

ANNUAL REPORT *2015*



DELTA
THINK.INFRASTRUCTURE

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Front cover: groundskeeper Tom Tamati at the University Oval cricket venue, Dunedin

Above: construction of Lindis Crossing substation, Central Otago



THE YEAR

IN NUMBERS

77%

Customer satisfaction

572

People employed

52%

Reduction in injury rate

670

Hectares mowed for local authority customers

7,000

Square metres of landfill capped

34

Kilometres vegetation cleared from power lines

133,000

Consumers on Delta-maintained electricity networks

9,600

Kilometres electricity lines and cables maintained

800

Power poles installed for Aurora Energy

35,100

Smart meters installed

912,000

Meter reads

22

Kilometres fibre optic installed

SUMMARY

FINANCIAL HIGHLIGHTS

- Revenue of \$102.5 million
- EBITDA before impairment charges of \$11.1 million
- Operating profit before income tax and impairment charges of \$6.2 million
- Net surplus of \$4.7 million after tax
- Total assets of \$59.7 million
- Paid dividends of \$2.5 million to our shareholder, Dunedin City Holdings Limited. Delta has returned total dividends of \$53.0 million to our shareholder since the company was formed in 1998

OPERATIONAL HIGHLIGHTS

- 52% reduction in total recordable injuries, representing a significant reduction in harm
- Managed \$35.4 million of capital projects on the Aurora Energy electricity network
- Installed 800 poles on the Aurora Energy network in Dunedin and Central Otago, a record number
- Completed \$4.3 million vegetation management for improved reliability on the Aurora Energy network, clearing 34 kilometres of vegetation from near power lines
- Constructed and commissioned a new, higher-capacity substation at Lindis Crossing, Central Otago to cater for increased electricity demand
- Upgraded power supply to Ōtākou area on the Otago Peninsula for Aurora Energy, involving 27 transformers
- Renewed electricity network maintenance contract with Network Tasman for a further five years totalling \$40 million
- Installed 6.6 kilometres of 33-kilovolt underground cable for PowerNet
- Deployment of 35,100 smart meters across New Zealand
- Won parks maintenance contract with Christchurch City Council totalling \$22 million over nine years
- Established dedicated tree services business unit to deliver existing customer work and seek new customer opportunities
- Prepared playing surfaces for International Cricket World Cup 2015 games in Dunedin

Opposite: tending bedding displays at Dunedin Railway Station



CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

for the Year Ended 30 June 2015

The year was marked by strong demand for Delta's core services in the energy and environmental sectors. We achieved improved underlying profitability and a stronger balance sheet, building on last year's solid performance.

We renewed or secured significant long term contracts in both electricity network maintenance and greenspace services from local government and private sector clients, underpinned by long term contracts.

For the year ended 30 June 2015 (FY15), Delta recorded an operating profit before income tax and impairment charges of \$6.2 million, in line with the previous year (FY14: \$6.2 million). This year's operating profit was achieved despite the impact of higher reactive maintenance costs after storms and flooding in Dunedin during May and June 2015.

Delta has an outstanding debt related to infrastructure services provided through its now-closed water and civil construction business in Christchurch. The company has assessed the current fair value of this secured debt as \$13.2 million (FY14: \$12.8 million) on the basis of an independent market valuation.

Total revenue was \$102.5 million for FY15, an increase of 6 percent on the previous year (FY14: \$96.6 million), reflecting growth in energy and environmental services provided to existing and new customers.

The company recorded a net surplus of \$4.7 million for the year under review (FY14: \$4.4 million).

Total assets increased from \$56.5 million to \$59.7 million during FY15, reflecting the purchase of vehicles, plant and equipment in line with customer growth. Delta's term borrowings reduced by \$3.3 million from \$29.8 million to \$26.5 million during the year.

As a member of the Dunedin City Council group of companies, Delta is committed to providing financial returns to its shareholder Dunedin City Holdings Limited and to ensuring projected dividend levels are maintained. Including FY15, Delta has returned total dividends of \$53.0 million to its shareholder since the company was formed in July 1998.

As forecasted in its 2014/15 Statement of Intent, Delta paid a dividend of \$2.5 million during FY15 (FY14: \$2.5 million). In approving this dividend, the Board took a considered approach to the balancing of shareholder returns and retained earnings.



Construction of Lindis Crossing substation, Central Otago

ENERGY

We provided asset management and distribution services to the Aurora Energy electricity network under a long term services agreement. There was substantial uplift in demand for capital and maintenance services during FY15, as the network increased its asset renewal and maintenance programme and carried out capacity and systems upgrades. Our energy business rose to the challenge and delivered the required work programme.

During FY15, we managed \$35.4 million of capital projects for Aurora Energy (FY14: \$21.3 million). Among these, we built and commissioned a new, higher-capacity substation at Lindis Crossing, Central Otago to cater for a rapid increase in electricity demand. The project was completed in a short timeframe without any significant safety incident.

We upgraded the power to the Ōtākou area on the Otago Peninsula, involving 27 transformers. We also upgraded the Port Chalmers switchboard and associated protection and cabling to allow for future expansion.

We cleared 34 kilometres of vegetation growing near overhead power lines. A total of \$4.3 million vegetation management work was completed to improve the reliability of the network and public safety.

During FY15, we replaced or installed nearly 800 power poles on the Aurora Energy network, delivering on programme targets that had doubled on the previous year. In March, Delta began mechanical pole testing on the Aurora Energy network, using the Deuar technology. Around 500 poles were tested in the last quarter of FY15 to provide a more accurate assessment of asset condition and remaining life.

In Central Otago, there continued to be high demand for irrigation-driven connections to the Aurora Energy network. During FY15, Delta installed the electricity supply needed for 3,000 hectares of irrigation schemes across the Clutha, Manuherikia and Ida Valleys.

We achieved further organic growth in the services we perform for transmission, generation and distribution customers throughout New Zealand.

In the transmission sector, we performed cable termination and testing as part of Transpower upgrades to its assets in Invercargill and in Dunedin. We also provided after-hours first response services for Transpower in Frankton. We continued to maintain Trustpower's 33-kilovolt transmission line between its Waipori hydro power scheme and Berwick.

In the generation sector, we replaced electrical protection on two auxiliary

generators at Contact Energy's Roxburgh hydro power station and commenced refurbishment of the Generator 1 transformer at Contact's Clyde hydro power station. We also completed the first stage of refurbishment of the Station 1A generator at Trustpower's Waipori hydro power station.

Delta has an established track record in the distribution sector. We were pleased that our existing electricity network maintenance contract with Network Tasman was renewed for a further five years to 31 March 2021. The value of the related services is expected to total around \$40 million throughout the next contract term.

In renewing the contract, Network Tasman praised the dedication and skill that Delta brings to its service delivery, its commitment to customer satisfaction and the close integration between Network Tasman's asset management team and our operational team.

During FY15, we performed extensive maintenance work in more remote parts of the Tasman network around Murchison and Golden Bay, expanded our electrical services presence in Murchison and increased subdivision reticulation services to non-network customers.



Network Tasman chief executive Wayne Mackey (left) and Delta chief executive Grady Cameron renew the \$40 million contract

In other distribution work, we installed 6.6 kilometres of 33-kilovolt underground cable in Invercargill's central business district for PowerNet, surpassing performance testing on the installed work. PowerNet also engaged Delta to provide specialist design for two projects in Southland: a 30-kilometre overhead line upgrade from Lumsden to Riversdale and stage one of a 12-kilometre 66/22 kilovolt overhead line from Winton to Centre Bush.

We again maintained Dunedin's street lighting network, consistently achieving a 99 percent lighting reliability against a higher service level of 97 percent.

Delta continued to install and test smart meters as electricity meter owners nationwide convert to advanced digital meters. During FY15, we deployed 35,100 advanced meters in Wanganui, Hawkes Bay, Wellington, Nelson, Christchurch, Dunedin, coastal and Central Otago, Hawkes Bay and the Gisborne area. Our electricity meter maintenance, installation and testing services remained in demand from electricity retailers and electricity meter owners throughout New Zealand, predominately in the South Island.

COMMUNICATIONS

Under our electricity network maintenance contract, Delta continued to maintain Network Tasman's consumer fibre optic communications network in Tasman and Marlborough. We added 110 new fibre connections for business customers and 12 kilometres of fibre to the network. We also installed a radio mesh network across Network Tasman's electricity network to facilitate the installation of SmartCo advanced meters in the Tasman region.

During FY15 we installed seven kilometres of fibre optic communications for Aurora Energy to link the five substations that connect into the grid exit point at South Dunedin. We extended the communications network at Trustpower's Waipori hydro power scheme, installing three kilometres of fibre through tunnel races.



Gardener Dave Giddens at Northbrook wetlands, Rangiora

ENVIRONMENTAL

Greenspace

We took a major step towards the strategic goal of diversifying our customer portfolio in the greenspace market in FY15. Via a competitive tender, we secured a nine-year contract with Christchurch City Council to deliver parks services in the south of the city. The contract has a lifetime value of close to \$22 million and strengthens our existing presence in the Christchurch and Canterbury greenspace market. In advance of the 1 July 2015 start date, we recruited a new team and established a new depot near Riccarton to service the contract. Elsewhere in Christchurch, we continued our relationship with the Canterbury Earthquake Recovery Authority, providing property maintenance and mowing in the central business district area.

We again grew our greenspace business during FY15, providing sports turf, horticulture and roadside vegetation control services throughout the South Island from Southland, to coastal and inland Otago, Canterbury, Hurunui, Kaikoura and Tasman.

For the last five years, we have carried out roadside weed spraying on Banks Peninsula for Christchurch City Council. In FY15, we extended that maintenance contract to include verge mowing under a five-year contract, increasing our workforce in the area.

We successfully completed several amenity developments for our parks and reserves

customer, Waimakariri District Council, during FY15. These included installation of the Trousselot playground in Kaiapoi, the Arlington and Acacia playgrounds in Rangiora, the Oxford Town Hall landscape development (finished ahead of time and on budget) and Kaiapoi footpath replacement, rectifying earthquake damage.

Preparing the playing surfaces for the international cricket season at the University Oval in Dunedin was a highlight of the sports turf management services we provided in FY15. In January we readied the grounds and pitches for two one-day international matches between New Zealand and Sri Lanka. In March, Dunedin was host to three pool matches for the ICC Cricket World Cup 2015 over a ten day period. The appearance of the ground and the quality of the pitches drew praise from the International Cricket Council.

In May, Dunedin hosted pool matches for the FIFA Under-20 World Cup New Zealand 2015. Logan Park and University Oval, both venues maintained by Delta, were used for training by international teams, including the eventual winners, Serbia. FIFA delegates were delighted with the quality of training surfaces for the international football fixtures.

Towards the end of FY15, we established a dedicated tree services unit within our environmental business under a newly created tree services manager role. The unit will continue to deliver existing customer

work such as power line clearance for Aurora Energy while also seeking new customer opportunities.

Solid waste

During FY15, we provided waste services throughout coastal Otago including Dunedin City and the Clutha and Waitaki Districts.

In Dunedin we continued to operate Dunedin's municipal landfill at Green Island receiving recycling for processing and solid waste for disposal. We completed over 7,000 square metres of capping and associated bunding works. Landfill capping creates a physical barrier between the disposed waste and the surface and provides a visual screen for neighbours.

Under this contract, we have operated the Green Island landfill for the Dunedin City Council since 2003. Our existing contract has been extended for a further year until June 2016, as the Council explores options for the future of waste disposal and minimisation, including a possible joint venture arrangement with a private partner. As the current operator, Delta intends to participate fully in that process.

Delta retained Enviro-Mark® Gold accreditation for the operation of the landfill, reconfirmed in the annual independent audit. Achieving this standard is a check that we have adequate systems and controls to manage the potential environmental effects.

Opposite: Christchurch environmental team at the new Riccarton depot



OUR VALUES

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



Riding for the Disabled Dunedin receive support from Delta's Charity Challenge programme

We provided solid waste services to Clutha District Council for the third full year of a nine-year contract, managing the Mount Cooee landfill and kerbside rubbish and recycling collections. We continued to manage Waitaki District Council's rural transfer stations. The district's main landfill in Oamaru is scheduled to close in 2016. Waitaki District Council decisions on managing waste disposal post-closure will see Delta's involvement in the local waste market change.

OUR PEOPLE

Our ability to deliver smart thinking for our customers relies on our people going above and beyond ordinary expectations. Our Minds at Work employee awards, now in their third year, recognise and encourage employees who demonstrate our core values through leadership, initiative or innovation.

The category winners for the 2014 Minds at Work Awards were the Contact Energy technical and tunnel services team (Do It First award for demonstrating expertise and professionalism beyond the customer's expectations), Genesis Tekapo A team (Do It Right Award for overseeing a multimillion dollar project with excellent safety outcomes), and the Enviro-Mark accreditation team (Do It Together Award for their commitment to improving Delta's

environmental performance). A special award was made to Graham Evans for his valuable contribution to training in the wider electricity industry and being a great ambassador for Delta.

Sharing information on the go can make a real difference to our operational staff in the field. During FY15, we made increasing use of mobile technologies to access and capture asset information and job data, and to integrate field data with client systems. During FY15, we initiated mobile deployment solutions in vegetation management, pole testing and parks services.

SAFETY AND RISK

Our people operate in high hazard environments, making health and safety a strategic and operational priority across the company. The Board of Directors' Health and Safety Committee met three times during FY15. The Board has endorsed a health and safety strategy that aligns to the New Zealand Government's workplace health and safety reforms and its emphasis on risk management and everyone in the workplace being responsible for health and safety.

During FY15 we strengthened the visibility of safety leadership across the organisation. Managers made more frequent onsite safety observations and visual safety boards were introduced for daily and weekly

team briefings. We complemented existing workgroup safety days by instituting a safety day for all operational leaders across the organisation focused on process safety leadership. An internal worksite audit process was instituted in our electricity distribution services business.

We achieved a significant improvement in our safety lag indicators, with a 52 percent reduction in recordable injury rates. Total recordable injuries per 200,000 hours worked (TRIFR) improved from 8.79 in FY14 to 4.16 in FY15, against a target of 4.4. We are pleased at the reduced level of harm that this indicator reflects and we aim to achieve continuous improvement. Next year's result target has been reduced to 4.0.

A decreasing injury rate does not guarantee that major operational risks are being adequately managed. We had a strong focus on identifying and controlling fatal risks, including secondary prevention of falls from height, the introduction of new arc flash prevention measures and improvements to light vehicle safety, for example quad bike rollover protection.

The electricity sector continues to address high risk areas of operations through the introduction of safety restrictions that prevent or reduce the potential for serious harm. During FY15, there was a specific focus on the safe maintenance and operation of oil-filled switch gear where

there is a risk of fire and explosion from arc flashover. Delta has adopted a job safety analysis method to assess operational risks when working on electricity distribution equipment, is standardising procedures and is incrementally introducing higher-rated protective equipment.

Delta continued to be an active participant in industry and engineering safety forums including the Business Leaders' Health & Safety Forum, Electricity Engineers' Association and Electricity Networks Association working group.

External audits provide a valuable opportunity to verify that our management systems and processes are robust. Delta gained five-star accreditation for contractor prequalification management to provide customers with reassurance of our ability to perform work safely and in line with good practice. Delta retained its accreditation at the highest level of ACC's Workplace Safety Management Programme. Our tertiary status was reconfirmed at the annual independent audit.

ENVIRONMENTAL IMPROVEMENT

Under its environmental policy, Delta commits to carrying out regular environmental audits to ensure continual improvement is achieved. During FY15, we attained Enviro-Mark® Bronze accreditation for two new locations, at our Dunedin head office and Rangiora depot. As a result of the audit process, we took corrective actions to improve our onsite environmental management. We retained Enviro-Mark® Gold accreditation for the Green Island landfill, Dunedin.

In a further step to improving waste minimisation, we introduced an office-based recycling scheme throughout our Dunedin office that saw a 60% reduction in waste going to landfill. We plan to extend the scheme company-wide.

OUR COMMUNITIES

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

In March, we became principal sponsor of the Otago Rugby Referees, supporting the dedicated volunteer referees who give their time and skill on winter mornings and keep the game fair and fun for everyone. Our partnership will provide vital support to community rugby for juniors to secondary schools, seniors and reps, boys and girls, men and women throughout Otago for the next three seasons.

Our Charity Challenge campaign raises safety awareness among employees by encouraging regular reporting of close calls (or "near misses"). We encourage the monitoring and reporting of close calls as an important way to identify potential hazards and take preventative action. The Charity Challenge fund accrues each time an employee reports a close call or identifies a new hazard. During the year, Delta made donations from the safety fund to Dunedin Night Shelter Trust, Big Brothers Big Sisters North Canterbury, Children's Autism Support Group, Child Cancer Foundation Otago/Southland, Nelson Marlborough Rescue Helicopter Trust and Dunedin Riding for the Disabled.

LEADERSHIP

We appointed Richard King to the executive leadership team as general manager environmental services effective 1 July 2015. He will lead Delta's environmental services business, including parks and reserves, tree services and solid waste management.

Richard joined Delta in 2001 and has been critical to Delta's growth in the greenspace and solid waste sectors, the most recent example being winning the multimillion dollar contract with Christchurch City

Council for parks services. We welcome the passion and experience he brings to driving our continued success in environmental services with a strong focus on customer satisfaction.

OUR THANKS

We pride ourselves on being the smart thinking infrastructure specialist. That takes hard effort, a determination to anticipate our customers' needs and the skill to move with changing technology. We thank all our people for their dedication to the job this year, for keeping safe and rising to the challenge of the demanding goals we set ourselves as a company. We look forward to another successful year for our people, our customers and our stakeholders.



Ian Parton
CHAIRMAN



Grady Cameron
CHIEF EXECUTIVE

27 August 2015



DIRECTORS' REPORT

The Directors of Delta Utility Services Limited are pleased to report on the financial results and associated matters for the year ended 30 June 2015.

The financial accounts in this report for the year ended 30 June 2015 include only the activities of Delta Utility Services Limited as there were no trading subsidiaries in the Group.

The financial accounts for the year ended 30 June 2014 include a full consolidation of Delta Utility Services Limited (Parent) and its wholly owned subsidiary at that time, Delta Investments Limited. Delta Investments Limited was liquidated as at 31 March 2014 and was removed from the Register of Companies on 11 July 2014.

Lakes Contract Services Limited is a non-trading company and was previously a wholly-owned subsidiary of Delta Utility Services Limited. It was not consolidated and its shares were transferred to Dunedin City Holdings Limited on 17 December 2014.

DIRECTORS' REPORT

for the year ended 30 June 2015

PRINCIPAL ACTIVITIES OF THE COMPANY

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

RESULTS FOR THE YEAR ENDED 30 JUNE 2015

	\$000
Operating profit before income tax	6,212
Less income tax expense	1,555
Net profit for the period	<u>4,657</u>

STATE OF AFFAIRS

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

DIVIDENDS

Dividends of \$2.5 million were declared and paid during the year.

RESERVES

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

	\$000
Retained earnings - to (from)	2,157
Cash flow hedge reserve to (from)	(110)

DIRECTORS' REPORT

for the year ended 30 June 2015 – continued

REVIEW OF OPERATIONS

Delta responded to a significant uplift in the demand for electricity asset management services and continued to grow its energy and environmental trading divisions during the year.

Delta's net surplus of \$4.657 million (2014: \$4.377 million) provided a return on average Shareholder's equity of 32% (2014: 34%).

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2015 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 2015 or existed at that date are disclosed in the related parties section of this report.

DIRECTORS' BENEFITS

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

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

CHANGE OF DIRECTORS

There were no changes in Directorship during the year.

DIRECTORS' INSURANCE

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

DIRECTORS' REPORT

for the year ended 30 June 2015 – continued

DIRECTORS' REMUNERATION

The remuneration paid to Directors during the year was:

Dr Ian M Parton	\$	35,256
Stuart J McLauchlan	\$	23,756
David J Frow	\$	23,756
Trevor J Kempton	\$	20,756
	\$	103,524

EMPLOYEES' REMUNERATION

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

\$100,001 - \$110,000	26
\$110,001 - \$120,000	15
\$120,001 - \$130,000	6
\$130,001 - \$140,000	7
\$140,001 - \$150,000	5
\$150,001 - \$160,000	2
\$160,001 - \$170,000	3
\$170,001 - \$180,000	1
\$230,001 - \$240,000	1
\$250,001 - \$260,000	1
\$260,001 - \$270,000	1
\$290,001 - \$300,000	1
\$510,001 - \$520,000	1
	70

AUDIT AND RISK COMMITTEE

All of the Directors were members of 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. Its responsibilities include ensuring that appropriate audit consideration is given to the following issues:

- Effectiveness of systems and standards of internal control
- Quality of management controls
- Management of business risk
- Compliance with legislation, standards, policies and procedures
- Appointing and monitoring the internal audit function.

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

DIRECTORS' REPORT

for the year ended 30 June 2015 – continued

HEALTH AND SAFETY BOARD COMMITTEE

All of the Directors were members of the Health and Safety Board Committee during the year. Its principal responsibility is to review and make recommendations to the Board on the appropriateness and effectiveness of the Company's health and safety strategy, performance and governance.

NOMINATION COMMITTEE

All of the Directors were members of the Nomination Committee of the Board during the year. Its principal responsibility is to identify and nominate, for approval by the Shareholder, external candidates to fill board vacancies as they arise.

REMUNERATION COMMITTEE

All of the Directors were members of the Remuneration Committee of the Board. 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



Ian Parton
CHAIRMAN



Stuart McLauchlan
DIRECTOR

27 August 2015

TREND STATEMENT

Years ended 30 June	Note	DELTA GROUP CONSOLIDATED ³				
		2015 \$000	2014 \$000	2013 \$000	2012 \$000	2011 \$000
Total Recordable Injury Frequency Rate	1	4.16	8.79	N/A	N/A	N/A
Lost Time Injury Frequency Rate	2	N/A	6.17	1.97	1.84	12.17
Revenue		102,471	96,624	105,733	108,633	103,679
EBITDA before impairment charges		11,055	12,455	11,795	10,529	13,484
EBIT before impairment charges		7,700	8,239	6,411	4,699	7,933
Profit before tax and impairment charges		6,212	6,155	3,673	2,131	6,059
Impairment charges		0	455	288	9,044	0
Net surplus		4,657	4,377	4,606	(5,880)	5,423
Total assets		59,705	56,530	77,104	75,725	77,792
Ordinary dividends		2,500	2,500	2,000	4,500	4,000
Cash flow from operating activities		10,390	5,553	7,018	863	7,182
Shareholder's equity		15,804	13,757	11,675	8,773	19,167
Term debt		26,490	29,775	44,375	50,925	41,000
Return on average Shareholder's equity before impairment charges		32%	37%	33%	18%	30%
EBIT before impairment charges/ average funds employed		13%	12%	8%	6%	12%
Equity to assets		26%	24%	15%	12%	25%
FTE (Full time equivalent) employee numbers as at year end		572	505	605	661	657

NOTES:

- 1 Total recordable injuries per 200,000 hours worked. Recordable injuries include harm where either time has been lost from work, or formal medical treatment resulted.
- 2 From the beginning of the 2015 financial year, Delta changed its harm reporting metric from lost time injuries per 1 million hours worked to total recordable injuries per 200,000 hours worked to align with industry best practice.
- 3 The trend statement figures include items from both continuing and discontinued operations. Note the 2015 results are for Delta Utility Services Limited only as there were no trading subsidiaries. As at 30 June 2015, all subsidiaries had been either removed from the Register of Companies or transferred to Dunedin City Holdings Limited, the Company's shareholder.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2015

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
GENERAL OBJECTIVES			
• The Statement of Intent (SOI) will be submitted to and approved by Dunedin City Holdings Limited (DCHL), ensuring consistency across the DCHL Group.	30 June 2014	Achieved	The Statement of Intent for the 2015 financial year was submitted to and accepted by DCHL prior to 30 June 2014.
• Monthly financial results will be provided to DCHL in line with the agreed timetable between Delta and the Shareholder.	Monthly	Achieved	Monthly financial results were provided to DCHL in line with the agreed timetable.
• Monthly board reports which review the operating activities of Delta for compliance with the goals and objectives stated in the SOI and the Strategic Plan will be prepared.	Monthly	Achieved	Board reports were produced and meetings were held each month to review the Company's compliance with goals and objectives stated in the SOI and Strategic Plan.
• Monitor and pursue if appropriate management of an additional group of infrastructure assets and/or long term maintenance contracts in the energy and environmental sectors.	Management of a new group of infrastructure assets and/or long term maintenance contracts in the energy and environmental sectors.	Achieved	During the year, the Company won a significant tender for the maintenance of green spaces in Christchurch.

COMMUNITY, PEOPLE, SAFETY AND ENVIRONMENT OBJECTIVES

Community

• Support community initiatives.	\$20,000 of sponsorship per annum.	Achieved	Over \$35,000 was paid in sponsorship to community groups during the year.
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People

• Support Delta apprenticeship scheme.	Average number of apprentices in the scheme of 10 or more per annum.	Achieved	During the year, 17 staff were involved in an apprenticeship scheme.
• Monitor absences due to illness.	Lower than 2.5% sick leave based on hours.	Achieved	Staff sick leave was 1.4% of total hours during the year.
• Monitor voluntary leavers relative to permanent staff.	Below 15.0% staff turnover.	Achieved	Voluntary staff turnover was 10.9% over the 2014/15 year.
• Maintain good employer status.	Comply with all Employment Legislation. Ensure no complaints of discrimination are received. Operate open and non-discriminatory employment practices.	Achieved	The Company has open and non-discriminatory employment practices; it operates within the law and has received no complaints of discrimination during the year.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2015 - continued

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

Safety

• Reduce harm to employees and contractors.	7.50 total recordable injury frequency rate (TRIFR) per 200,000 man hours.	Achieved	The TRIFR achieved for the year was 4.16 per 200,000 man hours.
• Zero serious harm events involving members of the public.	0	Achieved	There were no serious harm incidents during the year involving the public.
• Maintain tertiary level ACC workplace management practices accreditation.	Obtain	Achieved	Tertiary level ACC workplace is audited biannually. No audit was undertaken in 2015. Accreditation was maintained.

Environment

• Maintain all existing environmental accreditations.	Maintain all existing environmental accreditations held during the year.	Achieved	Enviro-Mark® Gold status was recredited to Green Island landfill and Enviro-Mark® Bronze accreditations were obtained for two additional sites.
• Review the activities undertaken by the Company for the purposes of being a good socially and environmentally responsible corporate citizen.	Review undertaken.	Achieved	The Company continually reviews its activities which include sponsoring cultural and education events, as well as complying with environmental legislation.
• Maintain full compliance with the Resource Management Act (RMA)	0 – number of breaches.	Achieved	There were no RMA breaches during the year.
• Maintain or lower fuel efficiency	10.50 litres fuel used per 100 kilometres.	Not achieved	Fuel efficiency across the Delta fleet was calculated at 11.28 litres per 100 kilometres.

PERFORMANCE MEASURE	TARGET	OUTCOME	RESULT
	\$000		\$000

FINANCIAL OBJECTIVES

• EBITDA	11,588	Not achieved	11,055
• Net profit after income tax	4,071	Achieved	4,657
• Shareholder's funds	15,398	Achieved	15,804
• Cash flow from operations	13,648	Not achieved	10,390
• Capital expenditure	8,897	Achieved	7,009
• Term debt	23,494	Not achieved	26,490
• Dividends	2,500	Achieved	2,500
• Shareholder's funds to total assets	28%	Not achieved	26%

EBITDA was impacted by higher reactive maintenance costs after storm and flooding events in Dunedin during May and June 2015.

Cash flow from operations, term debt and the ratio of Shareholder's funds to total assets were all impacted by the slower collection of secured receivables related to activities discontinued in the 2014 financial year.

During the 2015 financial year, the Company broadened its Statement of Intent to include additional operational measures. These measures have also been incorporated into the Company's 2016 Statement of Intent.

INFORMATION ON THE DIRECTORS

DIRECTOR	QUALIFICATIONS	DATE APPOINTED	DECLARATIONS OF INTERESTS
Dr Ian M Parton Non-Executive Chairman	BE (Hons), PhD, Dist. F.IPENZ, CF.Inst.D.	October 2012	Chairman – Aurora Energy Limited Director – Auckland Transport Limited Director – Construction Techniques Group Limited Director – Skellerup Holdings Limited Chancellor – University of Auckland
David J Frow Non-Executive Director	B.Sc.Eng, CF.Inst.D.	October 2012	Chairman and shareholder – Major Consulting Group Limited Director – Aurora Energy Limited Director – ETEL Limited Director – ETEL Transformers Pty Limited (Aus) Director – Holmes Fire LP Director – Rataworks Limited Senior Consultant – Strata Energy Consulting Chairman – Bathurst Resources (New Zealand) Limited (resigned 13 November 2014)
Trevor J Kempton Non-Executive Director	BE (Hons), M.IPENZ, F.NZIM, CM.Inst.D.	November 2013	Director – Aurora Energy Limited Director – Constructing Excellence (NZ) Limited Director and shareholder – Long Beach Consulting Limited Director – The Academy of Construction Excellence (NZ) Limited Director – Trevian Properties Limited Councillor – Otago Regional Council Shareholder – Naylor Love Enterprise Group of companies

INFORMATION ON THE DIRECTORS – continued

DIRECTOR	QUALIFICATIONS	DATE APPOINTED	DECLARATIONS OF INTERESTS
Stuart J McLauchlan Non-Executive Director	BCom, FCA (PP), CF.Inst.D.	June 2007	Chairman – Dunedin International Airport Limited Chairman – NZ Sports Hall of Fame Chairman – Pharmac Chairman and shareholder – Scott Technology Limited Chairman – University of Otago Foundation Studies Limited Chairman – UDC Finance Limited Director – AD Instruments Pty Limited Director – Aurora Energy Limited Director – Cargill Hotel 2002 Limited Director and shareholder – Dunedin Casinos Limited Director – Energy Link Limited Director – HTS 110 Limited Director – Ngai Tahu Tourism Board Director – Otago & Southland Employers Association Director and shareholder – Rosebery Holdings Limited Director – Scenic Circle Hotels Limited and subsidiaries Director – University of Otago Holdings Limited Director – USC Investments Limited Member – Marsh Advisory Board Partner – G S McLauchlan & Co Pro Chancellor – University of Otago Director – Lund South Limited (resigned 28 July 2014) Director – XRock Automation Pty Limited (ceased 4 February 2015)



Delta is the principal sponsor
of Otago Rugby Referees



FINANCIAL STATEMENTS

for the year ended 30 June 2015

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STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2015

		PARENT/GROUP	GROUP	PARENT
	Note	2015 \$000	2014 \$000	2014 \$000
Operating revenue	3	99,375	86,214	86,239
Financial revenue	4	3,096	2,024	2,421
Total revenue		102,471	88,238	88,660
Less expenses				
Operating expenses	5	94,771	79,796	79,117
Financial expenses	6	1,488	2,065	2,065
Total expenses		96,259	81,861	81,182
Profit before tax		6,212	6,377	7,478
Income tax expense/(refund)	10	1,555	1,673	1,790
Net profit from continuing operations		4,657	4,704	5,688
Net loss from discontinued operations	7	0	(327)	(201)
Net profit for the year		4,657	4,377	5,487
Other comprehensive income				
Cash flow hedges		(110)	205	205
Total other comprehensive income		(110)	205	205
Total comprehensive income		4,547	4,582	5,692

The Company's former operating subsidiary Delta Investments Limited was liquidated as at 31 March 2014, did not operate during the 30 June 2015 financial year and was removed from the Register of Companies on 11 July 2014. The balance sheet in the following financial statements therefore has only two columns as there are no differences between the Parent and Group balance sheets in either the 30 June 2014 or 30 June 2015 year.

The current year results shown in the Profit and Loss and Statement of Cash Flows are noted as Parent / Group as there were no operating subsidiaries and no difference between Parent and Group results; however, a Group still existed for part of the 2015 financial year.

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 2015

		PARENT/GROUP	GROUP	PARENT
	Note	2015 \$000	2014 \$000	2014 \$000
Equity at beginning of the year		13,757	11,675	10,565
Total comprehensive income		4,547	4,582	5,692
Less distribution to owner	9	2,500	2,500	2,500
Equity at end of the year		15,804	13,757	13,757

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

BALANCE SHEET

as at 30 June 2015

		PARENT/GROUP	
	Note	2015 \$000	2014 \$000
EQUITY			
Share capital	11	17,000	17,000
Cash flow hedge reserve	12	(161)	(51)
Retained earnings	13	(1,035)	(3,192)
Total equity		15,804	13,757
CURRENT LIABILITIES			
Trade and other payables	14	9,210	7,297
GST payable		557	863
Cash flow hedge instruments	15	223	70
Provisions	16	4,395	3,963
Taxation payable		2,664	474
Total current liabilities		17,049	12,667
NON-CURRENT LIABILITIES			
Term borrowings	17	26,490	29,775
Provisions	16	362	331
Total non-current liabilities		26,852	30,106
Total liabilities		43,901	42,773
TOTAL EQUITY AND LIABILITIES		59,705	56,530

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

BALANCE SHEET

as at 30 June 2015 – continued

		PARENT/GROUP	
	Note	2015 \$000	2014 \$000
CURRENT ASSETS			
Cash and cash equivalents	22	220	104
Trade and other receivables	23	25,244	24,834
Inventories	24	5,905	4,516
Prepayments		184	173
Intra group advance		350	0
Development property held for sale	27	0	1,380
Total current assets		31,903	31,007
NON-CURRENT ASSETS			
Intangible assets	26	1,511	527
Deferred tax asset	18	3,771	2,192
Property, plant and equipment	25	22,520	22,804
Total non-current assets		27,802	25,523
TOTAL ASSETS		59,705	56,530

For and on behalf of the Board of Directors



Ian Parton
CHAIRMAN



Stuart McLauchlan
DIRECTOR

27 August 2015

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 2015

		PARENT/GROUP	GROUP	PARENT
	Note	2015 \$000	2014 \$000	2014 \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from				
Receipts from customers		97,120	80,499	83,150
Interest received		9	2	399
		97,129	80,501	83,549
Cash was disbursed to				
Payments to suppliers and employees		83,795	71,653	71,873
Interest paid		1,499	1,745	1,990
Inter-group tax payments		350	559	558
Tax asset purchased from subsidiary		0	0	2,104
Income tax paid		901	0	0
Net GST paid		194	452	276
		86,739	74,409	76,801
Net cash inflows from operating activities from continuing operations		10,390	6,092	6,748
Net cash inflows/(outflows) from operating activities from discontinued operations		0	(539)	242
Net cash inflows from operations	28	10,390	5,553	6,990
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from				
Sale of development property		1,208	1,553	1,553
Sale of property, plant and equipment		3,337	850	850
Repayments from subsidiaries		0	0	8,331
Repayments from investment in financial instrument		0	35	35
		4,545	2,438	10,769
Cash was disbursed to				
Development property		0	1	2,760
Purchase of property, plant and equipment		6,844	3,909	3,909
Advance to subsidiaries		0	0	853
Investment in financial instrument		2,190	1,200	1,200
		9,034	5,110	8,722

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 2015 - continued

		PARENT/GROUP	GROUP	PARENT
	Note	2015 \$000	2014 \$000	2014 \$000
Net cash inflows/(outflows) from investing activities from continuing operations		(4,489)	(2,672)	2,047
Net cash inflows/(outflows) from investing activities from discontinued operations		0	14,812	7,796
Net cash inflows/(outflows) from investing activities		(4,489)	12,140	9,843
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from				
Receipts from borrowings		76,690	69,625	69,625
		76,690	69,625	69,625
Cash was disbursed to				
Repayment of borrowings		79,975	76,712	76,712
Dividends paid		2,500	2,500	2,500
		82,475	79,212	79,212
Net cash inflows/(outflows) from financing activities from continuing operations		(5,785)	(9,587)	(9,587)
Net cash inflows/(outflows) from financing activities from discontinued operations		0	(8,386)	(7,513)
Net cash inflows/(outflows) from financing activities		(5,785)	(17,973)	(17,100)
Net increase/(decrease) in cash, cash equivalents and bank overdraft		116	(280)	(267)
Cash and cash equivalents at the beginning of the period		104	384	371
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	22	220	104	104

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 2015

1 REPORTING ENTITY

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

The Group consisted of Delta Utility Services Limited and a full consolidation of subsidiary, Delta Investments Limited up until the time of its liquidation. Delta Investments Limited was a wholly-owned subsidiary of Delta Utility Services Limited and a Council Controlled Trading Organisation as defined in the Local Government Act 2002. It previously engaged in property investment and development. Delta Investments Limited was liquidated as at 31 March 2014 and was removed from the Register of Companies on 11 July 2014.

Lakes Contract Services Limited is a non-trading company and was previously a wholly owned subsidiary of Delta Utility Services Limited. It was not consolidated and its shares were transferred to Dunedin City Holdings Limited on 17 December 2014.

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

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

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

The current year results shown in the Profit and Loss or Statement of Cash Flows related notes are for Parent and Group as there were no operating subsidiaries and no difference between Parent and Group results, however as noted above a Group still existed for part of the 2015 financial year.

As at 30 June 2014 and 30 June 2015 there was no difference between the Parent and Group balance sheets as Delta Investments Limited (the Group's former operating subsidiary) had been fully liquidated. Therefore unless an opening 1 July 2014 position is shown, balance sheet related notes have no differences between Parent and Group.

2 SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

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

The financial statements were authorised for issue by the Directors on 27 August 2015.

BASIS OF ACCOUNTING

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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 proportionate method of consolidation. As previously noted the Group had no operating subsidiaries in the 2015 year and all subsidiaries have been either removed from the Register of Companies or transferred to Dunedin City Holdings Limited.

REVENUE RECOGNITION

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

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

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

FINANCIAL REVENUE

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

CONSTRUCTION CONTRACTS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - 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 Company.

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

GOODS AND SERVICES TAX (GST)

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - 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.

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

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

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

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

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

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 2015 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

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

Depreciation rates and methods used are as follows:

	RATE	METHOD
Buildings	1% to 14%	straight line
Metering equipment	7% to 100%	straight line
Plant and equipment	1% to 50%	straight line
Motor vehicles	5% to 33%	straight line
Office equipment and fittings	7% to 25%	straight line
Assets under construction	no depreciation charged	

INTANGIBLE ASSETS

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

IMPAIRMENT OF ASSETS

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - 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 HELD FOR SALE

Development property intended for resale is stated at current market value as determined by reference to unconditional sale and purchase agreements. 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 Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

TRADE AND OTHER RECEIVABLES

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

BORROWINGS

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

PROVISIONS

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

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

CASH FLOW HEDGE INSTRUMENTS AND HEDGE ACCOUNTING

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

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

The use of cash flow hedge instruments is governed by policy approved by the Board of Directors in consultation with the Shareholder. Cash flow hedge instruments are recognised as 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.

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

DISCONTINUED OPERATIONS

Discontinued operations consist of business units and other non-core assets that have either been sold or discontinued during the year or are classified as held-for-sale at year end.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the financial year, as the below standards introduced or amended which were relevant to the Company did not have a material impact.

STANDARDS AMENDED OR ISSUED DURING THE YEAR

During the year the following accounting standards which were relevant to the Company became effective or were amended.

STANDARD	BRIEF OVERVIEW OF EFFECT ON COMPANY
Amendments to NZ IAS 32 <i>Offsetting Financial Assets and Financial Liabilities</i>	The key change from the amendment is the introduction of additional criterion that must be met to demonstrate that an entity "currently has legally enforceable right to set off the recognised amounts" and that an entity "intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously". The Company "sets off" cash flow hedge instruments as these assets are legally entitled to be offset and could be settled simultaneously.
Amendments to NZ IFRSs arising from the Annual Improvements Project (2010-2012)	IAS 24 Key Management Personnel (KMP) Services - extended the definition of a 'related party' to include management entities. Payments made to a management entity in respect of KMP should be disclosed separately. Some of the Company's Directors are paid through a management entity for their director services. This information is disclosed and was already disclosed prior to this amendment.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

STANDARD	BRIEF OUTLINE
Amendments to NZ IAS 27 <i>Equity method in separate financial statements</i> Adoption date: periods beginning on or after 1 January 2016	Amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates. Delta Utility Services Limited no longer has any subsidiaries, joint ventures or associates, but may do in the future. Any amendments will be reflected in the treatment and disclosure of these transactions going forward.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Amendments to NZ IAS 1

Disclosure initiatives

Adoption date: periods
beginning on or after

1 January 2016

Changes were made in the following areas to provide clarity for preparers in exercising judgement when presenting their financial reports. Clarification was provided around:

- Materiality in the preparation of the financial statements and when it should be applied;
- The aggregation of line items in the financial statements;
- Note ordering.

The Company will review the new clarifications and ensure the financial statements are appropriately presented. e.g. whether notes are in the appropriate order, if materiality has reasonably been used in notes such as the related party note 29 and whether line items on the face of the financial statements were reasonably grouped. No material changes are envisaged.

Amendments to NZ IAS 15

*Revenue from Contracts
and Customers*

Adoption date: periods
beginning on or after

1 January 2017

The amendments establish principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

This amendment is unlikely to have a major impact on the recognition and reporting of the Company's revenue. The Company will however review revenue to ensure that it is recognised in line with the revised standards and contracts in place.

NZ IFRS 9 (2010)

Financial Instruments

Adoption date: periods
beginning on or after

1 January 2018

A revised version of NZ IFRS 9 will be released which includes changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of NZ IFRS 9 at the same time.

The Company does not expect any material changes to current treatment or disclosure of its financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

	PARENT/GROUP	GROUP	PARENT
	2015 \$000	2014 \$000	2014 \$000

3 OPERATING REVENUE

Sales revenue	99,375	86,214	86,239
	99,375	86,214	86,239

4 FINANCIAL REVENUE

Interest revenue	3,096	2,024	2,421
	3,096	2,024	2,421

Interest revenue during the period includes \$3.087 million (2014: \$1.731 million) from impaired financial assets, for which a full provision is included within Operating Expenses.

5 OPERATING EXPENSES

Included in the operating expenses are the following items:

Audit fees - for audit of financial statements	54	53	53
Employee remuneration and benefits	39,580	35,006	35,006
Materials	19,469	14,538	15,918
Land cost of sales	1,380	1,380	0
Depreciation	3,356	3,834	3,834
Impairment charges	0	0	(762)
Net foreign exchange loss	42	0	0
Rental expense	2,014	1,227	1,227
Directors' fees	104	107	107
Bad debts written off	24	8	8
Increase/(decrease) in impairment provision for trade and other receivables	4,924	3,274	3,274
Donations	35	31	31
(Gain)/loss on sale/disposal assets	(382)	(76)	(74)
Minimum lease payments	1,800	1,063	1,063

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

	PARENT/GROUP	GROUP	PARENT
	2015 \$000	2014 \$000	2014 \$000
6 FINANCIAL EXPENSES			
Interest/facility fees - related parties	1,487	2,063	2,063
Interest - other	1	2	2
Total financial expenses	1,488	2,065	2,065

7 DISCONTINUED OPERATIONS

Discontinued operations represent components of the Group that have been disposed of or classified as held-for-sale during the period. In accordance with IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', the results and cash flows of these "disposal business units" are reported separately from the performance of continuing operations at each reporting date.

On 12 July 2013 the Group announced plans to cease operations in the civil construction sector. All civil construction business units completed their contracts before exiting the sector by the end of June 2014. The civil construction business units are reported as discontinued operations.

A special resolution was passed on 1 May 2014 by Delta Utility Services Limited to have its subsidiary Delta Investments Limited removed from the Register of Companies. The subsidiary was removed from the Register on 11 July 2014. Delta Investments Limited's operations are included as discontinued operations.

The results from discontinued operations which are included in the consolidated income statement have been disclosed below. The civil construction business units being discontinued are within the parent entity Delta Utility Services Limited and hence the group results. Delta Investments Limited's operations are within the group results only, as it is a subsidiary of Delta Utility Services Limited. There were no discontinued operations in the 2015 year.

Net profit from discontinued operations

Operating revenue	0	8,371	3,961
Interest revenue	0	15	2
Total revenue	0	8,386	3,963
Less expenses			
Operating expenses	0	9,044	4,208
Financial expenses	0	19	19
Total expenses	0	9,063	4,227
Loss before tax from discontinued operations	0	(677)	(264)
Income tax benefit	0	350	63
Net loss from discontinued operations	0	(327)	(201)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

	PARENT/GROUP 2015	GROUP 2014	PARENT 2014
8 EARNINGS PER SHARE			
Basic earnings per share is calculated by dividing the net profit/(loss) attributable to the Shareholder of the Company by the weighted average number of ordinary shares on issue during the year			
Number of shares			
Weighted average number of ordinary shares	17,000,000	17,000,000	17,000,000
Basic earnings per share	27.39 cents	25.75 cents	32.27 cents

	PARENT/GROUP 2015 \$000	GROUP 2014 \$000	PARENT 2014 \$000
9 DIVIDENDS			
Interim dividend December 2014 (December 2013: 7.4 cents/share)	7.4 cents/share	1,250	1,250
Final dividend June 2015 (June 2014: 7.4 cents/share)	7.4 cents/share	1,250	1,250
	2,500	2,500	2,500
Cents per share	14.71	14.71	14.71

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

	PARENT/GROUP	GROUP	PARENT
	2015 \$000	2014 \$000	2014 \$000
10 INCOME TAX			
Operating profit before income tax from continuing operations	6,212	6,377	7,478
Operating loss before income tax from discontinued operations	0	(677)	(264)
Total operating profit before income tax	6,212	5,700	7,214
Tax thereon at 28%	1,739	1,596	2,020
<i>Plus / (Less) the tax effect of differences</i>			
Expenditure non-deductible for taxation	55	28	94
Non-assessable income	(159)	(160)	(373)
Under/(over) tax provision in prior years	(80)	(43)	84
Current year tax consolidated adjustment	0	(98)	(98)
Tax effect of differences	(184)	(273)	(293)
Tax expense /(benefit)	1,555	1,323	1,727
<i>Represented by</i>			
Continuing operations	1,555	1,673	1,790
Discontinued operations	0	(350)	(63)
Income tax	1,555	1,323	1,727
<i>Represented by</i>			
Current tax provision	3,088	475	2,576
Prior period adjustments to current tax	3	119	225
Deferred tax provision	(1,453)	924	(900)
Prior period adjustments to deferred tax	(83)	(195)	(174)
Income tax	1,555	1,323	1,727
Effective tax rate	25.0%	23.2%	23.9%

Delta Utility Services Limited is a member of an Income Tax Consolidated Group.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

	PARENT/GROUP	GROUP	PARENT
	2015 \$000	2014 \$000	2014 \$000
11 EQUITY - SHARE CAPITAL			
Issued Capital			
17,000,000 fully paid ordinary shares	17,000	17,000	17,000
12 RESERVES			
Cash flow hedge reserve			
Balance at the beginning of the year	(51)	(256)	(256)
Net revaluations	(152)	285	285
Deferred tax arising on hedges (see Note 18)	42	(80)	(80)
Balance at the end of the year	(161)	(51)	(51)
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.			
13 RETAINED EARNINGS			
Balance at the beginning of the year	(3,192)	(5,069)	(6,179)
Net profit after tax	4,657	4,377	5,487
Dividend distributions	(2,500)	(2,500)	(2,500)
Balance at the end of the year	(1,035)	(3,192)	(3,192)
14 TRADE AND OTHER PAYABLES			
Trade payables	4,066	3,404	3,404
Due to related parties	341	180	180
Land sale deposits	0	173	173
Other creditors	4,803	3,540	3,540
	9,210	7,297	7,297

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

	PARENT/GROUP	
	2015 \$000	2014 \$000
15 CASH FLOW HEDGE INSTRUMENTS		
Interest rate swap revaluations – payable	(223)	(70)
Analysed as:		
Current	(223)	(70)
The Company uses interest rate swaps to manage its exposure to interest rate movements on its multi-option facility borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. The treasury policy requires that the level of the fixed interest hedge should be limited to a series of ranges within set debt time periods. These interest rate swaps are all due to settle between 1 and 5 years of balance date and the carrying values disclosed also reflect the contractual values. The interest rate agreements are held with independent and high credit quality financial institutions in accordance with Company credit policy.		
16 PROVISIONS		
(i) Current liabilities		
Long service leave	140	132
Annual leave	3,711	3,301
Gratuities	290	315
Sick leave	122	115
Other provisions	132	100
	4,395	3,963
(ii) Non-current liabilities		
Long service leave	265	231
Gratuities	97	100
	362	331

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

	PARENT/GROUP	
	2015 \$000	2014 \$000
17 TERM BORROWINGS (secured)		
Dunedin City Treasury Limited – related party	26,490	29,775
	26,490	29,775
The term borrowings are secured by a General Security Agreement over all the assets of the Company. The facility available is \$32.500 million. The repayment period on the term borrowings is as follows:		
Repayable between one to two years	0	0
Repayable between two to five years	26,490	29,775
	26,490	29,775

The weighted average interest rate for the loan, inclusive of any current portion, was 4.55% (2014: 4.64%).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

18 DEFERRED TAX

	Opening Balance Sheet \$000	Charged to Equity \$000	Charged to Income \$000	Transferred from Subsidiary \$000	Closing Balance Sheet Assets \$000	Closing Balance Sheet Liabilities \$000	Closing Balance Sheet Net \$000
PARENT/GROUP							
YEAR ENDED 30 JUNE 2015:							
Property, plant and equipment	(162)	0	(19)	0	0	(181)	(181)
Employee benefits	1,136	0	152	0	1,288	0	1,288
Provisions	1,250	0	1,352	0	2,602	0	2,602
Revaluations of cash flow hedge instruments	20	42	0	0	62	0	62
Development costs	(52)	0	52	0	0	0	0
Balance at the end of the year	2,192	42	1,537	0	3,952	(181)	3,771
GROUP							
YEAR ENDED 30 JUNE 2014:							
Property, plant and equipment	(93)	0	(69)	0	0	(162)	(162)
Employee benefits	1,345	0	(209)	0	1,136	0	1,136
Provisions	(50)	0	1,300	0	1,534	(284)	1,250
Revaluations of cash flow hedge instruments	100	(80)	0	0	20	0	20
Development costs	1,699	0	(1,751)	0	0	(52)	(52)
Balance at the end of the year	3,001	(80)	(729)	0	2,690	(498)	2,192
PARENT							
YEAR ENDED 30 JUNE 2014:							
Property, plant and equipment	(93)	0	(69)	0	0	(162)	(162)
Employee benefits	1,345	0	(209)	0	1,136	0	1,136
Provisions	(50)	0	1,300	0	1,534	(284)	1,250
Revaluations of cash flow hedge instruments	100	(80)	0	0	20	0	20
Development costs	0	0	52	(104)	0	(52)	(52)
Balance at the end of the year	1,302	(80)	1,074	(104)	2,690	(498)	2,192

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

	PARENT/GROUP	
	2015 \$000	2014 \$000
19 CONTINGENT LIABILITIES		
Performance bonds	1,446	2,106
	1,446	2,106
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	490	656
	490	656
21 LEASE COMMITMENTS		
Non-cancellable operating lease commitments:		
payable within one year	1,687	975
payable between one to five years	3,279	1,453
payable later than five years	100	121
	5,066	2,549
22 CASH AND CASH EQUIVALENTS		
Cash and bank	220	104

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

		PARENT/GROUP	
		2015 \$000	2014 \$000
23 TRADE AND OTHER RECEIVABLES			
Trade receivables		27,911	23,848
Less estimated doubtful debts		(9,761)	(4,837)
		18,150	19,011
Due from related parties		7,094	5,823
		25,244	24,834
Past due, but not impaired, receivables are:			
Age analysis:	30 - 60 days	244	116
	60 - 90 days	427	213
	90 days plus	224	45
		895	374
All past due balances are considered collectable.			
A summary of all receivables impaired or otherwise, is included at Note 30. The estimated doubtful debts provision relates entirely to individually impaired trade receivable balances.			
Opening doubtful debts provision		(4,837)	(1,932)
Additional provisions made during the year		(5,008)	(3,292)
Receivables written off during the year		0	382
Provisions reversed during the year		84	5
Closing doubtful debts provision		(9,761)	(4,837)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

	PARENT/GROUP	
	2015 \$000	2014 \$000
24 INVENTORIES		
Materials and stores	2,626	2,121
Work in progress - construction contracts	435	(106)
Work in progress - other	2,844	2,501
	5,905	4,516
Included within work in progress is \$1,333,000 for Dunedin City Council Group entities (2014: \$709,000).		
Work in progress - construction contracts		
Gross construction work in progress plus margin to date	26,654	28,630
Progress billings	(26,219)	(28,736)
Total construction work in progress	435	(106)
Retentions held by customers	0	246
Due from customers under construction contracts	13,136	12,986

Included in sales is \$12.3 million of construction contract revenue (June 2014: \$12.9 million).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

25 PROPERTY, PLANT AND EQUIPMENT

	Land \$000	Buildings \$000	Meters \$000	Plant and Equipment \$000	Motor Vehicles \$000	Office Equipment \$000	Total \$000
PARENT/GROUP							
YEAR ENDED 30 JUNE 2015:							
Cost							
Balance at the beginning of the year	5,396	5,031	7,918	10,241	25,473	937	54,996
Purchases	0	23	546	1,299	3,792	56	5,716
Sales/disposals	(712)	(9)	0	(126)	(6,745)	(11)	(7,603)
Total cost	4,684	5,045	8,464	11,414	22,520	982	53,109
Accumulated depreciation							
Balance at the beginning of the year	0	1,154	7,288	7,427	15,589	734	32,192
Depreciation	0	130	70	862	1,931	52	3,045
Sales/disposals	0	(9)	0	(124)	(4,504)	(11)	(4,648)
Total accumulated depreciation	0	1,275	7,358	8,165	13,016	775	30,589
Balance at the end of the year	4,684	3,770	1,106	3,249	9,504	207	22,520

The total amount of property, plant and equipment in course of construction is \$481,396 (2014: nil).

GROUP							
YEAR ENDED 30 JUNE 2014:							
Cost							
Balance at the beginning of the year	5,896	5,059	7,757	15,185	36,068	967	70,932
Purchases	0	281	161	554	2,344	24	3,364
Sales/disposals	(500)	(309)	0	(5,498)	(12,939)	(54)	(19,300)
Total cost	5,396	5,031	7,918	10,241	25,473	937	54,996
Accumulated depreciation							
Balance at the beginning of the year	0	1,076	7,237	10,142	21,916	722	41,093
Depreciation	0	163	51	916	2,931	53	4,114
Sales/disposals	0	(85)	0	(3,631)	(9,258)	(41)	(13,015)
Total accumulated depreciation	0	1,154	7,288	7,427	15,589	734	32,192
Balance at the end of the year	5,396	3,877	630	2,814	9,884	203	22,804

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

25 PROPERTY, PLANT AND EQUIPMENT – continued

	Land \$000	Buildings \$000	Meters \$000	Plant and Equipment \$000	Motor Vehicles \$000	Office Equipment \$000	Total \$000
PARENT							
YEAR ENDED 30 JUNE 2014:							
Cost							
Balance at the beginning of the year	5,896	5,054	7,757	15,185	36,068	967	70,927
Purchases	0	281	161	554	2,344	24	3,364
Sales/disposals	(500)	(304)	0	(5,498)	(12,939)	(54)	(19,295)
Total cost	5,396	5,031	7,918	10,241	25,473	937	54,996
Accumulated depreciation							
Balance at the beginning of the year	0	1,069	7,237	10,142	21,915	722	41,086
Depreciation	0	163	51	916	2,931	53	4,114
Sales/disposals	0	(78)	0	(3,631)	(9,258)	(41)	(13,008)
Total accumulated depreciation	0	1,154	7,288	7,427	15,589	734	32,192
Balance at the end of the year	5,396	3,877	630	2,814	9,884	203	22,804

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 2015 - continued

	PARENT/GROUP	
	2015 \$000	2014 \$000
26 INTANGIBLES		
SOFTWARE		
Cost		
Balance at beginning of year	4,423	4,128
Purchases	1,293	295
Total cost	5,716	4,423
ACCUMULATED AMORTISATION		
Balance at the beginning of year	3,896	3,796
Amortisation	309	100
Total amortisation	4,205	3,896
Balance at the end of year	1,511	527

The total amount of intangibles in course of construction is \$225,721 (2014: nil).

27 DEVELOPMENT PROPERTY HELD FOR SALE

Land	0	762
Land development in progress	0	618
Balance at the end of the year	0	1,380

Development property intended for resale is stated at the current market value as determined by reference to unconditional sale and purchase agreements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

	PARENT 2015 \$000	GROUP 2014 \$000	PARENT 2014 \$000
28 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES - (continuing and discontinued operations)			
Net profit/(loss) for the year	4,657	4,377	5,487
<i>Items not involving cash flows</i>			
Depreciation	3,356	4,216	4,216
Impairment charges	0	455	(762)
Deferred tax	(1,536)	729	(970)
Bad debts	24	386	386
Doubtful debts	4,924	2,905	2,905
<i>Impact of changes in working capital items</i>			
(Increase)/decrease in trade and other receivables	(5,360)	(2,827)	(2,775)
(Increase)/decrease in Intra group advances	(350)	0	0
(Increase)/decrease in inventories	(1,388)	720	720
(Increase)/decrease in prepayments	(13)	(30)	(30)
Increase/(decrease) in trade and other payables	1,913	(868)	(658)
Increase/(decrease) in provision for tax	2,190	240	240
Increase/(decrease) in employee entitlements	464	(735)	(735)
Increase/(decrease) in GST payable	(306)	87	87
<i>Items classified as investing or financing activities</i>			
Net (gain)/loss on sale of property, plant and equipment	(340)	(2,118)	(2,116)
Items related to development property	173	(3,448)	(464)
Investment in financial instrument	2,190	1,456	1,456
Movement of capital creditors in accounts payable	(208)	8	3
Net cash inflows/(outflows) from operating activities	10,390	5,553	6,990

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

29 RELATED PARTY TRANSACTIONS

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

TRANSACTIONS WITH DUNEDIN CITY COUNCIL

The Company undertakes transactions with Dunedin City Council and other Dunedin City Council controlled entities. These transactions are made on commercial terms and conditions and at market rates.

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

	PARENT/GROUP	
	2015 \$000	2014 \$000
SALES OF SERVICES TO DUNEDIN CITY COUNCIL GROUP ENTITIES:		
Capital works constructed	24,096	15,661
Network management and operations	20,226	17,501
Contracting services provided	1,341	1,740
Administration and accounting	384	363
Rent	16	16
	46,063	35,281
SALES OF SERVICES TO DUNEDIN CITY COUNCIL:		
Other contracting	7,317	7,973
AT YEAR END THE AMOUNTS RECEIVABLE BY THE COMPANY FROM DUNEDIN CITY COUNCIL ENTITIES:		
Receivable from Dunedin City Council	751	790
Receivable from Dunedin City Council Group entities	6,343	5,033
Work in progress for Dunedin City Council Group entities	1,412	709
Intra-group advance to Dunedin City Council Group entities	350	0
PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY COUNCIL GROUP ENTITIES:		
Interest	1,474	2,083
Contracting services and supplies	631	120
Rent	26	26
Administration	1	0
	2,132	2,229

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

	PARENT/GROUP	
	2015 \$000	2014 \$000
29 RELATED PARTY TRANSACTIONS - continued		
PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY HOLDINGS LIMITED:		
Management fee	50	50
PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY COUNCIL:		
Contracting services and supplies	169	185
Rates	72	75
Rent	17	0
Royalties	31	0
	289	260
AT YEAR END THE AMOUNTS PAYABLE TO DUNEDIN CITY COUNCIL ENTITIES EXCLUSIVE OF TERM BORROWINGS SHOWN IN NOTE 17 ARE:		
Payable to Dunedin City Council	44	9
Payable to Dunedin City Council Group entities	297	171

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

29 RELATED PARTY TRANSACTIONS - continued

TRANSACTIONS WITH COMPANIES IN WHICH DIRECTORS HAVE AN INTEREST:

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

Mr S J McLauchlan is the Pro Chancellor of the University of Otago. During the financial period covered by this report, contracting services to the value of \$79,423 were provided to the University of Otago (2014: \$27,650). Monies receivable as at 30 June 2015 totalled \$2,621 (2014: \$6,869). During the financial period covered by this report, services valued at \$24,217 were purchased from the University of Otago (2014: \$17,935). No monies were payable as at 30 June 2015 (2014: nil).

Mr McLauchlan is the Chairman and a Shareholder of Scott Technology Limited. During the financial period covered by this report, no contracting services were provided to Scott Technology Limited (2014: \$109). No monies were outstanding as at 30 June 2015 (2014: nil).

Mr McLauchlan is a Director of Otago & Southland Employers Association. During the financial period covered by this report, training services valued at \$14,919 were purchased from Otago & Southland Employers Association (2014: \$14,107). Monies outstanding at 30 June 2015 totalled \$690 (2014: nil).

Mr McLauchlan was a Director of Lund South Limited. During the financial period covered by this report, contracting services valued at \$20,360 were provided to Lund South Limited (2014: \$2,925). No monies were outstanding as at 30 June 2015 (2014: \$782).

Mr McLauchlan is a Director of Scenic Circle Hotels Limited. During the financial period covered by this report, contracting services valued at \$278 were provided to Scenic Circle Hotels Limited (2014: nil). No monies were outstanding as at 30 June 2015 (2014: nil).

Mr McLauchlan is a Director of Cargill Hotel 2002 Limited. During the financial period covered by this report, services of \$348 were purchased from Cargill Hotel 2002 Limited (2014: \$1,113). No monies were payable at 30 June 2015 (2014: nil).

Mr McLauchlan is a Director and Shareholder of Rosebery Holdings Limited. During the financial period covered by this report, services of \$23,756 were purchased from Rosebery Holdings Limited (2014: \$24,375). No monies were payable at 30 June 2015 (2014: nil).

Mr D J Frow is a Director of ETEL Limited. During the financial period covered by this report, materials and services to the value of \$1,899,666 were purchased from ETEL (2014: \$1,543,993). Monies outstanding as at 30 June 2015 totalled \$51,068 (2014: nil).

Mr T J Kempton is a Councillor on the Otago Regional Council. During the financial period covered by this report services to the value of \$71,961 were provided to the Otago Regional Council (2014: \$330,237). No monies were outstanding as at 30 June 2015 (2014: \$4,934). During the financial period covered by this report, services to the value of \$4,226 were purchased from the Otago Regional Council (2014: \$4,220). No monies were payable as at 30 June 2015 (2014: nil).

Mr Kempton is a Director and Shareholder of Long Beach Consulting Limited. During the financial period covered by this report, services of \$20,756 were purchased from Long Beach Consulting Limited (2014: \$13,667). No monies were outstanding at 30 June 2015. (2014: nil)

TRANSACTIONS WITH EXECUTIVE STAFF

Mr G W Cameron is the Chief Executive of Delta Utility Services Limited. During the period covered by this report, contracting services valued at \$703 were provided to Mr Cameron (2014: \$728). No monies were outstanding as at 30 June 2015 (2014: nil).

Mr M Ballard is the General Manager Capability and Risk of Delta Utility Services Limited. During the period covered by this report, contracting services valued at \$1,362 were provided to Mr Ballard (2014: nil). No monies were outstanding as at 30 June 2015 (2014: nil).

KEY MANAGEMENT PERSONNEL REMUNERATION

	2015 \$000	2014 \$000
Short-term employment benefits	1,572	1,812
Termination benefits	0	84

NOTES TO THE FINANCIAL STATEMENTS

or the year ended 30 June 2015 - continued

30 FINANCIAL INSTRUMENTS RISKS

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

INTEREST RATE RISK

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

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

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

	PARENT/GROUP	
	2015 \$000	2014 \$000
Maturing in less than one year	0	2,500
Maturing between one and five years	5,000	5,000
Maturing after five years	0	0
	5,000	7,500

CREDIT RISK

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

The Company's exposure to credit risk is generally spread over a large number of counterparties and customers. As at 30 June 2015, however, there was some concentration of this risk around the secured debts described under counterparties without credit ratings below.

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

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

Cash and cash equivalents	220	104
Trade and other receivables	25,244	24,834
Prepayments	184	173
Intra-group advance	350	0
Short term investments	3,279	2,395
	29,277	27,506

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

	PARENT/GROUP	
	2015 \$000	2014 \$000
30 FINANCIAL INSTRUMENTS RISKS – continued		
CREDIT QUALITY OF FINANCIAL ASSETS		
The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard & Poor's credit ratings (if available) or to historical information about counterparty default rates.		
COUNTERPARTIES WITH CREDIT RATINGS		
Cash and cash equivalents AA-	220	104
Trade and other receivables AA-	751	790
COUNTERPARTIES WITHOUT CREDIT RATINGS		
Trade and other receivables		
Existing counterparties with no defaults in the past	11,282	11,220
Existing counterparties with defaults in the past ¹	13,211	12,824

¹ This receivable is secured by a mix of mortgage securities and general security agreements. The counterparty to the debt defaulted on its obligations to pay principal sums of \$6.350 million and \$5.000 million and is also in breach of other financial obligations. Delta has reassessed the fair value of its secured debt receivable from the counterparty in default, by reference to market valuations and an assessment of the most likely means by which its security interests will be realised at year end. As is generally the case with valuations, there are inherent assumptions and uncertainties that were built into the methodologies that were applied. The secured debts receivable have been classified as current as at 30 June 2015, on the basis that Delta expects to have enforced its security interests within 12 months of balance date.

LIQUIDITY RISK

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

Contractual obligations in respect of interest expense on term borrowings have not been included in the liquidity risk table as the term debt does not have a contractual end date and the interest is currently payable on a month-by-month basis. Details of the term loan balance and effective interest rate are included in note 17.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

30 FINANCIAL INSTRUMENTS RISKS – continued

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

	Maturity Dates Less than 1 Month \$000	1 - 3 Months \$000	3 Months to 1 Year \$000	1 - 5 Years \$000	More than 5 Years \$000	Carrying Value \$000
AS AT 30 JUNE 2015:						
Financial assets						
Cash and cash equivalents	220	0	0	0	0	220
Trade and other receivables	12,033	0	13,211	0	0	25,244
Intra group advance	0	0	350	0	0	350
	12,253	0	13,561	0	0	25,814
Financial liabilities						
Trade and other payables	9,210	0	0	0	0	9,210
GST payable	557	0	0	0	0	557
Cash flow hedge instruments	0	0	0	223	0	223
Term borrowings	0	0	0	26,490	0	26,490
	9,767	0	0	26,713	0	36,480
AS AT 30 JUNE 2014:						
Financial assets						
Cash and cash equivalents	104	0	0	0	0	104
Trade and other receivables	12,010	0	12,824	0	0	24,834
	12,114	0	12,824	0	0	24,938
Financial liabilities						
Trade and other payables	7,297	0	0	0	0	7,297
GST payable	863	0	0	0	0	863
Cash flow hedge instruments	0	0	0	70	0	70
Term borrowings	0	0	0	29,775	0	29,775
	8,160	0	0	29,845	0	38,005

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

30 FINANCIAL INSTRUMENTS RISKS – continued

SENSITIVITY ANALYSIS

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

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

		+100bps		-100bps	
	Fair Value at Balance Date	Profit	Equity	Profit	Equity
	\$000	\$000	\$000	\$000	\$000
		PARENT/GROUP			
AS AT 30 JUNE 2015:					
Financial liabilities					
Cash flow hedge instruments	223	0	145	0	(150)
Term borrowings (hedged)	5,000	0	(145)	0	150
Term borrowings (unhedged)	21,490	(215)	0	215	0
	26,713	(215)	0	215	0
		PARENT/GROUP			
AS AT 30 JUNE 2014:					
Financial liabilities					
Cash flow hedge instruments	70	0	193	0	(201)
Term borrowings (hedged)	7,500	0	(193)	0	201
Term borrowings (unhedged)	22,275	(223)	0	223	0
	29,845	(223)	0	223	0

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

30 FINANCIAL INSTRUMENTS RISKS – continued

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements recognised in the statement of financial position:

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

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

	2015			
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial liabilities				
Derivative financial liabilities	0	223	0	223
	0	223	0	223

	2014			
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial liabilities				
Derivative financial liabilities	0	70	0	70
	0	70	0	70

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015 - continued

31 CAPITAL MANAGEMENT STRATEGY

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

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

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

32 EVENTS AFTER BALANCE DATE

There were no significant post balance sheet date events.

INDEPENDENT AUDITOR'S REPORT



To the readers of Delta Utility Services Limited's financial statements and performance information for the year ended 30 June 2015

The Auditor General is the auditor of Delta Utility Services Limited (the company). 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 performance information of the company on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the company on pages 22 to 60, that comprise the balance sheet as at 30 June 2015, 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 performance information of the company on pages 16 and 17.

In our opinion:

- the financial statements of the company:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2015; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.
- the performance information of the company presents fairly, in all material respects, the company's achievements measured against the performance targets adopted for the year ended 30 June 2015.

Our audit was completed on 27 August 2015. 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.

INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

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 the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. 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 in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also involves evaluating:

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

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

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

INDEPENDENT AUDITOR'S REPORT



Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the company that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparation of the performance information for the company.

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

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

Responsibilities of the Auditor

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

Independence

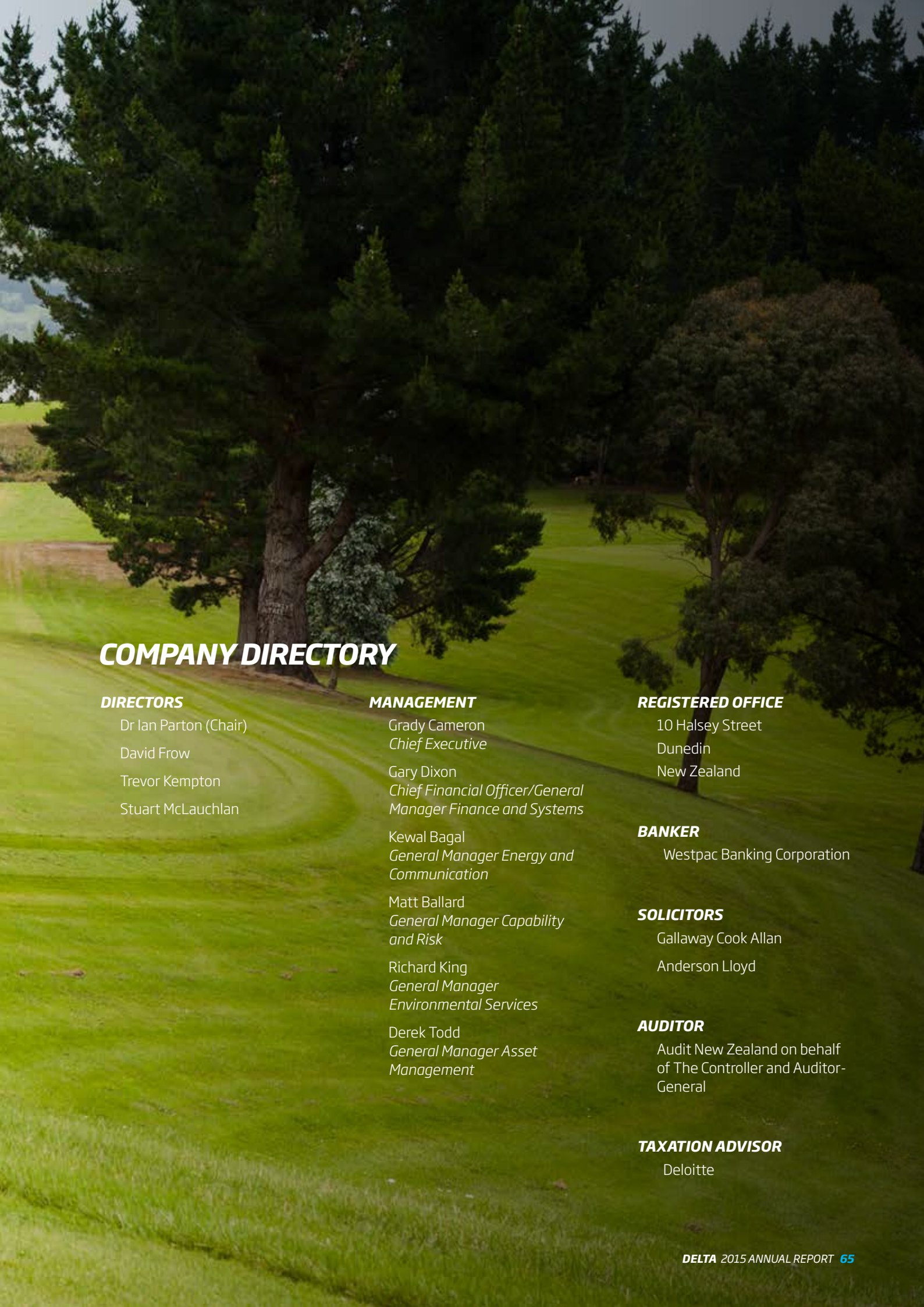
When carrying out the audit, we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the External Reporting Board.

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

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



Mowing at Sawyer's Bay golf course, Dunedin



COMPANY DIRECTORY

DIRECTORS

Dr Ian Parton (Chair)
David Frow
Trevor Kempton
Stuart McLauchlan

MANAGEMENT

Grady Cameron
Chief Executive

Gary Dixon
Chief Financial Officer/General Manager Finance and Systems

Kewal Bagal
General Manager Energy and Communication

Matt Ballard
General Manager Capability and Risk

Richard King
General Manager Environmental Services

Derek Todd
General Manager Asset Management

REGISTERED OFFICE

10 Halsey Street
Dunedin
New Zealand

BANKER

Westpac Banking Corporation

SOLICITORS

Gallaway Cook Allan
Anderson Lloyd

AUDITOR

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

TAXATION ADVISOR

Deloitte

