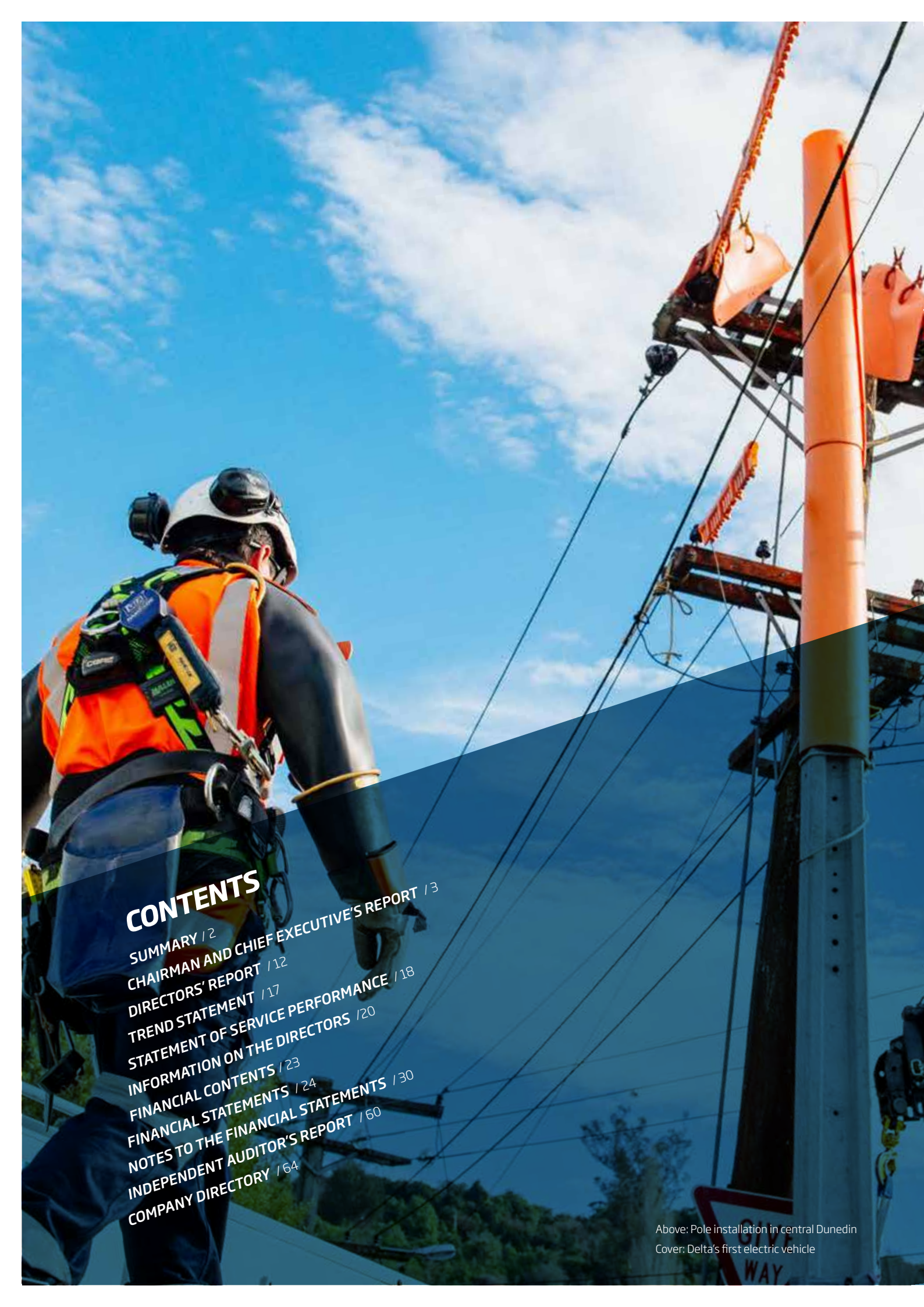




ANNUAL REPORT 2016





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Above: Pole installation in central Dunedin
Cover: Delta's first electric vehicle

THE YEAR IN NUMBERS

78%

Customer satisfaction

607

People employed

25%

Reduction in injury rate

1,050

Hectares mowed for local authority customers

59,400

Tonnes of waste received into landfills operated by Delta

30

Kilometres vegetation cleared from power lines

134,500

Consumers on Delta-maintained electricity networks

9,740

Kilometres electricity lines and cables maintained

770

Power poles installed for Aurora Energy

46,500

Smart meters installed

739,000

Meter reads

18

Kilometres fibre optic installed

SUMMARY

FINANCIAL HIGHLIGHTS

- Revenue of \$106.7 million
- EBITDA of \$11.5 million
- Operating profit before income tax of \$6.1 million
- Net surplus of \$4.7 million after tax
- Total assets of \$61.2 million
- Paid dividends of \$2.5 million to our shareholder, Dunedin City Holdings Limited. Delta has returned total dividends of \$55.5 million to our shareholder since the Company was formed in 1998

OPERATIONAL HIGHLIGHTS

- 25% reduction in total recordable injuries, representing a significant reduction in harm
- Managed \$37.2 million of capital projects on the Aurora Energy electricity network
- Installed 770 poles on the Aurora Energy network in Dunedin and Central Otago
- New tree services business unit completed \$4.1 million vegetation management for improved reliability on the Aurora Energy network, clearing 30 kilometres of vegetation away from power lines
- Appointed preferred supplier to Ministry of Innovation, Business and Employment for inspection and auditing services on prescribed electrical works
- Constructed and commissioned a new, higher-capacity substation at Camp Hill, Central Otago to cater for increased electricity demand
- Upgraded power supply to Omakau and surrounding areas in Central Otago including overhead line upgrades and construction of a new substation at Lauder Flat Road
- Strengthened power supply to the Closeburn and Glenorchy areas of Lake Wakatipu
- Had Contact Energy Clutha technical and tunnel services contract renewed for a further two years
- Prepared playing surfaces for international cricket test in Dunedin in December 2015
- Continued year six of electricity network maintenance for Network Tasman
- Deployed 46,500 smart meters across New Zealand
- Commenced parks maintenance contract with Christchurch City Council totalling \$22 million over nine years
- Won new parks and cemeteries maintenance services contracts for Dunedin City Council via competitive tender



CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

for the Year Ended 30 June 2016

Delta has performed steadily over the past year in its core energy and environmental sectors, growing our portfolio of long term customers.

We continued to nurture a safety-critical culture, and achieved another significant improvement in safety performance with a 25 per cent reduction in total recordable injuries.

For the fourth consecutive year, we increased shareholder equity with a prudent approach to risk and revenue growth underpinned by long term infrastructure maintenance partnerships. Year-on-year financial performance is more predictable with stable earnings and profitability.

For the year ended 30 June 2016 (FY16), Delta recorded an operating profit before income tax of \$6.1 million, in line with the previous year (FY15: \$6.2 million).

Total revenue was \$106.7 million for FY16, an increase of 4 per cent on the previous year (FY15: \$102.5 million), achieved from growth

in services provided to existing and new energy and environmental customers.

The company recorded a net surplus of \$4.7 million for the year under review (FY15: \$4.7 million).

Operating cashflows were \$3.4 million for FY16, below the forecasted \$10.0 million due to temporary differences in the timing of receipts from customers, income tax payments and payments to suppliers and employees.

Total assets increased from \$59.8 million to \$61.2 million during FY16 partly due to an increase in the values of work in progress, materials and receivable balances at year-end. Delta's term borrowings increased by \$2.7 million from \$26.5 million to \$29.2 million during the year.

Delta has an outstanding debt related to infrastructure services provided for the Yaldhurst Village subdivision through its now-closed water and civil construction business in Christchurch. The debt was secured by a mix of mortgage securities over the subject property. At balance date the company assessed the fair value of its secured debt

as \$13.4 million (FY15: \$13.2 million), by reference to a conditional tender to purchase the property pursuant to a mortgagee sale. Since balance date, the conditions of that tender offer have been confirmed, and Delta has entered a new loan agreement with the successful purchaser. We are now confident of receiving interest and incremental debt repayments from FY17.

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 FY16, Delta has returned total dividends of \$55.5 million to its shareholder since the company was formed in July 1998.

As forecasted in its 2015/16 Statement of Intent, Delta paid a dividend of \$2.5 million during FY16 (FY15: \$2.5 million). In approving this dividend, the Board took a considered approach to the balancing of shareholder returns and retained earnings.



Installing switchgear at Five Mile, Queenstown

ENERGY

Our energy business provides asset management and distribution maintenance and construction services to Delta's sister company Aurora Energy, New Zealand's sixth largest electricity network. The electricity network is in an accelerated phase of asset renewals, capacity upgrades and increased maintenance. In response, Delta increased its resources and capabilities to deliver the increased work programme.

During FY16, we managed \$37.2 million of capital projects for Aurora Energy (FY15: \$35.4 million).

We delivered the next stage of the multi-year network protection, system control and communication upgrade for Aurora Energy. A milestone was the start of the Dunedin network operations centre 24 hours a day, seven days per week. The changeover from the existing system to a modern advanced distribution management system and the upgrade to the supervisory control and data acquisition or SCADA system were completed in FY16 for the Dunedin network, in readiness for go live in early FY17.

In Central Otago, we constructed a new, higher capacity substation at Camp Hill near Hawea to cater for an increase in electricity demand from farming and population growth. Construction started in April 2015 and the new substation was commissioned in November 2015.

Delta completed several projects as part of a major upgrade to electricity capacity for Omakau and the surrounding areas in Central Otago. These included upgrading the overhead line crossing the Manuherikia River and installing high-capacity underground cables along State Highway 85 through the Omakau township. A new substation was built at Lauder Flat Road, Omakau and lived in December to supply electricity locally.

We progressed a two-year project to improve the capacity and reliability of electricity supplies to the remote township of Glenorchy, beside Lake Wakitipu.

We also upgraded Aurora Energy's load control system used for Dunedin and Central Otago to switch on street lighting, and to smooth peak demand by remote operation of separately metered hot water heating and off peak domestic space heating.

We cleared 30 kilometres of vegetation growing near overhead power lines. A total of \$4.1 million vegetation management work was completed to improve the reliability of the network and public safety.

In Dunedin, we delivered Aurora Energy's earthing upgrade programme and continued the conversion of transformers from pole to ground mounted. We supported Chorus' programme to roll out ultrafast broadband fibre in Dunedin, and make it New Zealand's first city with internet speeds of 1 gigabit per second. Where Chorus installed new

telecommunications poles, Delta changed over the electricity equipment to the new pole.

We replaced or installed 770 power poles on the Aurora Energy network, achieving its scheduled replacement programme for FY16, including complex overhead installations. We carried out more than 1,300 mechanical pole tests on the Aurora Energy network using Deuar technology and nearly 5,000 manual inspections. The inspections give updates on the condition and expected remaining life of the asset, information used to assess risk and prioritise pole replacement.

In tough conditions, our lines crews responded with determination and skill to repair damage and restore power as quickly as possible to customers following several extreme weather events in Dunedin and Central Otago.

We performed several large projects in Queenstown to cater for residential and tourism growth including undergrounding along State Highway 6 and a major upgrade to the existing high voltage supply in the resort town.

Delta's highly skilled technicians are in demand for specialist electrical services provided to customers throughout the energy supply chain from distribution to transmission and generation.

In a new service for Delta, the Ministry of Business, Innovation and Employment selected us to conduct a pilot in Otago for the



Vegetation control for Aurora Energy electricity network

eventual nationwide inspection and auditing of prescribed electrical work by others.

Throughout New Zealand, electricity meter owners continued the conversion of their fleet to advanced digital meters. As a result, there was strong demand for smart meter deployment services, while demand for manual reads of legacy meters trended gradually down. In FY16, Delta deployed 46,500 advanced meters across New Zealand in Hawkes Bay, Wellington, Tasman, Nelson, Christchurch, South Canterbury, Dunedin, coastal and Central Otago and Southland. We continued to maintain, install and test advanced and legacy meters for electricity retailers and electricity meter owners throughout New Zealand, predominately in the South Island.

In transmission, we continued to provide first response services for Transpower in Frankton after-hours and to maintain Trustpower's 33-kilovolt transmission line that connects its Waipori hydro power scheme to the Berwick substation.

In generation, Contact Energy renewed its Clutha technical and tunnel services contract with us for another two years. We maintain and service Contact's 12 large generators, four at its Clyde and eight at its Roxburgh hydro power station, plus maintain the Brewery Creek tunnel system that monitors land movement through the Cromwell Gorge. In addition to scheduled maintenance,

we perform project work and completed refurbishment of the Generator 1 transformer at Clyde during FY16. For Trustpower, we completed refurbishment of the Station 1A generator at its Waipori hydro power station.

In the distribution sector, we began our sixth consecutive year providing electricity network maintenance and construction services to Network Tasman and Nelson Electricity, contracts that now run through to 31 March 2021.

During FY16, we performed lines maintenance work for Network Tasman largely centred in and around the Motueka area. Work included replacing approximately 200 poles, changing cross arms and hardware at approximately 1,300 pole sites and completing several kilometres of re-conductoring. We also carried out substation maintenance and construction including the installation of ripple control plants, replacement of switchgear, and completion of stage 1 of the new Hope zone substation.

For Nelson Electricity, we completed the relocation of the St Vincent Street substation, removal of the Low Street substation, continued work replacing service boxes and completed winter load and condition monitoring surveys.

Our contract to maintain Dunedin's street lighting network was extended for a further 12 months to June 2017. We have continued

to maintain a 99 per cent lighting reliability during FY16, against a service level of 97 per cent. Dunedin City Council is planning to upgrade Dunedin's street lighting from low-pressure sodium to LED. Delta installed LED luminaires (or lighting heads) in Maori Hill, Dunedin as a trial for the wider rollout.

COMMUNICATIONS

Under our electricity network maintenance agreement, Delta continued to maintain Network Tasman's consumer fibre optic communications network in Tasman and Marlborough. We added 38 new fibre connections for business and residential customers and four kilometres of fibre to the network, and reticulated three kilometres of residential subdivisions. We also installed a radio mesh network at approximately 115 sites across Network Tasman's electricity network to facilitate the installation of SmartCo advanced meters in the Tasman Region.

During FY16, we installed more than eight kilometres of fibre optic communications and three kilometres of ducting for Aurora Energy, completing four of the six links between substations that connect into the grid exit points at South Dunedin and Halfway Bush. We also started a major microwave link project to provide a high-speed, high-bandwidth tunnel across the networks, from Dunedin to Frankton.



Creating Dunedin Railway Station gardens

We completed the next stage of a communications network upgrade for Trustpower at its Waipori hydro power scheme, installing a further three kilometres of fibre during FY16.

ENVIRONMENTAL

Greenspace

Delta's greenspace business expanded during FY16, 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.

We responded to customers' demand for greater visibility on service delivery in real time and integration of that information within their systems. During the year we implemented electronic work management in the field via mobile devices. Solutions were established for Christchurch City Council parks maintenance, Aurora Energy vegetation control and, in advance, for the newly awarded Dunedin City Council parks and cemeteries contracts. The system enables us to receive work packages, monitor status and record asset condition, then share that information with the customer via the platform of their choosing.

Our tree services business, set up as a dedicated unit one year ago, completed \$4.1 million vegetation management for improved reliability on the Aurora Energy

network, clearing a total of 30 kilometres of vegetation away from power lines. The unit also provided arborist services for one-off customer projects including Dunedin street tree maintenance.

On 1 July 2015, we began our nine-year contract with Christchurch City Council to deliver parks services in the south of the city, including Banks Peninsula. In our first year, we formed a new 24-strong team operating out of our new Riccarton depot, created a business-to-business link with the Council and deployed a mobile work management system so our customer can dispatch jobs and track results.

Waimakariri District Council extended our existing agreement to provide parks and reserves services to February 2017. During the year we completed several customer projects, among others, development of the 2.6-hectare Millton Memorial Park dog park in Rangiora, that features areas for large and small dogs; an upgrade of the playground at Mandeville Domain, Kaiapoi, and; transformation of Hegan Reserve, Rangiora from an overgrown vacant lot to a vibrant open space with picnic tables, gardens and sculptures created by local students. Also in Kaiapoi, we were awarded a 10-month project with the Canterbury Earthquake Recovery Authority, to provide mowing services in the district.

Our customer Dunedin City Council issued a new suite of contracts across the city

for its parks, cemeteries and sports fields maintenance. After a competitive tender, we secured one of the two major contracts, responsible for parks maintenance for the northern region including the central city, plus a separate contract for cemeteries' maintenance citywide. Our greenspace team has gained a solid reputation for the quality of its work, often in highly prominent areas of the city. Starting 1 July 2016, the win will see us proudly continue to provide services, as we have for many years, that beautify public spaces and delight visitors and the local community.

We were pleased to expand our geographic coverage in South Canterbury and Tasman during FY16. We now provide roadside vegetation management for the Timaru District Council roading network and alongside the state highway network in Tasman.

A highlight for our sports turf management team was to prepare the playing surfaces for international test cricket at the University Oval in Dunedin. New Zealand played Sri Lanka in early December with the pitch receiving positive feedback, despite variable weather conditions leading into the match.



OUR VALUES

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



Our Christchurch environmental team

Solid waste

We provide waste services to Dunedin City and the Clutha District. During the year, we handled 59,400 tonnes of waste disposed to landfill and made 275,000 weekly rubbish and recycling collections.

We continued to operate Dunedin's main landfill at Green Island, with our existing contract extended again for a further year until June 2017. Delta maintained Enviro-Mark® Gold accreditation for the operation of the landfill, providing independent verification of the environmental management system in place.

The Dunedin City Council had sought proposals for future waste disposal services at the landfill, including a possible joint venture arrangement with a commercial partner. The Council subsequently withdrew from the process having concluded that the submissions received did not offer sufficient benefit.

For the fourth year, we provided integrated solid waste services to Clutha District Council, managing the Mount Cooee landfill and kerbside collections for rubbish and recycling. During FY16, Delta reshaped the external profile of the landfill to improve slope stability and better contain waste, in line with modern landfill management practice.

OUR PEOPLE

It is the skill and dedication of our people that makes the difference for our customers and keeps everyone safe at work. Now in their fourth year, our Minds at Work awards celebrate the contribution our employees make through their positive attitude and achievements. We congratulate our 2015 Minds at Work Awards winners who went above and beyond in their commitment to the job and achieved outstanding success:

- Bruce Donaldson (Customer Service Award) for forging great customer relationships while providing cable locating services
- Korrie Symister (Doing It Tough Award) for getting the power back on after severe weather events, including the Saddle Hill fire in Dunedin
- Wayne Burnett (Living the Values Award) for his professionalism and polite manner that earns regular praise from customers
- Paul Berg (Safety Leader of the Year) for exceptional safety leadership on the Clyde Dam turbine refurbishment project
- University Oval Team (Project/Team of the Year) for preparing the venue to international standards for the 2015 Cricket World Cup, watched by tens of millions of people worldwide.

We also made a Special 'Rising Star' Award to Nick Wyatt who consistently demonstrated a great approach to open communication and problem solving.



Using the arc flash estimator

SAFETY AND RISK

Every day, our people work in challenging environments where control of multiple risks is a priority. Managing the risks to our employees, contractors and the public is our primary health and safety responsibility throughout the organisation.

The new Health and Safety at Work Act came into force in April, strengthening requirements on all workplaces to identify and control significant risks to people's health and safety. The changes marry well with Delta's safety culture that has a clear focus on proactive risk management.

Our hunt for new and innovative ways to assess risk before starting work was recognised in the annual Electricity Engineers' Association awards. Power system engineer Rob Douglas won the 2016 Workplace Safety Award for development of an arc flash estimator tool to help teams working in the field assess the potential risk of low voltage arc flash hazards on electricity transformers. At the same awards, power system engineer Shirley Thian received the People's Choice Presentation Award for her paper on safety in design that outlined how to implement new design processes to help control hazards.

During FY16, we maintained the visibility of safety leadership across the organisation. The Board of Directors' Health and Safety Committee met three times during FY16.

Managers made regular onsite safety observations. Workgroup safety days, plus a safety day for all operational leaders across the organisation, gave focused attention to process safety leadership. We continued to roll out customisable visual safety boards used in conjunction with daily and weekly team briefings.

This year we achieved a further significant reduction in recordable injury rates by 25 per cent. Total recordable injuries per 200,000 hours worked (TRIFR) have trended downwards in the last three years from 8.79 in FY14, to 4.16 in FY15 to 3.11 in FY16 against a target of 4. We are pleased at the continuous improvement in this lagging indicator and the risk reduction it represents.

Regrettably, Delta was prosecuted by WorkSafe in relation to a workplace incident involving a line worker near Cardrona, Central Otago which occurred in November 2014. As an organisation, we are highly committed to keeping our people safe. We make regular and ongoing improvements to our safety practice, training and equipment to avoid such incidents. We were very disappointed that despite these efforts, in this instance, the required procedures and training for this type of work were not followed. Following the incident we carried out an internal investigation, further strengthened our work practices and introduced a new live low voltage work standard.

In FY13 we began deployment of GPS location devices into our line crew and fault response

vehicles. The Smartrak system tracks vehicle location and worker down status so that we can respond quickly in the event of an emergency. The system also supports efficient job management, as we can easily locate and dispatch the nearest vehicle to the next work site, especially useful when managing major callouts in extreme weather events. During FY16 Smartrak was fitted to an additional 233 operational vehicles.

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 FY16, there was a specific focus on the safe maintenance of overhead live line conductors and associated network equipment. Delta has continued to deepen its 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 was an active participant in workplace safety industry and engineering safety forums including the Business Leaders' Health & Safety Forum, Electricity Engineers' Association and Electricity Networks Association working group. We retained tertiary accreditation, the highest standard attainable, for ACC's Workplace Safety Management Programme at the annual independent audit.



OUR NISSAN LEAF \$2.08 = 100KM



TYPICAL PETROL HATCHBACK \$2.08 = 20KM



Based on fuel costs for Toyota Yaris SX comparison on www.eecabusiness.govt.nz (Nov 2015)

Image: Leading the Charge electric vehicles event in Dunedin, supported by Delta.

SUSTAINABILITY

Broadly defined, business sustainability is the management of a company's financial, social and environmental risks, obligations and opportunities. A sustainable approach recognises that financial success relies on social and environmental capital. This year we took stock of our existing sustainability activities that contribute to longer term value creation, culminating in development of a sustainability framework for the company that will be adopted for FY17.

Electricity is at the heart of our business, so it makes sense to increase its use as a transport fuel. Delta installed the South Island's first electric vehicle fast charger in central Dunedin, opening to the public in late February. The purpose is to encourage the uptake of electric vehicles in Dunedin and Otago by removing range anxiety. In the first four months of operation, the unit delivered 280 rapid charges, equivalent to a distance of 12,800 kilometres travelled using electric power.

In January, we took delivery of the first electric vehicle in the Delta fleet, a Nissan Leaf. The five-door hatch has a range of 130 kilometres, is all-electric and is able to be charged using any standard three-pin socket. The pool vehicle has been prominently branded to raise awareness of the advantages of electric transport.

Vehicle fuel use is a significant business expense and emissions source. We improved the overall fuel efficiency of our light vehicle fleet from 9.68 to 9.62 litres per 100 kilometres travelled during the year.

Delta is committed to continual improvement in environmental management. During FY16, we expanded and strengthened our existing Enviro-Mark® accreditation. We now have Enviro-Mark® Gold accreditation for the Green Island landfill (reconfirmed), Rangiora depot (upgraded from Enviro-Mark® Bronze) and our Riccarton, Christchurch depot (newly added). Our Dunedin head office retained Enviro-Mark® Bronze accreditation. Site audits as part of the accreditation process confirm ongoing compliance with environmental management standards and identify corrective actions to improve our performance.

OUR COMMUNITIES

We are privileged to serve our communities by providing infrastructure services that enhance wellbeing from power supply to enjoyable recreational spaces to rubbish and recycling collection. Delta also gives a helping hand to community organisations, lending our support to those caring for and inspiring others.

We entered our second year as principal sponsors of the Otago Rugby Referees. Our partnership supports the volunteer referees who dedicate their time and skill to keeping the game fair and fun for everyone from junior players to regional representatives. We're proud that with our support Otago Rugby Referees were able to introduce new initiatives to improve recruitment and retention levels. Successes included the selection of two young referees for the New Zealand High Performance Referee Squad and scholarships for four young referees to help with their tertiary studies.

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



Left: Otago rugby referees
Right: Alzheimers Society Otago receiving
Charity Challenge donation

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 the Child Cancer Foundation Otago/Southland, Otago Multiple Sclerosis Society, Koru Care Otago, Prostate Cancer Foundation of New Zealand, Alzheimers Otago and the Wakatipu Youth Trust.

Delta and the Department of Conservation have partnered to reduce the risk of the rare New Zealand falcon/kārearea being electrocuted when they perch on overhead power equipment. To date, we have retrofitted insulation to four sites in Glenorchy near Queenstown. The new designs reduce the risk of the falcon's wings or tail bridging live wires and equipment.

GOVERNANCE

Steve Thompson joined the Board as non-executive director in June 2016. A chartered accountant and previously a tax partner at Deloitte, he has an extensive background in providing corporate and taxation advice to a significant number of public and private entities. Steve is chair of electricity distribution network Alpine Energy and a director of a number of New Zealand companies involved in the energy, construction and investment sectors. We welcome Steve to the Board of Directors and the governance and industry expertise he brings.

OUR THANKS

We thank our people, our customers and community stakeholders for another successful year. Delta has risen to the challenge of continued high demand for our core services and applied its technical know-how to find solutions for our customers. Our people have achieved this while keeping their safety, and that of others, paramount. Everyone deserves to go home safely at the end of their working day. We look forward to another successful year for our organisation and the communities we serve.

Ian Parton
CHAIRMAN

Grady Cameron
CHIEF EXECUTIVE

30 August 2016



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 2016.

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

DIRECTORS' REPORT

for the year ended 30 June 2016

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 2016

	\$000
Operating profit before income tax	6,135
Less income tax expense	1,462
Net profit for the period	<u>4,673</u>

STATE OF AFFAIRS

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

DIVIDENDS

Dividends of \$2.500 million were declared and paid during the year.

RESERVES

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

	\$000
Retained earnings - to (from)	2,173
Cash flow hedge reserve to (from)	(24)

DIRECTORS' REPORT

for the year ended 30 June 2016 – continued

REVIEW OF OPERATIONS

Delta responded to a further uplift in the demand for electricity asset management and construction services and established a number of new energy and communication revenue streams during the year.

Delta's net surplus of \$4.673 million (2015: \$4.657 million) provided a return on average Shareholder's equity of 28% (2015: 32%).

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2016 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 2016 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

Stephen R Thompson was appointed as a director effective from 1 June 2016.

DIRECTORS' INSURANCE

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

DIRECTORS' REMUNERATION

The remuneration paid to Directors during the year was:

Dr Ian M Parton	\$	36,285
Stuart J McLauchlan	\$	24,535
David J Frow	\$	24,535
Trevor J Kempton	\$	21,470
Stephen R Thompson	\$	1,802
	\$	108,627

DIRECTORS' REPORT

for the year ended 30 June 2016 – continued

EMPLOYEES' REMUNERATION

The number of employees and former employees, whose remuneration and benefits exceeded \$100,000 for the year ended 30 June 2016 is listed below. Remuneration includes all non-cash benefits and redundancy payments at total cost to the Company, where applicable.

\$100,001 - \$110,000	37
\$110,001 - \$120,000	17
\$120,001 - \$130,000	6
\$130,001 - \$140,000	7
\$140,001 - \$150,000	3
\$150,001 - \$160,000	4
\$160,001 - \$170,000	3
\$170,001 - \$180,000	2
\$180,001 - \$190,000	2
\$190,001 - \$200,000	1
\$210,001 - \$220,000	1
\$260,001 - \$270,000	1
\$280,001 - \$290,000	2
\$300,001 - \$310,000	1
\$560,001 - \$570,000	1
	88

AUDIT AND RISK COMMITTEE

Stuart McLauchlan, Ian Parton, David Frow and Trevor Kempton were members of the Audit and Risk Committee of the Board during the year. Stephen Thompson was appointed effective from 1 June 2016. 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 2016 – continued

HEALTH AND SAFETY COMMITTEE

David Frow, Ian Parton, Stuart McLauchlan and Trevor Kempton were members of the Health and Safety Committee of the Board during the year. Stephen Thompson was appointed effective from 1 June 2016. The Committee's principal responsibility is to review and make recommendations to the Board on the appropriateness and effectiveness of the Company's health and safety strategy, performance and governance.

NOMINATION COMMITTEE

Ian Parton, Stuart McLauchlan, David Frow and Trevor Kempton were members of the Nomination Committee of the Board during the year. Stephen Thompson was appointed effective from 1 June 2016. The Committee's principal responsibility is to identify and nominate, for approval by the Shareholder, external candidates to fill board vacancies as they arise.

REMUNERATION COMMITTEE

Ian Parton, Stuart McLauchlan, David Frow and Trevor Kempton were members of the Remuneration Committee of the Board during the year. Stephen Thompson was appointed effective from 1 June 2016. 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

30 August 2016

TREND STATEMENT

Years ended 30 June	Note	DELTA GROUP CONSOLIDATED ³				
		2016 \$000	2015 ⁴ \$000	2014 \$000	2013 \$000	2012 \$000
Total Recordable Injury Frequency Rate	1	3.11	4.16	8.79	N/A	N/A
Lost Time Injury Frequency Rate	2	N/A	N/A	6.17	1.97	1.84
Revenue		106,663	102,471	96,624	105,733	108,633
EBITDA before impairment charges		11,473	11,055	12,455	11,795	10,529
EBIT before impairment charges		7,875	7,700	8,239	6,411	4,699
Profit before tax and impairment charges		6,135	6,212	6,155	3,673	2,131
Impairment charges		0	0	455	288	9,044
Net surplus		4,673	4,657	4,377	4,606	(5,880)
Total assets		61,163	59,835	56,530	77,104	75,725
Ordinary dividends		2,500	2,500	2,500	2,000	4,500
Cash flow from operating activities		3,439	10,390	5,553	7,018	863
Shareholder's equity		17,618	15,469	13,757	11,675	8,773
Term debt		29,165	26,490	29,775	44,375	50,925
Return on average Shareholder's equity before impairment charges		28%	32%	37%	33%	18%
EBIT before impairment charges/ average funds employed		13%	13%	12%	8%	6%
Equity to assets		29%	26%	24%	15%	12%
FTE (Full time equivalent) employee numbers as at year end		607	572	505	605	661

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 and 2016 results are for Delta Utility Services Limited only as there were no trading subsidiaries.
- 4 The 2015 numbers have been restated to reflect an adjustment to discount factors used in Employee Entitlement calculations. Trend statement figures for 2014 and prior have not been updated for this adjustment.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2016

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 2015	Achieved	The Statement of Intent for the 2016 financial year was submitted to and accepted by DCHL prior to 30 June 2015.
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.
COMMUNITY, PEOPLE, SAFETY AND ENVIRONMENT OBJECTIVES			
Community			
Support community initiatives.	\$20,000 of sponsorship per annum.	Achieved	Over \$40,000 was paid in sponsorship to community groups during the year.
People			
Support Delta apprenticeship scheme.	Average number of apprentices in the scheme of 10 or more per annum.	Achieved	During the year, 18 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 1.5% of total hours during the year.
Monitor voluntary leavers relative to permanent staff.	Below 15.0% staff turnover.	Achieved	Voluntary staff turnover was 9.0% over the 2015/16 year.
Safety			
Reduce harm to employees and contractors.	≤ 7.00 total recordable injury frequency rate (TRIFR) per 200,000 hours worked.	Achieved	The TRIFR achieved for the year was 3.11 per 200,000 hours worked.
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 biennially. An audit was undertaken in 2016. Accreditation was maintained.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2016 - continued

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

Environment

• Maintain all existing environmental accreditations.	Maintain all existing environmental accreditations held during the year.	Achieved	Three Delta sites have EnviroMark® Gold status. EnviroMark® Bronze status is also accredited to one other site.
• 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	≤ 10.25 litres fuel used per 100 kilometres.	Achieved	Fuel efficiency across the Delta fleet was calculated at 9.62 litres per 100 kilometres.

	\$000		\$000
FINANCIAL OBJECTIVES			
• EBITDA	11,720	Not achieved	11,473
• Net profit after income tax	4,610	Achieved	4,673
• Shareholder's funds	17,828	Not achieved	17,618
• Cash flow from operations	9,974	Not achieved	3,439
• Capital expenditure	≤ 6,421	Achieved	4,101
• Term debt	21,728	Not achieved	29,165
• Dividends	2,500	Achieved	2,500
• Shareholder's funds to total assets	31%	Not achieved	29%

Cash flow from operations, term debt and the ratio of shareholder funds to total assets were impacted by temporary differences in the timing of receipts from customers, outstanding debt collections, income tax payments and payments to suppliers and employees.

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 Chairman – Holmes Fire LP Director – Aurora Energy Limited Director – ETEL Limited Director – ETEL Transformers Pty Ltd (Aus) Director – HydroWorks Limited Director – Rataworks Limited Senior Consultant – Strata Energy Consulting
Trevor J Kempton Non-Executive Director	BE (Hons), M.IPENZ, F.NZIM, CM.Inst.D.	November 2013	Director and shareholder – Long Beach Consulting Limited Director – Aurora Energy Limited Director – Constructing Excellence (NZ) Limited Director – The Academy of Construction Excellence (NZ) Limited Director – Trevian Properties Limited Councillor – Otago Regional Council Shareholder – Naylor Love Enterprise Group of companies
Stuart J McLauchlan Non-Executive Director	BCom, FCA (PP), CF.Inst.D.	June 2007	Chairman and shareholder – Scott Technology Limited Chairman – Compass Agribusiness Management Limited Chairman – Dunedin International Airport Limited Chairman – NZ Sports Hall of Fame Chairman – Pharmac Chairman – University of Otago Foundation Studies Limited Chairman – UDC Finance Limited Director and shareholder – Dunedin Casinos Limited Director and shareholder – Rosebery Holdings Limited Director – AD Instruments Pty Limited Director – Aurora Energy Limited

INFORMATION ON THE DIRECTORS – continued

DIRECTOR	QUALIFICATIONS	DATE APPOINTED	DECLARATIONS OF INTERESTS
			Director – BPAC Clinical Solutions Management Limited Director – Cargill Hotel 2002 Limited Director – HTS 110 Limited Director – Ngai Tahu Tourism Board Director – Otago & Southland Employers Association Director – Scenic Circle Hotels Limited and subsidiaries Trustee/Shareholder – Three Hills Limited Director – University of Otago Holdings Limited Director – USC Investments Limited Member – Marsh Advisory Board Partner – G S McLauchlan & Co Limited Pro Chancellor – University of Otago Director – Energy Link Limited (resigned 18 March 2016)
Stephen R Thompson			
Non-Executive Director	BCom, FCA (PP), CF.Inst.D.	June 2016	Chairman and shareholder – Thompson Bloodstock Limited Chairman – Alpine Energy Limited Chairman – NETcon Limited Chairman – Timaru Electricity Limited Director and shareholder – Best View Limited Director and shareholder – Cairnmuir Road Winery Limited Director and shareholder – Passmore Consulting Services Limited Director – Aurora Energy Limited Director – Canterbury Aluminium Limited Director – Ellisons Aluminium Central Limited Director – Ellisons Aluminium Limited Director – F.S. Investments Limited Director – Infratec Limited Director – Infratec Renewables (Rarotonga) Limited Director – Integrated Contract Solutions Limited Director – Keano's Trustee Company Limited Director – Millenium Solutions Limited Director – Owhiro River Limited Director – Southern Aluminium Joinery Limited Director – Wanaka Bay Limited Director – Westminster Resources Limited Director – Whitestone Contracting Limited



Constructing Lindis Crossing
substation, Central Otago



FINANCIAL STATEMENTS

for the year ended 30 June 2016

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STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2016

	Note	2016 \$000	2015 \$000
Operating revenue	3	102,545	99,375
Financial revenue	4	4,118	3,096
Total revenue		106,663	102,471
Less expenses			
Operating expenses	5	98,790	94,771
Financial expenses	6	1,738	1,488
Total expenses		100,528	96,259
Profit before tax		6,135	6,212
Income tax expense/(refund)	9	1,462	1,555
Net profit for the year		4,673	4,657
Other comprehensive income			
Cash flow hedges		(24)	(110)
Total other comprehensive income		(24)	(110)
Total comprehensive income		4,649	4,547

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 2016

	Note	2016 \$000	2015 \$000
Equity at beginning of the year		15,469	13,422
Total comprehensive income		4,649	4,547
Less distribution to owner	8	2,500	2,500
Equity at end of the year		17,618	15,469

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

BALANCE SHEET

as at 30 June 2016

	Note	2016 \$000	2015 \$000
EQUITY			
Share capital	10	17,000	17,000
Cash flow hedge reserve	11	(185)	(161)
Retained earnings	12	803	(1,370)
Total equity		17,618	15,469
CURRENT LIABILITIES			
Trade and other payables	13	8,029	9,210
GST payable		857	557
Provisions	15	4,370	4,449
Taxation payable		0	2,664
Total current liabilities		13,256	16,880
NON-CURRENT LIABILITIES			
Cash flow hedge instruments	14	257	223
Term borrowings	16	29,165	26,490
Provisions	15	867	773
Total non-current liabilities		30,289	27,486
Total liabilities		43,545	44,366
TOTAL EQUITY AND LIABILITIES		61,163	59,835

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

BALANCE SHEET

as at 30 June 2016 – continued

	Note	2016 \$000	2015 \$000
CURRENT ASSETS			
Cash and cash equivalents	21	202	220
Trade and other receivables	22	27,365	25,244
Work in progress	23	3,733	3,279
Inventories – materials and stores		2,927	2,626
Taxation receivable		1,307	0
Prepayments		282	184
Intra group advance		0	350
Total current assets		35,816	31,903
NON-CURRENT ASSETS			
Intangible assets	25	1,498	1,511
Deferred tax asset	17	1,068	3,901
Property, plant and equipment	24	22,781	22,520
Total non-current assets		25,347	27,932
TOTAL ASSETS		61,163	59,835

For and on behalf of the Board of Directors



Ian Parton
CHAIRMAN



Stuart McLauchlan
DIRECTOR

30 August 2016

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 2016

	Note	2016 \$000	2015 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from			
Receipts from customers		100,461	97,120
Interest received		10	9
		100,471	97,129
Cash was disbursed to			
Payments to suppliers and employees		93,158	83,795
Interest paid		1,641	1,499
Intra-group tax loss/subvention payments made		845	350
Income tax paid		1,395	901
Net GST paid		(7)	194
		97,032	86,739
Net cash inflows/(outflows) from operations	26	3,439	10,390
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from			
Sale of development property		0	1,208
Sale of property, plant and equipment		547	3,337
		547	4,545
Cash was disbursed to			
Purchase of property, plant and equipment		4,179	6,844
Investment in financial instrument		0	2,190
		4,179	9,034
Net cash inflows/(outflows) from investing activities		(3,632)	(4,489)

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 2016 - continued

	Note	2016 \$000	2015 \$000
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from			
Receipts from borrowings		81,650	76,690
		81,650	76,690
Cash was disbursed to			
Repayment of borrowings		78,975	79,975
Dividends paid		2,500	2,500
		81,475	82,475
Net cash inflows/(outflows) from financing activities		175	(5,785)
Net increase/(decrease) in cash, cash equivalents and bank overdraft		(18)	116
Cash and cash equivalents at the beginning of the period		220	104
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	21	202	220

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 2016

1 REPORTING ENTITY

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

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

The financial statements were authorised for issue by the Directors on 30 August 2016.

BASIS OF ACCOUNTING

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

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

CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

REVENUE RECOGNITION

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

FINANCIAL REVENUE

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

CONSTRUCTION CONTRACTS

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

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

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

LEASING

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

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

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

BORROWING COSTS

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

EMPLOYEE ENTITLEMENTS

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

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

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

GOODS AND SERVICES TAX (GST)

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

TAXATION

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

Depreciation rates and methods used are as follows:

	RATE	METHOD
Buildings	1% to 14%	straight line
Metering equipment	7% to 100%	straight line
Plant and equipment	1% to 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 2016 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

INVENTORIES

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

WORK IN PROGRESS

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

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 2016 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

TRADE AND OTHER RECEIVABLES

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

BORROWINGS

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

PROVISIONS

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

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

CASH FLOW HEDGE INSTRUMENTS AND HEDGE ACCOUNTING

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the financial year. Any standards introduced or amended were not relevant to the Company.

STANDARDS AMENDED OR ISSUED DURING THE YEAR

During the period, there were no new or amended accounting standards relevant to the Company.

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 2016 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Amendments to NZ IAS 16

Leases

Adoption date: periods

beginning on or after

1 January 2019

NZ IFRS 16 removes the classification of leases as either operating or finance leases – for the lessee – effectively treating all leases as finance leases. This is likely to have a material impact on the Company's financial statements and leading up to implementation the Company will review the new standard to ensure appropriate disclosure. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

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 27 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 2016 - continued

	2016 \$000	2015 \$000
3 OPERATING REVENUE		
Sales revenue	102,545	99,375
	102,545	99,375
4 FINANCIAL REVENUE		
Interest revenue	4,118	3,096
	4,118	3,096
Interest revenue during the period includes \$4.108 million (2015: \$3.087 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	55	54
Employee remuneration and benefits	44,420	39,580
Materials	17,914	19,469
Land cost of sales	0	1,380
Depreciation	3,599	3,356
Net foreign exchange loss	0	42
Rental expense	2,851	2,014
Directors' fees	109	104
Increase/(decrease) in impairment provision for trade and other receivables	(9,372)	4,924
Bad debts written off ¹	13,528	24
Donations	38	35
(Gain)/loss on sale/disposal assets	(296)	(382)

¹ Bad debts written off includes \$13.520 million in regards to existing counterparties with defaults in the past (refer page 54, note 28, sub-note 1).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

	2016 \$000	2015 \$000
6 FINANCIAL EXPENSES		
Interest/facility fees - related parties	1,703	1,487
Interest - other	35	1
Total financial expenses	1,738	1,488

	2016	2015
7 EARNINGS PER SHARE		
Basic earnings per share is calculated by dividing the net profit/(loss) attributable to the Shareholder of the Company by the weighted average number of ordinary shares on issue during the year		
Number of shares		
Weighted average number of ordinary shares	17,000,000	17,000,000
Basic earnings per share	26.22 cents	27.39 cents

		2016 \$000	2015 \$000
8 DIVIDENDS			
Interim dividend	December 2015		
(December 2014: 7.4 cents/share)	7.4 cents/share	1,250	1,250
Final dividends	June 2016		
(June 2015: 7.4 cents/share)	7.4 cents/share	1,250	1,250
		2,500	2,500
	Cents per share	14.71	14.71

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

	2016 \$000	2015 \$000
9 INCOME TAX		
Total operating profit before income tax	6,135	6,212
Tax thereon at 28%	1,718	1,739
<i>Plus / (less) the tax effect of differences</i>		
Expenditure non-deductible for taxation	74	55
Non-assessable income	(239)	(159)
Under/(over) tax provision in prior years	(91)	(80)
Tax effect of differences	(256)	(184)
Tax expense /(benefit)	1,462	1,555
<i>Represented by</i>		
Current tax provision	(1,307)	3,088
Prior period adjustments to current tax	(74)	3
Deferred tax provision	2,860	(1,453)
Prior period adjustments to deferred tax	(17)	(83)
Income tax	1,462	1,555
Effective tax rate	23.8%	25.0%

Imputation Credit Account

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

	2016 \$000	2015 \$000
10 EQUITY - SHARE CAPITAL		
Issued capital		
17,000,000 fully paid ordinary shares	17,000	17,000
11 RESERVES		
Cash flow hedge reserve		
Balance at the beginning of the year	(161)	(51)
Net revaluations	(34)	(152)
Deferred tax arising on hedges (see Note 17)	10	42
Balance at the end of the year	(185)	(161)
The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to interest payments that have not yet occurred.		
12 RETAINED EARNINGS		
Balance at the beginning of the year	(1,370)	(3,527)
Net profit after tax	4,673	4,657
Dividend distributions	(2,500)	(2,500)
Balance at the end of the year	803	(1,370)
13 TRADE AND OTHER PAYABLES		
Trade payables	4,124	4,066
Due to related parties	280	341
Other creditors	3,625	4,803
	8,029	9,210

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 2016 - continued

	2016 \$000	2015 \$000
14 CASH FLOW HEDGE INSTRUMENTS		
Interest rate swap revaluations – payable	(257)	(223)
Analysed as:		
Non-current	(257)	(223)
The Company uses interest rate swaps to manage its exposure to interest rate movements on its multi-option facility borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. The treasury policy requires that the level of the fixed interest hedge should be limited to a series of ranges within set debt time periods. These interest rate swaps are all due to settle between 1 and 5 years of balance date and the carrying values disclosed also reflect the contractual values. The interest rate agreements are held with independent and high credit quality financial institutions in accordance with Company credit policy.		
15 PROVISIONS		
(i) Current liabilities		
Long service leave	213	201
Annual leave	3,667	3,711
Gratuities	189	283
Sick leave	157	122
Other provisions	144	132
	4,370	4,449
(ii) Non-current liabilities		
Long service leave	492	429
Gratuities	375	344
	867	773

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

	2016 \$000	2015 \$000
16 TERM BORROWINGS (secured)		
Dunedin City Treasury Limited – related party	29,165	26,490
	29,165	26,490
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	29,165	26,490
	29,165	26,490

The weighted average interest rate for the loan at balance date was 6.53% (2015: 4.55%).

17 DEFERRED TAX

	Opening Balance Sheet \$000	Charged to Equity \$000	Charged to Income \$000	Closing Balance Sheet Assets \$000	Closing Balance Sheet Liabilities \$000	Closing Balance Sheet Net \$000
YEAR ENDED 30 JUNE 2016:						
Property, plant and equipment	(181)	0	(262)	0	(443)	(443)
Employee benefits	1,418	0	153	1,571	0	1,571
Provisions	2,602	0	(2,734)	(132)	0	(132)
Revaluations of cash flow hedge instruments	62	10	0	72	0	72
Development costs	0	0	0	0	0	0
Balance at the end of the year	3,901	10	(2,843)	1,511	(443)	1,068
YEAR ENDED 30 JUNE 2015:						
Property, plant and equipment	(162)	0	(19)	0	(181)	(181)
Employee benefits	1,266	0	152	1,418	0	1,418
Provisions	1,250	0	1,352	2,602	0	2,602
Revaluations of cash flow hedge instruments	20	42	0	62	0	62
Development costs	(52)	0	52	0	0	0
Balance at the end of the year	2,322	42	1,537	4,082	(181)	3,901

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

	2016 \$000	2015 \$000
18 CONTINGENT LIABILITIES		
Performance bonds	950	1,446
	950	1,446
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.		
19 CAPITAL EXPENDITURE COMMITMENTS		
Plant and equipment	516	490
	516	490
20 LEASE COMMITMENTS		
Non-cancellable operating lease commitments:		
payable within one year	2,188	1,687
payable between one to five years	4,664	3,279
payable later than five years	0	100
	6,852	5,066
21 CASH AND CASH EQUIVALENTS		
Cash and bank	202	220

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 2016 - continued

	2016 \$000	2015 \$000
22 TRADE AND OTHER RECEIVABLES		
Trade receivables	19,590	27,911
Less estimated doubtful debts	(389)	(9,761)
	19,201	18,150
Due from related parties	8,164	7,094
	27,365	25,244
Past due, but not impaired, receivables are:		
Age analysis: 30 - 60 days	84	244
60 - 90 days	300	427
90 days plus	120	224
	504	895
All past due balances are considered collectable.		
A summary of all receivables impaired or otherwise, is included at Note 28. The estimated doubtful debts provision relates entirely to individually impaired trade receivable balances.		
Opening doubtful debts provision	(9,761)	(4,837)
Additional provisions made during the year	(4,177)	(5,008)
Receivables written off during the year ¹	13,528	0
Provisions reversed during the year	21	84
Closing doubtful debts provision	(389)	(9,761)

¹ Receivables written off during the year includes \$13.520 million in regards to existing counterparties with defaults in the past (refer page 54, note 28, sub-note 1).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

	2016 \$000	2015 \$000
23 WORK IN PROGRESS		
Work in progress – construction contracts	816	435
Work in progress – other	2,917	2,844
	3,733	3,279
Included within work in progress is \$1.959 million for Dunedin City Council Group entities (2015: \$1.412 million).		
Work in progress – construction contracts		
Gross construction work in progress plus margin to date	8,833	26,654
Progress billings	(8,017)	(26,219)
Total construction work in progress	816	435
Retentions held by customers	44	0
Due from customers under construction contracts	1,947	13,136

Included in sales is \$26.1 million of construction contract revenue (June 2015: \$25.6 million).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

24 PROPERTY, PLANT AND EQUIPMENT

	Land \$000	Buildings \$000	Meters \$000	Plant and Equipment \$000	Motor Vehicles \$000	Assets under Construction \$000	Total \$000
YEAR ENDED 30 JUNE 2016:							
Cost							
Balance at the beginning of the year	4,684	5,045	8,464	12,369	22,065	482	53,109
Purchases	0	30	133	1,294	2,040	148	3,645
Sales/disposals	0	(3)	(6,887)	(354)	(692)	0	(7,936)
Transfers	0	0	0	(28)	456	(428)	0
Total cost	4,684	5,072	1,710	13,281	23,869	202	48,818
Accumulated depreciation							
Balance at the beginning of the year	0	1,275	7,358	8,940	13,016	0	30,589
Depreciation	0	106	88	941	2,002	0	3,137
Sales/disposals	0	(3)	(6,839)	(342)	(498)	0	(7,682)
Transfers	0	0	0	(7)	0	0	(7)
Total accumulated depreciation	0	1,378	607	9,532	14,520	0	26,037
Balance at the end of the year	4,684	3,694	1,103	3,749	9,349	202	22,781
YEAR ENDED 30 JUNE 2015:							
Cost							
Balance at the beginning of the year	5,396	5,031	7,918	11,165	25,408	76	54,994
Purchases	0	23	546	1,332	3,336	481	5,718
Sales/disposals	(712)	(9)	0	(137)	(6,745)	0	(7,603)
Transfers	0	0	0	9	66	(75)	0
Total cost	4,684	5,045	8,464	12,369	22,065	482	53,109
Accumulated depreciation							
Balance at the beginning of the year	0	1,154	7,288	8,160	15,589	0	32,191
Depreciation	0	130	70	915	1,931	0	3,046
Sales/disposals	0	(9)	0	(135)	(4,504)	0	(4,648)
Transfers	0	0	0	0	0	0	0
Total accumulated depreciation	0	1,275	7,358	8,940	13,016	0	30,589
Balance at the end of the year	4,684	3,770	1,106	3,429	9,049	482	22,520

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 2016 - continued

	2016 \$000	2015 \$000
25 INTANGIBLES		
SOFTWARE		
Cost		
Balance at beginning of year	5,492	4,414
Purchases	338	1,067
Transfers	194	11
Total cost	6,024	5,492
ACCUMULATED AMORTISATION		
Balance at the beginning of year	4,207	3,897
Amortisation	462	310
Transfers	7	0
Total amortisation	4,676	4,207
SOFTWARE WORK IN PROGRESS		
Balance at the beginning of the year	226	11
Purchases	118	226
Transfers	(194)	(11)
Total amortisation	150	226
Balance at the end of year	1,498	1,511

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

	2016 \$000	2015 \$000
26 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES		
Net profit/(loss) for the year	4,673	4,657
<i>Items not involving cash flows</i>		
Depreciation	3,599	3,356
Deferred tax	2,843	(1,536)
Bad debts	13,528	24
Doubtful debts	(9,372)	4,924
<i>Impact of changes in working capital items</i>		
(Increase)/decrease in trade and other receivables	(6,278)	(5,360)
(Increase)/decrease in intra group advances	350	(350)
(Increase)/decrease in inventories	(301)	(505)
(Increase)/decrease in work in progress	(454)	(883)
(Increase)/decrease in prepayments	(98)	(13)
Increase/(decrease) in trade and other payables	(1,181)	1,913
Increase/(decrease) in provision for tax	(3,971)	2,190
Increase/(decrease) in employee entitlements	15	464
Increase/(decrease) in GST payable	300	(306)
<i>Items classified as investing or financing activities</i>		
Net (gain)/loss on sale of property, plant and equipment	(296)	(340)
Items related to development property	0	173
Investment in financial instrument	0	2,190
Movement of capital creditors in accounts payable	82	(208)
Net cash inflows/(outflows) from operating activities	3,439	10,390

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

27 RELATED PARTY TRANSACTIONS

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

TRANSACTIONS WITH DUNEDIN CITY COUNCIL

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

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

	2016 \$000	2015 \$000
SALES OF SERVICES TO DUNEDIN CITY COUNCIL GROUP ENTITIES:		
Capital works constructed	27,685	24,096
Network management and operations	20,347	20,226
Contracting services provided	1,847	1,341
Administration and accounting	463	384
Rent	0	16
	50,342	46,063
SALES OF SERVICES TO DUNEDIN CITY COUNCIL:		
Other contracting	7,154	7,317
AT YEAR END THE AMOUNTS RECEIVABLE BY THE COMPANY FROM DUNEDIN CITY COUNCIL ENTITIES:		
Receivable from Dunedin City Council	713	751
Receivable from Dunedin City Council Group entities	7,451	6,343
Work in progress for Dunedin City Council Group entities	1,959	1,412
Intra-group advance to Dunedin City Council Group entities	0	350
PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY COUNCIL GROUP ENTITIES:		
Interest	1,710	1,474
Contracting services and supplies	202	631
Rent	26	26
Administration	1	1
Subvention payments/tax loss offsets	845	350
	2,784	2,482

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

	2016 \$000	2015 \$000
27 RELATED PARTY TRANSACTIONS - continued		
PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY HOLDINGS LIMITED:		
Management fee	50	50
PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY COUNCIL:		
Contracting services and supplies	187	169
Rates	67	72
Rent	21	17
Royalties	0	31
	275	289
AT YEAR END THE AMOUNTS PAYABLE TO DUNEDIN CITY COUNCIL ENTITIES EXCLUSIVE OF TERM BORROWINGS SHOWN IN NOTE 16:		
Payable to Dunedin City Council	8	44
Payable to Dunedin City Council Group entities	272	297

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 2016 - continued

27 RELATED PARTY TRANSACTIONS - continued

TRANSACTIONS WITH COMPANIES IN WHICH DIRECTORS HAVE AN INTEREST:

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

Dr I M Parton is the Chancellor of the University of Auckland. During the financial period covered by this report, services valued at \$5,387 were purchased from the University of Auckland (2015: nil). No monies were payable as at 30 June 2016 (2015: nil).

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 \$32,386 were provided to the University of Otago (2015: \$79,423). Monies receivable as at 30 June 2016 totalled \$305 (2015: \$2,621). During the financial period covered by this report, services valued at \$8,840 were purchased from the University of Otago (2015: \$24,217). No monies were payable as at 30 June 2016 (2015: nil).

Mr McLauchlan is a Director of Otago & Southland Employers Association. During the financial period covered by this report, training services valued at \$14,717 were purchased from Otago & Southland Employers Association (2015: \$14,919). No monies were payable as at 30 June 2016 (2015: \$690).

Mr McLauchlan is a Director of Scenic Circle Hotels Limited. During the financial period covered by this report, contracting services valued at \$75 were provided to Scenic Circle Hotels Limited (2015: \$278). Monies outstanding as at 30 June 2016 totalled \$86 (2015: nil). During the financial period covered by this report, services valued at \$252 were purchased from the Scenic Circle Hotels Limited (2015: nil). No monies were payable as at 30 June 2016 (2015: nil).

Mr McLauchlan is a Director of Cargill Hotel 2002 Limited. During the financial period covered by this report, no services were purchased from Cargill Hotel 2002 Limited (2015: \$348). No monies were payable as at 30 June 2016 (2015: nil).

Mr McLauchlan is a Director and Shareholder of Rosebery Holdings Limited. During the financial period covered by this report, services of \$24,535 were purchased from Rosebery Holdings Limited (2015: \$23,756). No monies were payable as at 30 June 2016 (2015: 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 \$1,621,786 were purchased from ETEL (2015: \$1,899,666). Monies payable as at 30 June 2016 totalled \$64,119 (2015: \$51,068).

Mr Frow is a Director of Hydroworks Limited. During the financial period covered by this report, contracting services to the value of \$950 were provided to Hydroworks (2015: nil). Monies outstanding as at 30 June 2016 totalled \$1,093 (2015: 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 \$19,514 were provided to Otago Regional Council (2015: \$71,961). No monies were outstanding as at 30 June 2016 (2015: nil). During the financial period covered by this report, services to the value of \$3,851 were purchased from Otago Regional Council (2015: \$4,226). No monies were payable as at 30 June 2016 (2015: nil).

Mr Kempton is a Director and Shareholder of Long Beach Consulting Limited. During the financial period covered by this report, services of \$21,470 were purchased from Long Beach Consulting Limited (2015: \$20,756). No monies were outstanding as at 30 June 2016 (2015: nil).

Mr Kempton is a Director of Constructing Excellence (NZ) Limited. During the financial period covered by this report, services of \$10,139 were purchased from Constructing Excellence (NZ) Limited (2015: nil). No monies were outstanding as at 30 June 2016 (2015: 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 \$998 were provided to Mr Cameron (2015: \$703). Monies outstanding as at 30 June 2016 totalled \$740 (2015: nil).

Mr M Ballard is the General Manager Capability & Risk of Delta Utility Services Limited. During the period covered by this report, no contracting services were provided to Mr Ballard (2015: \$1,362). No monies were outstanding as at 30 June 2016 (2015: nil).

KEY MANAGEMENT PERSONNEL REMUNERATION

	2016 \$000	2015 \$000
Short-term employment benefits	1,916	1,572
Termination benefits	0	0

NOTES TO THE FINANCIAL STATEMENTS

or the year ended 30 June 2016 - continued

28 FINANCIAL INSTRUMENTS RISKS

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

INTEREST RATE RISK

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

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

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

	2016 \$000	2015 \$000
Maturing in less than one year	0	0
Maturing between one and five years	5,000	5,000
Maturing after five years	0	0
	5,000	5,000

CREDIT RISK

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

The Company's exposure to credit risk is generally spread over a large number of counterparties and customers. As at 30 June 2016, however, there was some concentration of this risk around the secured 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	202	220
Trade and other receivables	27,365	25,244
Prepayments	282	184
Intra-group advance	0	350
Work in progress	3,733	3,279
	31,582	29,277

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

	2016 \$000	2015 \$000
28 FINANCIAL INSTRUMENTS RISKS – continued		
CREDIT QUALITY OF FINANCIAL ASSETS		
The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard & Poor's credit ratings (if available) or to historical information about counterparty default rates.		
COUNTERPARTIES WITH CREDIT RATINGS		
Cash and cash equivalents AA-	202	220
Trade and other receivables AA-	713	751
COUNTERPARTIES WITHOUT CREDIT RATINGS		
Trade and other receivables		
Existing counterparties with no defaults in the past	13,223	11,282
Existing counterparties with defaults in the past ¹	13,429	13,211

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 open market tenders submitted as part of a mortgagee sale of the subject property. The first mortgagee has accepted a conditional offer for the sale of the property. The secured debts receivable have been classified as current as at 30 June 2016, on the basis that Delta expects the current mortgagee sale process to be completed within 12 months of balance date.

As part of its balance sheet date assessment of fair value the company considered that amounts in excess of fair value of the loan, which were previously provided for as doubtful (\$9.412 million) and calculated interest for the 2016 year (\$4.108 million), would not be recovered and were written off (refer notes 5 and 22).

LIQUIDITY RISK

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016- continued

28 FINANCIAL INSTRUMENTS RISKS – continued

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

	Maturity Dates Less than 1 Month \$000	1 - 3 Months \$000	3 Months to 1 Year \$000	1 - 5 Years \$000	More than 5 Years \$000	Carrying Value \$000
AS AT 30 JUNE 2016:						
Financial assets						
Cash and cash equivalents	202	0	0	0	0	202
Trade and other receivables	13,936	13,429	0	0	0	27,365
Intra group advance	0	0	0	0	0	0
	14,138	13,429	0	0	0	27,567
Financial liabilities						
Trade and other payables	8,029	0	0	0	0	8,029
GST payable	857	0	0	0	0	857
Cash flow hedge instruments	0	0	0	257	0	257
Term borrowings	0	0	0	29,165	0	29,165
	8,886	0	0	29,422	0	38,308
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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

28 FINANCIAL INSTRUMENTS RISKS – continued

SENSITIVITY ANALYSIS

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

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

		+100bps		-100bps	
	Fair Value at Balance Date	Profit	Equity	Profit	Equity
	\$000	\$000	\$000	\$000	\$000
AS AT 30 JUNE 2016:					
Financial liabilities					
Cash flow hedge instruments	257	0	100	0	(103)
Term borrowings (hedged)	5,000	0	(100)	0	103
Term borrowings (unhedged)	24,165	(242)	0	242	0
	29,422	(242)	0	242	0
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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

28 FINANCIAL INSTRUMENTS RISKS – continued

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements recognised in the statement of financial position:

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

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

		2016		
		Level 1 \$000	Level 2 \$000	Level 3 \$000
		Total \$000		
Financial liabilities				
Derivative financial liabilities		0	257	0
		0	257	0

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

29 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.

30 PRIOR PERIOD RESTATEMENT

The 2015 numbers previously reported in the 2015 Annual Report have been restated to reflect an adjustment to discount factors used in Employee Entitlement calculations. Restatements were made to the opening retained earnings balance, provisions and deferred tax. The discount rate used in Employee Entitlement provisions was adjusted down from a previously used weighted average cost of capital to the risk free rate. The following changes were made to the 2015 figures:

Provisions Note 15:

	2015 Adjusted \$000	2015 Original \$000
(i) Current liabilities		
Long service leave	201	140
Annual leave	3,711	3,711
Gratuities	283	290
Sick leave	122	122
Other provisions	132	132
	4,449	4,395
(ii) Non-current liabilities		
Long service leave	429	265
Gratuities	344	97
	773	362

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016 - continued

30 PRIOR PERIOD RESTATEMENT - continued

Deferred tax Note 17:

	Opening Balance Sheet \$000	Charged to Equity \$000	Charged to Income \$000	Closing Balance Sheet Assets \$000	Closing Balance Sheet Liabilities \$000	Closing Balance Sheet Net \$000
YEAR ENDED 30 JUNE 2015 ADJUSTED:						
Property, plant and equipment	(162)	0	(19)	0	(181)	(181)
Employee benefits	1,266	0	152	1,418	0	1,418
Provisions	1,250	0	1,352	2,602	0	2,602
Revaluations of cash flow hedge instruments	20	42	0	62	0	62
Development costs	(52)	0	52	0	0	0
Balance at the end of the year	2,322	42	1,537	4,082	(181)	3,901

YEAR ENDED 30 JUNE 2015 ORIGINAL:

Property, plant and equipment	(162)	0	(19)	0	(181)	(181)
Employee benefits	1,136	0	152	1,288	0	1,288
Provisions	1,250	0	1,352	2,602	0	2,602
Revaluations of cash flow hedge instruments	20	42	0	62	0	62
Development costs	(52)	0	52	0	0	0
Balance at the end of the year	2,192	42	1,537	3,952	(181)	3,771

Retained Earnings Note 12:

	2015 Adjusted \$000	2015 Original \$000
Balance at the beginning of the year	(3,527)	(3,192)
Net profit after tax	4,657	4,657
Dividend distributions	(2,500)	(2,500)
Balance at the end of the year	(1,370)	(1,035)

31 EVENTS AFTER BALANCE DATE

As at 30 June 2016, the Company's balance date, Delta had an outstanding debt of \$13.4 million related to infrastructure services provided to a counterparty in default. The debt was secured by a mix of mortgage securities held over a Christchurch development property - see page 54, sub-note 1 at note 28.

Delta assessed the fair value of its secured debt receivables at balance date partly by reference to a conditional tender to purchase the property in accordance with the terms of a mortgagee sale. After balance date, the conditions of the tender offer were confirmed, and Delta entered a new loan agreement with the successful tenderer to replace its existing debt owing from the counterparty in default.

The fair value of the new loan supports the assessed value of Delta's outstanding debt at balance date, and the new loan continues to be secured by a second mortgage over the development property. The new loan agreement provides for Delta to receive an immediate debt reduction of circa \$1 million, and for the balance of the loan plus interest to be repaid in future years.

INDEPENDENT AUDITOR'S REPORT



To the readers of Delta Utility Services Limited's financial statements and performance information for the year ended 30 June 2016

The Auditor General is the auditor of Delta Utility Services Limited (the company). The Auditor General has appointed me, Scott Tobin, 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 24 to 59, that comprise the balance sheet as at 30 June 2016, 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 18 and 19.

In our opinion:

- the financial statements of the company:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.
- the performance information of the company presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2016.

Our audit was completed on 30 August 2016. 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



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 appropriateness of the reported performance information within the company's framework for reporting performance;
- 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 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.

Scott Tobin
Audit New Zealand
On behalf of the Auditor General
Dunedin, New Zealand



Mowing at Sawyer's Bay golf course, Dunedin

COMPANY DIRECTORY

DIRECTORS

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

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



