400). No monies were outstanding at 30 June 2012 (2011: \$400).

Mr McLauchlan is a Director of Scenic Circle Hotels Limited. During the financial period covered by this report, no contracting services were provided to Scenic Circle Hotels Limited (2011: \$52). No monies were outstanding as at 30 June 2012 (2011: nil). During the financial period covered by this report, no services were purchased from Scenic Circle Hotels Limited (2011: \$43). No monies were outstanding as at 30 June 2012 (2011: nil).

Mr McLauchlan is a Director of Roxdale Foods Limited. During the financial period covered by this report, contracting services of \$719 were provided to Roxdale Foods Limited. (2011: nil). No monies were outstanding as at 30 June 2012 (2011: nil).

During the financial period covered by this report, no consulting services were purchased from Mr R S Polson (2011: \$4,200). No monies were outstanding as at 30 June 2012 (2011: nil).

TRANSACTIONS WITH EXECUTIVE STAFF

Mr G Cameron is an employee of Delta Utility Services Limited. During the period covered by this report, contracting services valued at \$4,673 were provided to Mr Cameron (2011: nil). No monies were outstanding as at 30 June 2012 (2011: nil).

Ms R Walker is an employee of Delta Utility Services Limited. During the period covered by this report, no contracting services were provided to Ms Walker (2011: \$8,210). No monies were outstanding as at 30 June 2012 (2011: nil).

Mr S Wilson was an employee of Delta Utility Services Limited, during the period covered by this report. No contracting services were provided to Mr Wilson during the period (2011: \$1,065). No monies were outstanding as at 30 June 2012 (2011: nil).

KEY MANAGEMENT PERSONNEL REMUNERATION

	2012	2011
	\$000	\$000
Short-term employment benefits	1,858	1,366
Post-employment benefits	0	0
Other long-term benefits	0	0
Termination benefits	0	0
Share-based payments	0	0

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

34 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 Group. These risks include market risk, credit risk and liquidity risk.

INTEREST RATE RISK

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

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

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

YEAR ENDED 30 JUNE	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Maturing in less than one year	2,500	5,000	2,500	5,000
Maturing between one and five years	5,000	7,500	5,000	7,500
Maturing after five years	2,500	2,500	2,500	2,500
	10,000	15,000	10,000	15,000

CREDIT RISK

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

The Group has no significant concentration of credit risk. The exposure is spread over a large number of counterparties and customers.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
34 FINANCIAL INSTRUMENTS RISKS – continued				
The maximum credit risk for each class of financial instrument is:				
Cash and cash equivalents	237	327	229	315
Trade and other receivables	24,956	20,081	25,025	20,121
Prepayments	122	166	122	166
Short term investments	2,954	2,696	2,954	2,696
Cash flow hedge instruments	0	0	0	0
Advance to subsidiaries	0	0	9,136	12,318
	28,269	23,270	37,466	35,616
Past due, but not impaired, receivables are:				
Past due receivables				
Age analysis:				
30 - 60 days	1,209	186	1,209	186
60 - 90 days	88	247	88	247
90 days plus	354	551	354	551
	1,651	984	1,651	984

LIQUIDITY RISK

Liquidity risk represents the Group's ability to meet its contractual obligations. The group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

34 FINANCIAL INSTRUMENTS RISKS - continued

GROUP

	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	No Maturity \$000	Total \$000
AS AT 30 JUNE 2012:							
FINANCIAL ASSETS							
Cash and cash equivalents	237	0	0	0	0	0	237
Trade and other receivables	24,956	0	0	0	0	0	24,956
Cash flow hedge instruments	0	0	0	0	0	0	0
	25,193	0	0	0	0	0	25,193
FINANCIAL LIABILITIES							
Trade and other payables	8,186	0	0	0	0	0	8,186
Other current liabilities	1,625	0	0	0	0	0	1,625
Cash flow hedge instruments	0	0	767	0	0	0	767
Term borrowings	0	0	0	50,925	0	0	50,925
	9,811	0	767	50,925	0	0	61,503
AS AT 30 JUNE 2011:							
FINANCIAL ASSETS							
Cash and cash equivalents	327	0	0	0	0	0	327
Trade and other receivables	20,081	0	0	0	0	0	20,081
Cash flow hedge instruments	0	0	0	0	0	0	0
	20,408	0	0	0	0	0	20,408
FINANCIAL LIABILITIES							
Trade and other payables	10,269	0	0	0	0	0	10,269
Other current liabilities	783	0	801	0	0	0	1,584
Cash flow hedge instruments	0	0	747	0	0	0	747
Term borrowings	0	0	0	41,000	0	0	41,000
	11,052	0	1,548	41,000	0	0	53,600

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

34 FINANCIAL INSTRUMENTS RISKS - continued

	PARENT						
	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	No Maturity \$000	Total \$000
AS AT 30 JUNE 2012:							
FINANCIAL ASSETS							
Cash and cash equivalents	229	0	0	0	0	0	229
Trade and other receivables	25,025	0	0	0	0	0	25,025
Cash flow hedge instruments	0	0	0	0	0	0	0
Advance to subsidiaries	0	0	0	0	0	9,136	9,136
	25,254	0	0	0	0	9,136	34,390
FINANCIAL LIABILITIES							
Trade and other payables	8,172	0	0	0	0	0	8,172
Other current liabilities	765	0	0	0	0	0	765
Term borrowings	0	0	0	50,925	0	0	50,925
Cash flow hedge instruments	0	0	767	0	0	0	767
	8,937	0	767	50,925	0	0	60,623
AS AT 30 JUNE 2011:							
FINANCIAL ASSETS							
Cash and cash equivalents	315	0	0	0	0	0	315
Trade and other receivables	20,121	0	0	0	0	0	20,121
Cash flow hedge instruments	0	0	0	0	0	0	0
Advance to subsidiaries	0	0	0	0	0	12,318	12,318
	20,436	0	0	0	0	12,318	32,754
FINANCIAL LIABILITIES							
Trade and other payables	10,246	0	0	0	0	0	10,246
Other current liabilities	783	0	0	0	0	0	783
Term borrowings	0	0	0	41,000	0	0	41,000
Cash flow hedge instruments	0	0	747	0	0	0	747
	11,029	0	747	41,000	0	0	52,776

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

34 FINANCIAL INSTRUMENTS RISKS – continued

SENSITIVITY ANALYSIS

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

Based on historic movements and volatilities, market interest rates 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
	GROUP				
AS AT 30 JUNE 2012:					
FINANCIAL ASSETS					
Cash flow hedge instruments	0	0	0	0	0
FINANCIAL LIABILITIES					
Cash flow hedge instruments	767	0	266	0	(265)
Term borrowings (hedged)	10,000	0	(266)	0	265
Term borrowings (unhedged)	40,925	(409)	0	409	0
	51,692	(409)	0	409	0
	PARENT				
AS AT 30 JUNE 2012:					
FINANCIAL ASSETS					
Cash flow hedge instruments	0	0	0	0	0
FINANCIAL LIABILITIES					
Cash flow hedge instruments	767	0	266	0	(265)
Term borrowings (hedged)	10,000	0	(266)	0	265
Term borrowings (unhedged)	40,925	(409)	0	409	0
	51,692	(409)	0	409	0

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

34 FINANCIAL INSTRUMENTS RISKS – continued

		+100bps		-100bps	
	Fair Value at Balance Date	Profit	Equity	Profit	Equity
	\$000	\$000	\$000	\$000	\$000
	GROUP				
AS AT 30 JUNE 2011:					
FINANCIAL ASSETS					
Cash flow hedge instruments	0	0	0	0	0
FINANCIAL LIABILITIES					
Cash flow hedge instruments	747	0	265	0	(461)
Term borrowings (hedged)	15,000	0	(265)	0	461
Term borrowings (unhedged)	26,000	(260)	0	260	0
	41,747	(260)	0	260	0
	PARENT				
AS AT 30 JUNE 2011:					
FINANCIAL ASSETS					
Cash flow hedge instruments	0	0	0	0	0
FINANCIAL LIABILITIES					
Cash flow hedge instruments	747	0	265	0	(461)
Term borrowings (hedged)	15,000	0	(265)	0	461
Term borrowings (unhedged)	26,000	(260)	0	260	0
	41,747	(260)	0	260	0

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements recognised in the statement of financial position.

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

- Level 1 Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (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).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 - continued

34 FINANCIAL INSTRUMENTS RISKS – continued

	2012			Total \$000
	Level 1 \$000	Level 2 \$000	Level 3 \$000	
FINANCIAL LIABILITIES				
Derivative financial liabilities	0	767	0	767
	0	767	0	767

	2012			Total \$000
	Level 1 \$000	Level 2 \$000	Level 3 \$000	
FINANCIAL LIABILITIES				
Derivative financial liabilities	0	747	0	747
	0	747	0	747

35 CAPITAL MANAGEMENT STRATEGY

The capital of the Group is its equity, which is comprised of subscribed capital, retained earnings and cashflow hedge reserves. Equity is represented by net assets. The Group 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.

The Directors perform continual reviews of operating strategies and financial performance, and include in those reviews, any strategies required to protect the capital of each entity. The Parent Board seeks to maximise overall returns to the Shareholder of the Group and to maintain the Group's financial strength.

The Group 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.

36 EVENTS AFTER BALANCE DATE

There were no significant events after balance date.

INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

To the readers of Delta Utility Services Limited and group's financial statements and statement of service performance for the year ended 30 June 2012

The Auditor General is the auditor of Delta Utility Services Limited (the company) and group. The Auditor General has appointed me, Ian Lothian, 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 and group on her behalf.

We have audited:

- the financial statements of the company and group on pages 20 to 60, that comprise the balance sheet as at 30 June 2012, 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 and group on pages 14-15.

Opinion

Financial statements and statement of service performance

In our opinion:

- the financial statements of the company and group on pages 20 to 60:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the company and group's:
 - financial position as at 30 June 2012; and
 - financial performance and cash flows for the year ended on that date; and
- the statement of service performance of the company and group on pages 14-15:
 - complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the company's service performance achievements measured against the performance targets adopted for the year ended 30 June 2012.

Other legal requirements

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

Our audit was completed on 26 September 2012. This is the date at which our opinion is expressed.

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

Basis of opinion

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

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement,

INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments; we consider internal control relevant to the preparation of the company and group's financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control.

An audit also involves evaluating:

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

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:

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

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

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the company or any of its subsidiaries.



Ian Lothian
Audit New Zealand
On behalf of the Auditor General
Christchurch, New Zealand

COMPANY DIRECTORY

DIRECTORS

Raymond S Polson (Chair) – BCom, FCA, AF.Inst.D.

Ross D Liddell (Deputy Chair) – BCom, CA (PP), ACIS, AF.Inst.D.

Michael O Coburn – FNZIM, AF.Inst.D.

Dr Norman G Evans – DBA, NZCE, M.Inst.D.

Stuart J McLauchlan – BCom, FCA (PP), AF.Inst.D.

MANAGEMENT

Chief Executive – Grady Cameron – BE, MEM

Chief Financial Officer/General Manager Finance and Systems – Gary Dixon – BCom, CA

General Manager Asset Management – Adam Fletcher – NZCE (Elec), MBA

General Manager Energy and Communication – Kewal Bagal – BE

General Manager People and Performance – Rachel Walker – MA (Hons), BA, Reg.Psyc.

General Manager Utilities and Environment – Michael Cooper – NZCE (Civil), MBA

REGISTERED OFFICE

10 Halsey Street

Dunedin

New Zealand

BANKER

Westpac Banking Corporation

SOLICITORS

Gallaway Cook Allan

Anderson Lloyd

Kensington Swan

AUDITOR

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

TAXATION ADVISOR

Deloitte





THINK.**INFRASTRUCTURE**

