ANNUAL REPORT 2020

DELTA
THINK.INFRASTRUCTURE

CONTENTS

THE YEAR
IN NUMBERS

1,507
Training courses and events

548
People employed across New Zealand

34
Average number of apprentices/trainees

25%
Reduction in injury rate

438
Plant/vehicles fitted with Smartrak

7,853
Revenue meters tested

18,500
Smart meters installed

41,686
Metres of vegetation cleared from power lines

3,846
Hectares of vegetation maintained for local authority customers

10,174
Power poles inspected

6,013
Electricity faults attended to (approx.)

76,700
Metres of fibre optic installed

CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

for the year ended 30 June 2020

Challenges in managing inconsistent work schedules early in Financial Year 2020 (FY20) proved difficult for Delta and resulted in our first six-months being well behind target. Significant action during the end of 2019 ensured a strong second half of FY20 and resulted in an adequate financial performance overall and an improvement on FY19 results.

Global disruption with the outbreak of COVID-19 and the subsequent lockdown experienced by New Zealand, impacted our ability to meet some of our targets. To date, Delta has delivered on an extensive response plan within our organisation and a surge in post-lockdown work has contributed to our recovery. Delta continues to be mindful that the pandemic is ongoing and recognises that future challenges may lie ahead.

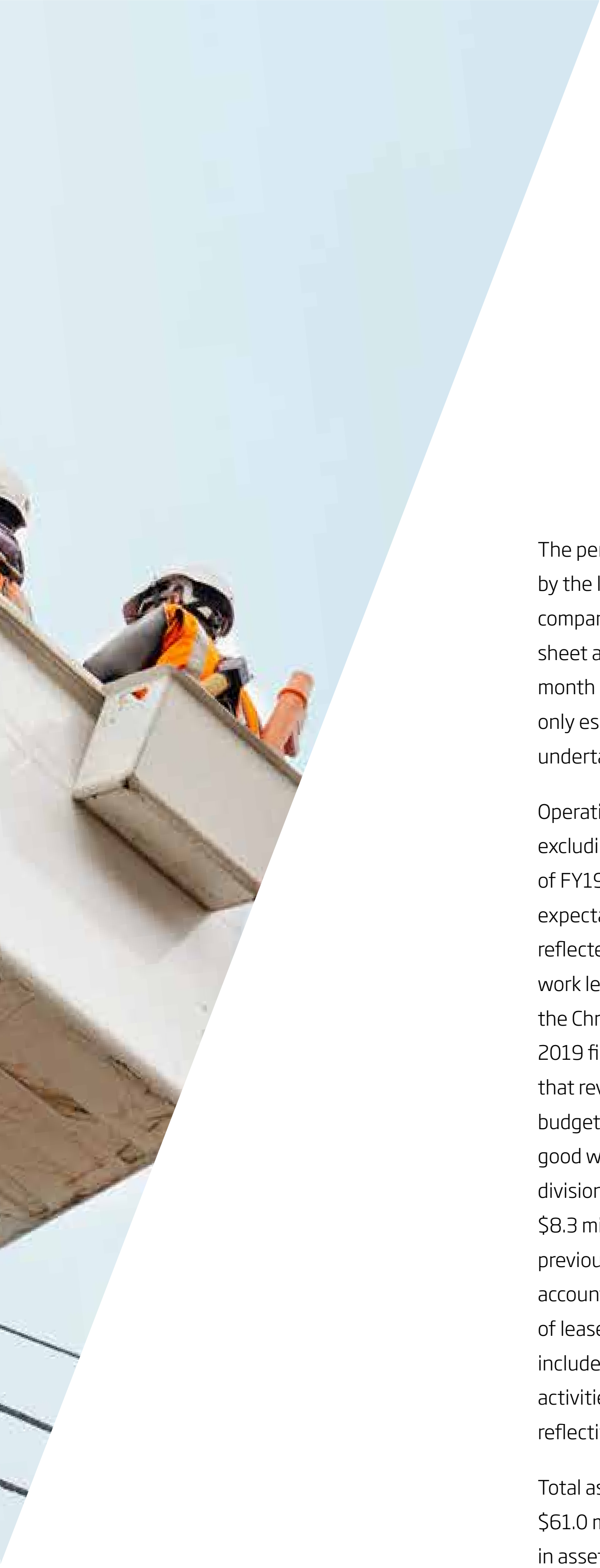
Delta completed a variety of successful first-year deliveries on long-term contracts including the Aurora Energy Field Services Agreement and the Central Otago District Council Open Space Maintenance Contract. Further growth in our customer base during FY20 met one of our strategic goals and added diversity to our work portfolio. Delta secured contracts with neighbouring electricity distribution networks and attained extensive project work in the electricity generation sector.

Delta's commitment to quality and safety continued during the year. Significant reductions in incident severity, lost time events and the total recordable injury rate, whilst increasing the number of close call events were reported. Delta consistently met customer KPI requirements and have been strongly commended on the delivery of high-quality services we provide.

Delta recorded a net profit before tax of \$2.171 million in FY20, a moderate increase on FY19's \$1.705 million, however significantly below our budget for the year of \$3.657 million. After tax profit of \$1.963 million was relatively in line with FY19, but again, considerably below the budget expectation of \$2.633 million. Despite revenue levels for the year being within 1% of budget, the company's result was majorly impacted by below budget margins across our Dunedin and Central distribution business units, coupled with an inconsistent forward workload which inhibited management's ability to efficiently allocate resources. As previously noted, FY20 saw the COVID-19 lockdown which impacted March and April's results and also, the demise of the Holden brand, considerably impacting the carrying value of our Holden leased fleet.

Total revenue was \$100.4 million in FY20 (budget \$97.1 million). Total revenue did however include a \$3.8 million COVID-19 Wage Subsidy. The COVID-19 Wage Subsidy was a subsidy applied for through the Ministry of Social Development (MSD) during the COVID-19 lockdown. Like many companies in New Zealand, the COVID-19 pandemic and associated Alert Levels limited Delta's ability to operate at full capacity and restricted its ability to meet some of its Statement of Intent targets.


DELTA
THINK INFRASTRUCTURE



The performance measures most affected by the lockdown were financial, with the company's earnings, cashflow and balance sheet all impacted. Revenue levels in the month of April were 40% of budget with only essential faults and maintenance works undertaken.

Operating revenue at $95.8 million excluding the Wage Subsidy, fell just short of FY19 levels ($97.5 million) and budget expectations ($96.7 million). This shortfall reflected the COVID-19 lockdowns impact on work levels, as well as the planned exit from the Christchurch Park's contract late in the 2019 financial year. Overall, it was forecast that revenue levels would have exceeded budget, had the lockdown not occurred, with good work volumes across all our operating divisions. Cash flows from operations at $8.3 million were up $3.1 million from the previous year – however, under the new accounting standard for leases, payments of lease liabilities ($2.4 million) are now included in Cash flows from financing activities. The slight improvement on FY19 is reflective of the improved operating results.

Total assets increased considerably from $61.0 million to $66.1 million. Movements in assets were mainly related to the implementation of the new accounting standard for leases which resulted in the Company recognising a $5.5 million right-of-use asset and related lease liability in connection with all former operating leases. The Company is also well into the development and implementation of a new ERP system (increasing Intangible Assets) that will considerably improve business efficiencies.

The Company's borrowings reduced substantially during the year, down $2.8 million to $22.6 million (FY19 $25.4 million).

Delta remains comfortable with the progress towards the recovery of its debt with Infinity Yaldhurst Limited. The debt arose from the supply of infrastructure services on a Christchurch subdivision. In August 2016 the subdivision was purchased by property development group Infinity Yaldhurst Limited at which time Delta entered a new loan agreement to replace the historical debt owed by the previous developer. The subdivision continues to progress well with the historical issues previously impeding the development now resolved. Delta received a loan repayment of $2.8 million in FY20 (circa $1.1 million ahead of schedule) and remains confident that the current loan balance of $10.7 million (plus interest thereon) will be repaid.

Despite the challenging start to the year and the impact of the COVID-19 pandemic, Delta paid a dividend of $1.5 million as forecasted in its 2019/20 Statement of Intent. Equity also increased by 2% to $23.0 million. In approving the dividend payment, the Board carefully considered the prudent balance between shareholder returns and retained earnings. As one of the Dunedin City Council's group of companies, Delta's financial returns and dividends ultimately benefit its community owners.

WE ARE DELTA

WHAT WE DO

Delta is an infrastructure specialist providing a range of contracting services to local authority and private sector customers. We construct, manage and maintain essential energy and environmental infrastructure across the South Island. Our headquarters are based in Dunedin, with regional depots in Nelson, Christchurch, Rangiora, Cromwell, Alexandra, Wanaka and Queenstown.

OUR VALUES

DO IT FIRST.

DO IT RIGHT.

DO IT TOGETHER.

OUR PURPOSE

Local professionals with innovative ideas, passionate about serving our communities.

WHO WE ARE

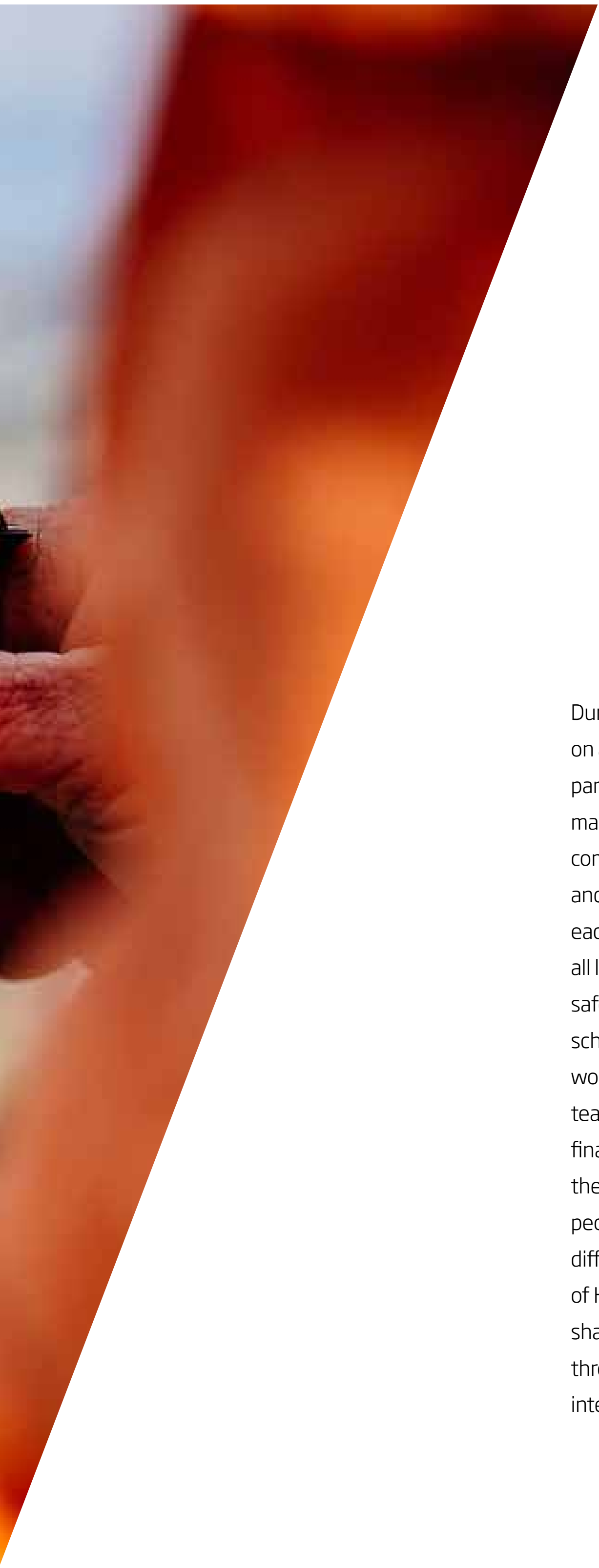
At Delta, we make communities better for people to live, work and play in – keeping the lights on, the trees trimmed and the parks green.

OUR VISION

Great people shaping better communities together.

PANDEMIC RESPONSE

The outbreak of COVID-19 and its identification as a global pandemic by the World Health Organisation on 11 March 2020, has been a sustained event like no other. At 11:59pm on 25 March 2020, New Zealand went into a Level 4 lockdown where all non-essential business activity ceased for a four-week period (extended by a further five days to 27 April 2020).



During this time, Delta created and delivered on an extensive response plan to the pandemic. From March 2020 onwards, Delta maintained frequent COVID-19 specific communication to all Delta staff. We designed and implemented extensive work packs for each section of our diverse workforce for all levels of the alert system and introduced safe operational changes to our rostering schedules, adhering to all guidelines including work bubble requirements for all service teams. Delta provided ongoing health, financial and wellbeing support throughout the entire process, and ensured that our people were front of mind when considering difficult decisions. Guidance from the Ministry of Health and the New Zealand Government shaped our procedures and ensured clarity through all channels of communication, internally and externally.

Delta has been in the fortunate position where the majority of our non-essential work schedules were deferred rather than cancelled, and our ongoing provision to essential services were maintained during this time. Employee numbers remained unaffected and with the assistance of the Government's Wage Subsidy, our financial performance was manageable.

For obvious reasons, flexible working arrangements and virtual meeting technology were used prolifically during periods of high COVID-19 Alert Levels. Off the back of our learnings, Delta has committed to explore alternative work methods for the future and aims to reduce non-essential business travel where possible.

A big thank you to our staff who adapted exceptionally well to new working environments. Rapid change can be challenging, but through a flexible and co-operative team approach we managed to uphold our commitments to our customers and the communities we serve.

POWER & COMMUNICATION SERVICES

Delta continued to provide distribution services to Aurora Energy, Network Tasman and Nelson Electricity networks during FY20. Ongoing expenditure in asset renewal and maintenance from EDB and generation customers has seen Delta deliver a diverse work programme for the year.

Our commitment to our customers and the provisioning of smart thinking solutions, has allowed Delta to successfully compete in a competitive contracting environment. Delta managed to secure various major projects with new and current customers during FY20, while still delivering full maintenance programmes for existing customers.

FY20 saw Delta complete its first full year of the Aurora Energy Field Services Agreement (FSA). This was a challenging year for Delta with a slow start to the work programme and further disruptions due to COVID-19. Despite constraints, Delta managed to deliver the majority of scheduled capital and maintenance work with safe outcomes and to a high-quality standard.

As the dedicated fault response provider for Aurora Energy, our crews responded to nearly 4,000 faults on the network. A complex repair of a damaged 33kV oil filled cable in Dunedin and severe windstorms and flooding in the Otago region, highlighted Delta's capabilities and technical expertise.

Further north, Delta continued to provide operational and maintenance services to Network Tasman and Nelson Electricity. Throughout the year, our crews responded to 1,940 faults on the Network Tasman network and 273 faults on the Nelson Electricity network. Delta's delivery of the annual maintenance programmes for all networks were well received and our commitment to safety and quality remains a top priority across the entire organisation.

POWER & COMMUNICATION SERVICES
continued...

Major project work for Delta saw the completion of the Cape Saunders Peninsula upgrade during FY20. Delta delivered 14-kilometres of new high voltage overhead lines to the area on behalf of Aurora Energy. Steep terrain and access difficulties were among some of the challenges overcome by the project team. A high level of co-ordination was required across multiple parties, including contractors, landowners, consumers and a helicopter provider. The project was delivered on time, within budget, and without any injury incidents.

As regional growth continues in Dunedin, Central Otago and Tasman, network providers are investing into essential upgrades for zone substations. This work will enable reliable electricity supply when the anticipated demands increase. Delta completed the Enabling Works contract associated with the planned rebuild of the Andersons Bay Zone Substation in Dunedin during FY20. The fit out of the new Wakapuaka Zone Substation in Tasman saw Delta install new 11kV and 33kV switchgear, cabling, and SCADA and Protection cabinets. In Central Otago, Delta began the Cromwell Zone Substation Upgrade project, which will more than double the substation's capacity. The project is scheduled for completion in October 2020.

Delta was awarded two major 33kV cable installation projects for Network Tasman during the year. The Waimea West and Wakapuaka projects saw Delta install high voltage cables into the areas, allowing a backup supply for Waimea West and to support increased load growth in Wakapuaka. Both projects were delivered to a high-quality standard and within the customer's time expectations.

GENERATION

Delta continues to diversify its customer base by increasing its footprint in the generation sector. A partnership approach to our delivery has provided Delta with a strong reputation and new opportunities within the market. During FY20 our Local Service Upgrade project with Meridian Energy in Manapouri was extended to include a further $1 million worth of work – including the replacement of all 21 Current Measuring Transformers on 7 generators. Work crews delivered on all requirements, without incident and within the confines of an in-service 220kV switchyard.

A large programme of work was awarded to Delta by PowerNet Limited and included the installation of high voltage and fibre optic cables and the construction of an overhead span across a river gorge. Delta also constructed two new substations in the remote Matiri River Valley, enabling connection to a newly built generator to the National Grid. Dedicated work crews were challenged over the course of the project and were given high praise by PowerNet for their quality of work and commitment to the job.

COMMUNICATIONS

Delta continued to maintain and expand Network Tasman's consumer fibre optic communications network in the region. The bulk of work involved the installation and connection of new fibre cable to residential homes in the area. Delta's diverse ability allowed us to provide communication services as part of other work programmes for Aurora Energy and PowerNet during the year.

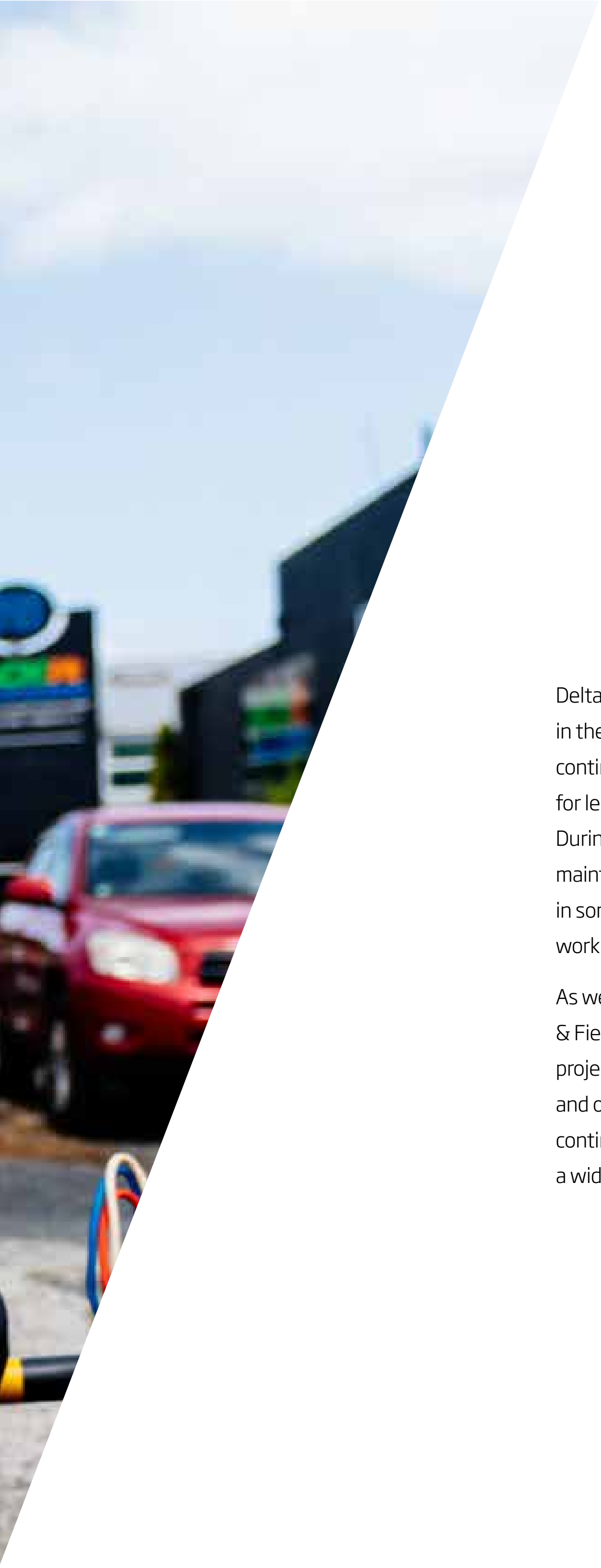
OTHER

Following a competitive process, Delta has been selected for Aurora Energy's newly established Engineering Consultancy Services Panel. Delta secured one of three positions in the Distribution Design category and has recently received its first design package for the upgrade of 10km of line on the Otago Peninsula. This is an important and strategic alliance for Delta and has an initial contract period of three years.

Delta was awarded a contract to undertake the civil strengthening works and installation of a new 11kV switchboard at Network Waitaki's Maheno substation. This is the first of several substations which Network Waitaki plan to upgrade over the next few years. Delta intends to pursue these tendering opportunities as they become available – helping to diversify our customer base and providing services to neighbouring distribution networks.

METERING & FIELD OPERATIONS

The change in name from Retailer Services to Metering & Field Operations better reflects our current work activities and the customers we service. When Retailer Services was originally formed, all our customers were electricity retailers, but over the years our customer base has changed. While we still carry out disconnections and reconnections for electricity retailers, the majority of our work activity is meter installations and maintenance for Metering Equipment Providers (MEPs).



Delta has maintained its dominant standing in the retail metering services industry and continues to hold the largest market share for legacy field operations in New Zealand. During FY20, Metering & Field Operations has maintained all their long-term contracts and, in some instances, been awarded additional work within these.

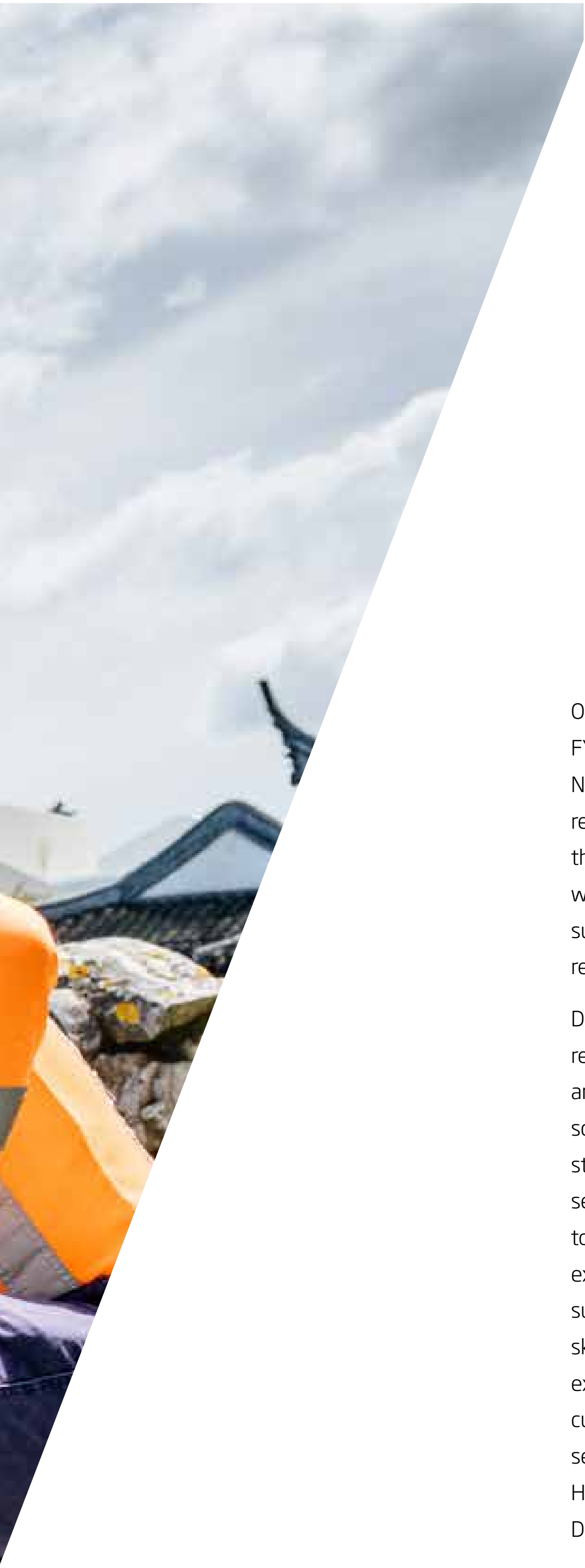
As well as long term contracts, Metering & Field Operations continues to carry out project work such as nationwide MEP audits, and our customer service dispatch team continues to provide a professional service to a wide range of customers.

Demand for smart meter installation, maintenance and testing continued in FY20. Delta installed 18,500 smart meters into homes and businesses across New Zealand. We continue to maintain advanced and legacy meters for electricity retailers and electricity meter owners.

Our A Class test laboratory continues to provide meter testing and calibration services. During FY20 we retained our ISO 17025 accreditation.

ENVIRONMENTAL SERVICES

Delta's environmental services business continued to perform well during FY20. We delivered a wide range of quality services in sports turf management, horticulture services, roadside vegetation control and park and reserve maintenance throughout the South Island.



Our financial results remained strong in FY20, however like most businesses across New Zealand, the COVID-19 lockdown and restrictions challenged the business in the second half of the year. A dedicated workforce, good planning and great customer support saw us come through the COVID-19 restrictions and get back on track quickly.

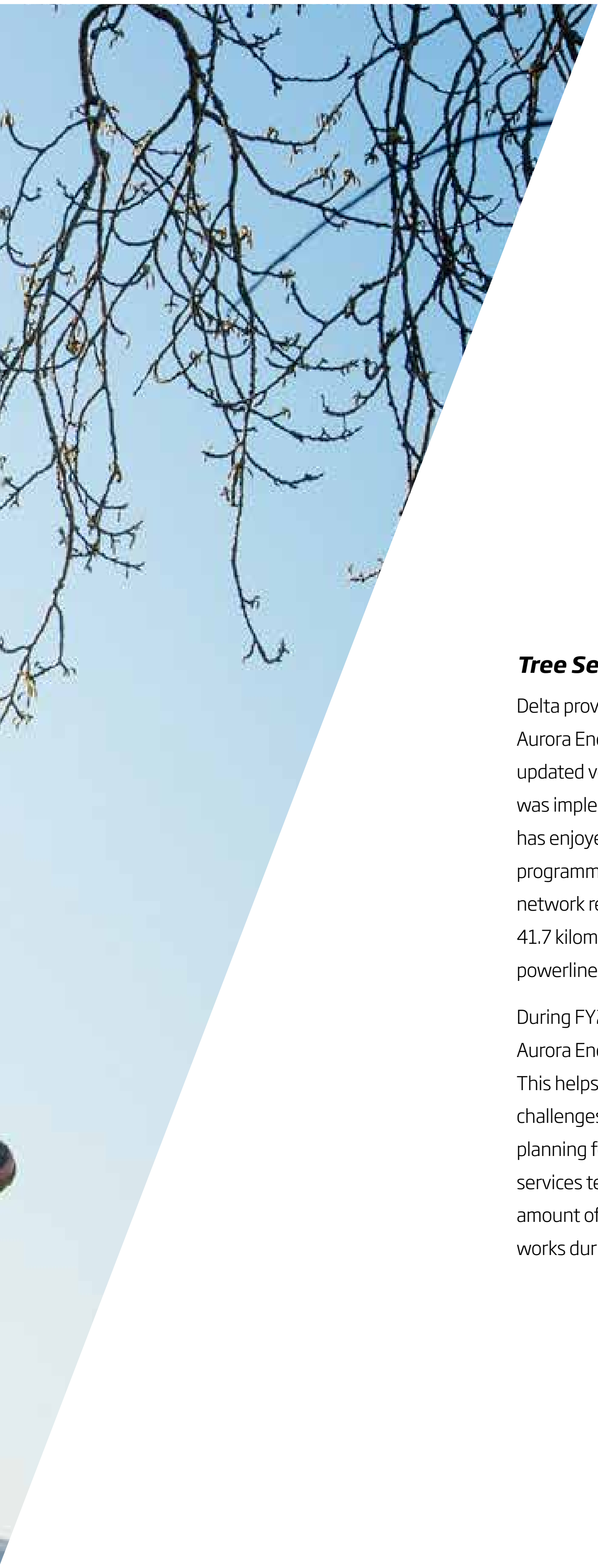
Delta continued its longstanding relationship with the Dunedin City Council and successfully completed planned and scheduled workloads to a high-quality standard. Delta's sports turf management service teams provided exemplary work to sports clubs across the city, including extensive renovation work and another successful cricket season. A vast range of skill and knowledge is needed to provide excellent horticultural services to high profile customers. Delta maintained its quality service to the Chinese Gardens, Olveston Historic Home, the Railway Station and the Dunedin Airport during the year.

In Central Otago, Delta successfully completed its first year of the Central Otago District Council maintenance contract. Major turf renovation on the Molyneux Park cricket wicket in Alexandra received high praise by the New Zealand cricket community, following several years of underperformance by the pitch. Additionally, first-class domestic cricket returned to Queenstown this year and Otago Rugby defended the Ranfurly Shield at the Wanaka Show Grounds. Both sports fields were prepared by Delta through the high-profile turf contract we hold with Queenstown Lakes District Council.

During FY20, the Waimakariri District Council made the decision to extend the parks and reserves maintenance contract for a further two years. The recommendation to enact the extension was unanimously supported by the Mayor and all Council members. Delta also continued to provide greenspace maintenance for both the Hurunui and Kaikoura District Councils, working closely with both councils to deliver expected outcomes to their respective communities.

Delta provided horticulture services to the Southland Hospital in Invercargill during FY20, maintaining their gardens and lawns. Delta has built a strong relationship with many customers in the lower South Island and has positioned itself well to continue greenspace and roadside vegetation control services to the regions. Further north, Delta delivered a range of services throughout the Nelson/Tasman region, including roadside vegetation control on local roads in Golden Bay and Murchison, and on all State Highways in the area.

ENVIRONMENTAL SERVICES *continued...*



Tree Services

Delta provided vegetation services to Aurora Energy throughout the year. An updated vegetation control programme was implemented during FY20 and Delta has enjoyed the productive year the new programme has provided. For improved network reliability, Delta cleared a total of 41.7 kilometres of vegetation away from powerlines on the network.

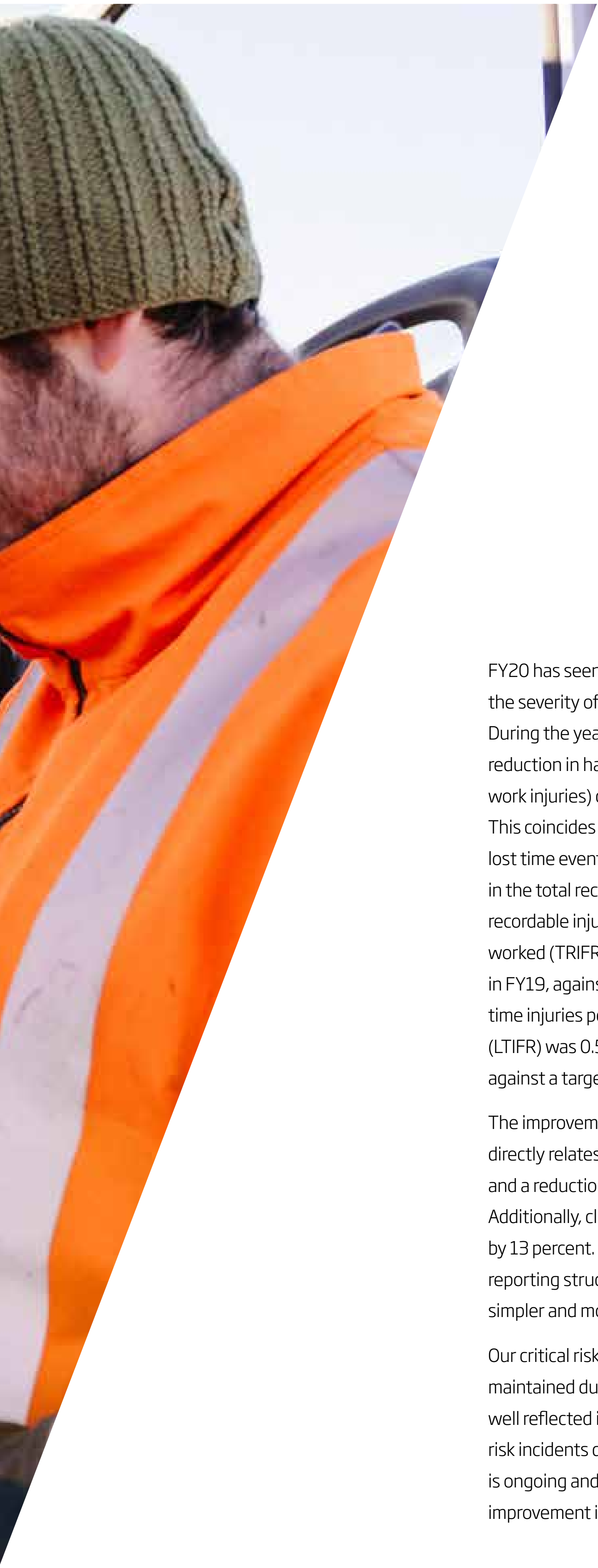
During FY20, Delta has focused on providing Aurora Energy with reporting metrics. This helps to understand the vegetation challenges and enables better future planning for vegetation control. The tree services team also gained a significant amount of second cut landowner funded works during the year.

Delta also provided vegetation services to Network Waitaki and Orion. Crews have been established in both the Waitaki and Canterbury regions and successful work programmes have been completed during the year.

Inland, we partnered with our greenspace team to complete a range of tree works on the Central Otago District Councils contract. This work included the completion of tree assessment reports and programming tree works as part of the annual maintenance plan.

SAFETY AND RISK

Delta is committed to continuous improvement in its health and safety performance. Given the critical safety risks we work with every day, it is essential that the health and safety of our people is a strategic and operational priority across the business. Our focus continues to be on robust planning, ensuring effective controls are in place to mitigate harm, and upholding our safety vision of 'Everyone Home Safe, Every Day'.



FY20 has seen a significant reduction in the severity of incidents compared to FY19. During the year we achieved a 93 percent reduction in harm severity (total days off from work injuries) compared to the previous year. This coincides with a 66 percent reduction in lost time events and a 25 percent reduction in the total recordable injury rate. Total recordable injuries per 200,000 hours worked (TRIFR) was 3.69 compared to 4.90 in FY19, against a target of 3.50. Total lost time injuries per 200,000 hours worked (LTIFR) was 0.57 compared to 1.68 in FY19, against a target of 1.0.

The improvement in TRIFR and LTIFR figures directly relates to fewer lost time injuries and a reduction in incident numbers overall. Additionally, close call reporting has increased by 13 percent. Recent improvements in our reporting structure has made this process simpler and more accessible for staff.

Our critical risk auditing programme was maintained during FY20 and this focus was well reflected in the reduction in critical risk incidents during the year. This effort is ongoing and an area where continuous improvement is essential.

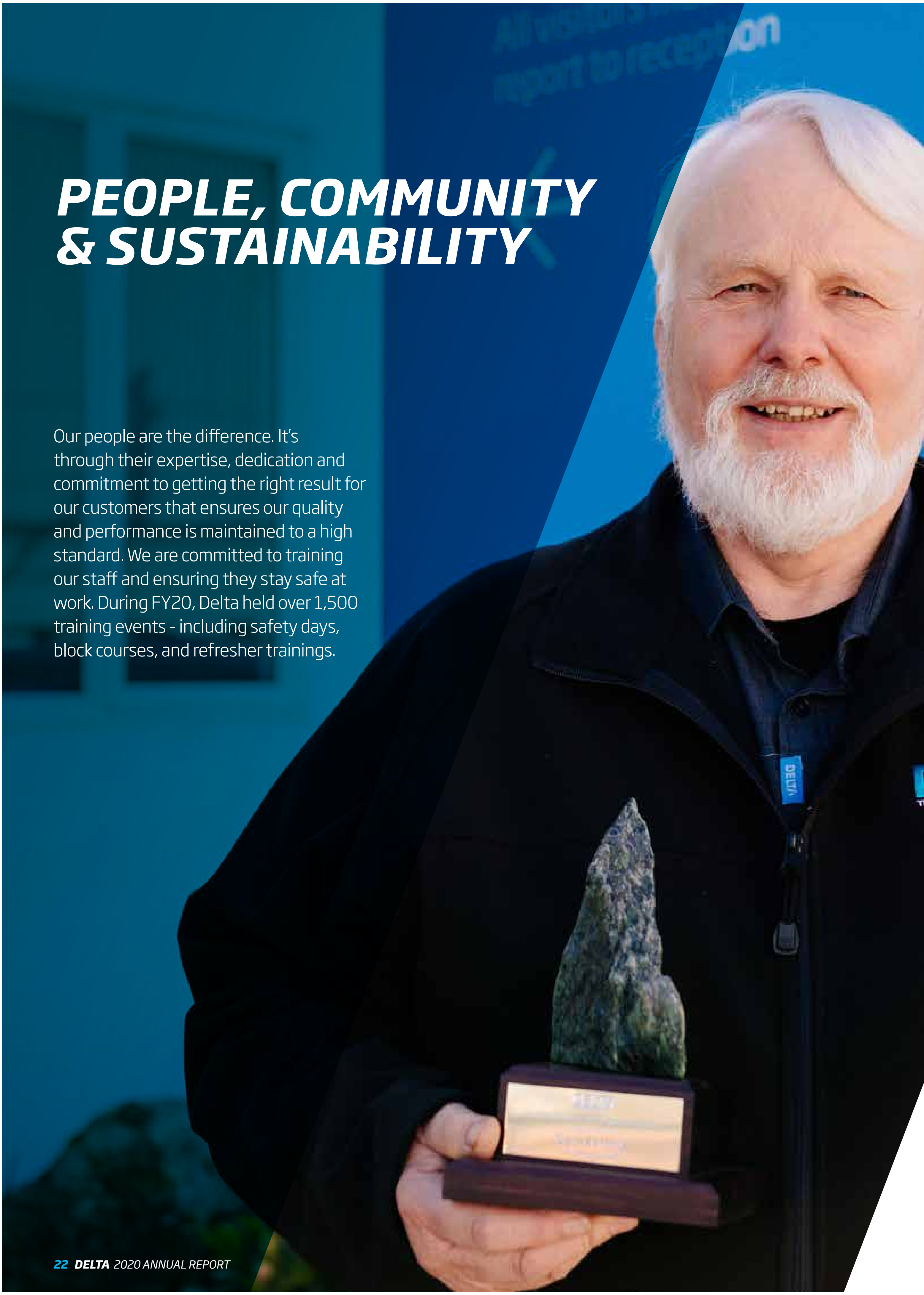
Visibility of safety leadership continued in FY20. Both the Board of Directors' health and safety committee and the senior leadership team frequently attended site visits during the year. In February, Delta rolled out the Stand in the Gap safety presentation across the business. Wiremu Edmonds shared his story and explained that the lack of a good plan, poor communication, and insufficient safety protocols led to a tragedy that no family should ever experience. At the end of the session, the leadership team were asked to stand alongside Delta employees and pledge to speak up, take action and discourage poor safety behaviour – to Stand in the Gap.

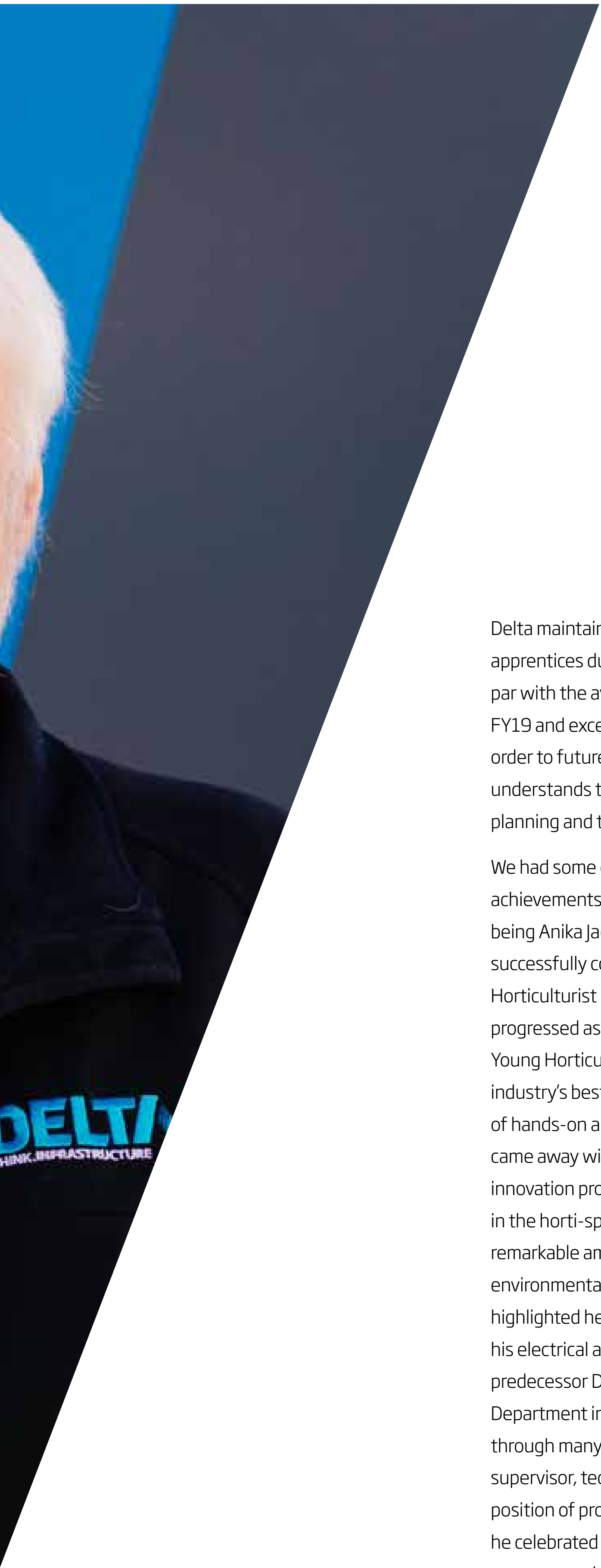
Delta has five Safety Wellness Action Teams (SWATs) across all regions of the business. These teams are made up of frontline workers and provide a valuable voice. It's important that first-hand experience plays a major role in shaping safety solutions at Delta. During FY20, we established a Terms of Reference and Charter for these teams. This development has ensured better clarity around roles and responsibilities of the committees and has given better guidance on how we can evoke positive safety change together.

Delta's commitment to pursue ISO 45001 accreditation by December 2021 continued during FY20.

PEOPLE, COMMUNITY & SUSTAINABILITY

Our people are the difference. It's through their expertise, dedication and commitment to getting the right result for our customers that ensures our quality and performance is maintained to a high standard. We are committed to training our staff and ensuring they stay safe at work. During FY20, Delta held over 1,500 training events - including safety days, block courses, and refresher trainings.





Delta maintained an average of 34 apprentices during the year. This was on par with the average we maintained during FY19 and exceeded our target of 20. In order to future proof our workforce, Delta understands the importance of succession planning and teaching skills on the job.

We had some outstanding staff achievements during FY20, the most notable being Anika Jackson and Ged Kettink. After successfully competing in the Young Amenity Horticulturist of the Year competition, Anika progressed as a finalist to compete in the Young Horticulturalist of the Year. Six of the industry's best went head to head on a series of hands-on and research-based tasks. Anika came away with second place in her market innovation project and secured the top spot in the horti-sport challenge. Anika has a remarkable amount of spirit and drive for environmental services, and this competition highlighted her abilities. Ged Kettink began his electrical apprenticeship with Delta's predecessor Dunedin City Council's Electricity Department in 1970. He worked his way through many roles including technician, supervisor, technical advisor and his current position of project manager. In January 2020 he celebrated 50 years' long service with the company and achieved a milestone that very few will ever reach. Ged's dedication to the electrical industry and knowledge has been invaluable to Delta.

Delta is a big believer in supporting the communities we operate in. We are fortunate to be in the business of making communities better for people to live, work and play in, but we also love getting involved in community events. During FY20, Delta sponsored the Connexis Annual Connection competition and participated in the 2019 Dunedin Special Rigs for Special Kids event.

Delta has continued to maintain a strong environmental performance through the management of its EnviroMark Gold accreditation. Business initiatives such as replacing building lights with LED alternatives, continuing our sustainable recycling programme, and partnering with Otago Painting Solutions to use recycled paint for all office repairs, has contributed to improving our carbon footprint. Additionally, Delta is in the process of upgrading its ERP system. This shift in technology will mean that many of our new processes will be paperless.

OUTLOOK

Implementation of a new ERP system through a dedicated internal team will give our systems and processes the modernisation, consolidation and integration Delta needs to further support its delivery of exceptional services. The Delta team will adjust to the significant business change through a transitionary period. Ongoing support will be provided to ensure the new development is managed in the most efficient and progressive way possible. We are looking forward to delivering on this project and establishing better work practices for our day to day operations. The project is currently on schedule, with a completion date of June 2021.

OUR THANKS

We wish to extend our thanks and appreciation to everyone at Delta for their hard work and dedication. Global challenges were faced by all during FY20, but as a business we adapted well and persevered. It's a true reflection of the character and strength of our people and organisation. Together, we look forward to building on this year's performance.

Brian Wood
CHAIRMAN

Mike Costelloe
CHIEF EXECUTIVE

23 October 2020

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 2020.

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

DIRECTORS' REPORT

for the year ended 30 June 2020 – continued

PRINCIPAL ACTIVITIES OF THE COMPANY

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

RESULTS FOR THE YEAR ENDED 30 JUNE 2020	$000
Operating profit before income tax	2,171
Income expense	208
Net profit for the period	1,963

STATE OF AFFAIRS

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

DIVIDENDS

Dividends of $1.500 million were declared and paid during the year.

RETAINED EARNINGS

The net transfers to retained earnings during the year was $0.463 million.

DIRECTORS' REPORT

for the year ended 30 June 2020 – continued

REVIEW OF OPERATIONS

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

Delta's net surplus of $1.963 million (2019: $1.922 million) provided a return on average Shareholder's equity of 9% (2019: 9%).

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2020 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 2020 or existed at that date are disclosed in the related parties section of the financial statements.

DIRECTORS' BENEFITS

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

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

CHANGE OF DIRECTORS

There were no changes in directors during the year.

DIRECTORS' INSURANCE

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

DIRECTORS' REPORT

for the year ended 30 June 2020 – continued

DIRECTORS' REMUNERATION

The remuneration paid to Directors during the year was:

Brian J Wood	$	79,713
Steve W Grave	$	44,285
Tony D Allison	$	44,285
Trevor J Kempton	$	44,285
	$	212,568

EMPLOYEES' REMUNERATION

The number of employees and former employees, whose remuneration and benefits exceeded $100,000 for the year ended 30 June 2020 is listed below. Remuneration includes all non-cash benefits and redundancy payments at total cost to the company, where applicable:

$100,001 - $110,000	32
$110,001 - $120,000	36
$120,001 - $130,000	15
$130,001 - $140,000	14
$140,001 - $150,000	3
$150,001 - $160,000	6
$160,001 - $170,000	4
$180,001 - $190,000	3
$190,001 - $200,000	1
$200,001 - $210,000	1
$260,001 - $270,000	1
$330,001 - $340,000	1
$420,001 - $430,000	1
	118

AUDIT AND RISK COMMITTEE

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

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

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

DIRECTORS' REPORT

for the year ended 30 June 2020 – continued

HEALTH AND SAFETY COMMITTEE

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

AUDITOR

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

EVENTS SUBSEQUENT TO BALANCE DATE

There were no significant post balance sheet date events.

On behalf of the Directors

Brian Wood
CHAIRMAN

Tony Allison
DIRECTOR

23 October 2020


DELTA

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2020

Like many companies in New Zealand the COVID-19 Pandemic and associated alert levels limited Delta's ability to operate at full capacity and restricted its ability to meet some of its Statement of Intent targets.

The performance measures most affected by the lockdown were our financial ones, with the company's earnings, cashflow and balance sheet all impacted. Revenue levels in the month of April were 40% of budget with only essential faults and maintenance works undertaken. Had the pandemic and associated lockdown not occurred, the company may have closed the gap on meeting its financial targets.

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
SHAREHOLDER, COMMUNITY, ECONOMIC AND PEOPLE OBJECTIVES			
Shareholder			
• Consult with the Shareholder on matters to be included in the Company's Statement of Intent	Shareholder approval of the Company's Statement of Intent	Achieved	The Statement of Intent for the 2020 financial year was submitted to and accepted by DCHL prior to 30 June 2019.
• Consult with the Shareholder at the earliest possible time on matters where conflict may or could result	No unnotified potential conflicts	Achieved	Monthly KPI reports and financial information was provided to DCHL in line with the agreed timetable.
• Keep the Shareholder informed of all substantive matters	Report all substantive matters to the Shareholder within 24 hours	Achieved	Board reports were produced and meetings were held each month to review the Company's compliance with goals and objectives stated in the SOI and Strategic Plan.
Community			
• Make positive contribution to our community	$25,000 of sponsorship/ donations per annum	Not achieved	Nearly $18,000 was paid in sponsorship / donations to community groups during the year.
• Support community recreation and visitor experience in Dunedin	Achieve KPIs on service contracts	Achieved	Target KPIs were maintained or exceeded on average throughout the year.
Economic			
• Maintain essential infrastructure to support Dunedin City Council's strategy to be one of the world's great small cities	Deliver maintenance services per contractual arrangements	Achieved	Delta met or exceeded its KPI's on maintenance contracts held with Aurora Energy and the Dunedin City Council throughout the year.
People			
• Develop skill sets and succession planning through Delta's apprenticeship scheme	Average number of apprentices in the scheme of 20 or more per annum	Achieved	The average apprentices in the scheme was over 34 during the period.
• Maintain the health and wellbeing of staff	Lower than 2.5% sick leave based on hours	Achieved	Staff sick leave was 1.6% of total hours during the year.
• Maintain a positive and satisfying working environment with low levels of voluntary staff turnover	Below 15.0% staff turnover	Achieved	Voluntary staff turnover was 13.5% over the 2019/20 year.

During the 2020 financial year, 89% of the staff employed by the Company received above the living wage (as calculated by the New Zealand Family Centre Social Policy Unit).

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2020 - continued

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
SAFETY AND ENVIRONMENT OBJECTIVES			
Safety			
• Reduce harm to employees and contractors	≤ 3.50 total recordable injury frequency rate (TRIFR) per 200,000 hours worked	Not achieved	TRIFR for the year was 3.69 per 200,000 hours worked.
	≤ 1.00 total lost time injury frequency rate (LTIFR) per 200,000 hours worked	Achieved	LTIFR for the year was 0.57 per 200,000 hours worked.
Environment			
• Maintain all existing environmental accreditations	Maintain all existing environmental accreditations held as at 30 June 2019	Achieved	All environmental accreditations were maintained.
• Maintain full compliance with the Resource Management Act (RMA)	0 – number of breaches	Not achieved	There was one RMA breach during the year. Delta received a $750 infringement notice for breaching section 15 (1) (b) of the RMA when sediment was unintentionally discharged into a gully on one of our worksites.
• Maintain or lower fuel efficiency in the Company's light commercial / passenger fleet	≤ 9.50 litres fuel used per 100 kilometres	Achieved	Fuel efficiency across the Delta light commercial / passenger fleet was calculated at 9.25 litres per 100 kilometres.

FINANCIAL OBJECTIVES

	TARGET $000	OUTCOME	RESULT $000
• EBITDA[1]	≥11,995	Not achieved	9,632
• Net profit after income tax	≥2,633	Not achieved	1,963
• Shareholder's equity	23,588	Not achieved	23,044
• Return on Shareholder's funds	≥11%	Not achieved	9%
• Cash flow from operations[2]	≥5,563	Achieved	5,845
• Capital expenditure	≤4,802	Achieved	4,424
• Term debt	≤21,650	Not achieved	22,550
• Dividends	≥1,500	Achieved	1,500
• Shareholder's equity to total assets	≥37%	Not achieved	35%

1 The Company calculated its targets on the basis that the service portion of vehicle leases would be unable to be split out. When the IFRS16 Leases standard was introduced our lease partner was able to separate the service portion. This resulted in a lower than anticipated right-of-use asset and lease liability on the balance sheet and a lower EBIT and EBITDA than budgeted / targeted due to reduced interest and depreciation costs.

2 The Company referenced a cash flow from operations of $5.563 million in its 2019/2020 Statement of Intent. This figure was calculated prior to the implementation of IFRS 16 Leases and did not factor in the principal component of leases being reclassified into financing activities. The cash flow result noted here has been adjusted to also include the repayment of lease liabilities in line with the Statement of Intent.

INFORMATION ON THE DIRECTORS

DIRECTOR	QUALIFICATIONS	DATE APPOINTED	DECLARATIONS OF INTERESTS
Brian J Wood Non-Executive Chairman	MBA (Otago) FNZIM CF.Inst.D	December 2016	Chairman – Buller Holdings Limited Chairman – Buller Recreation Limited Chairman – Canterbury Linen Services Limited Chairman – South Island Transport Corridors Reinstatement Group – Ministry of Transport – Ceased 9 June 2020 Chairman – Westreef Services Limited Director – Harrison Grierson Holdings Limited Group of companies Director – Lyttleton Port of Christchurch Limited Director – Mainpower New Zealand Chairman – Invercargill City Holdings Limited Director – Invercargill City Property Limited Ceased 7 November 2019 Director – E-Spatial Limited Director – Mt Cass Wind Farm Limited Appointed 24 October 2019 Director – Greenpower New Zealand Limited Appointed 24 October 2019 Director – HWCP Management Limited Appointed 7 November 2019 Director – Invercargill Central Limited Appointed 20 November 2019 Director – Invercargill City Forests Limited Appointed 20 April 2020 Chairman – New Zealand Upgrade Programme Oversight Group – Appointed 28 May 2020
Steven W Grave Non-Executive Director		July 2017	Principal, Director and Shareholder – Steve Grave Consulting Ltd Chairman – Sicon Limited Director – Whitestone Contracting Limited Shareholder – KM & SW Grave Family Trust – Fulton Hogan Limited Shareholder – SW Grave – Fulton Hogan Limited Director – Buller Holdings Limited Appointed 1 April 2020 Director – Westreef Services Limited Appointed 1 April 2020 Director Buller Recreation Limited Appointed 1 April 2020
Tony D Allison Non-Executive Director	BCom, BA, CA, CM.Inst.D.	November 2017	Director – AA Cleaners (Otago) Limited Chairman – Dunedin International Airport Limited Director – Smith City Finance Limited Director – Smith City (2020) Limited Appointed 25 May 2020 Director – Smith City (Southern) Limited Ceased 21 May 2020 Director – Smith City Properties Limited Ceased 21 May 2020

INFORMATION ON THE DIRECTORS – *continued*

DIRECTOR	QUALIFICATIONS	DATE APPOINTED	DECLARATIONS OF INTERESTS
Tony D Allison *continued*			Director - SGG Finance Limited Ceased 21 May 2020 Director - Smith City Group Limited Ceased 22 May 2020 Director and Shareholder- Yabbie Creek Trustees Limited Director and Shareholder - Visionalli Limited Chairman - Advisory Board, Mornington Health Centre Limited - Ceased 23 May 2020 Chairman - Advisory Board, MHC Properties Limited - Ceased 23 May 2020 Director - One House Away Limited Chairman - Night 'n Day Foodstores Independent Advisory Board - Appointed 1 September 2019 Chairman - Edubits (Otago Polytechnic) Independent Advisory Board - Appointed 31 October 2019, Ceased 1 April 2020 Chairman - Otago Polytechnic Appointed 1 April 2020 Director - Smiths City (Nelson) Limited Appointed 14 March 2020, Ceased 21 May 2020 Director - Smiths D.I.Y. (Southern) Limited Appointed 14 March 2020, Ceased 21 May 2020 Director - Powerstore Limited Appointed 14 March 2020, Ceased 21 May 2020 Director - Smiths City (Wellington) Limited Appointed 14 March 2020, Ceased 21 May 2020 Director - Furniture Concepts (2004) Limited Appointed 14 March 2020, Ceased 21 May 2020 Director - Smiths City Staff Share Plan Trustee Limited - Appointed 14 March 2020, Ceased 21 May 2020 Director - Debt Recovery & Legal Services Limited Appointed 14 March 2020, Ceased 21 May 2020 Director - Smith City (Christchurch) Limited Appointed 14 March 2020, Ceased 21 May 2020 Director - Alectra Limited Appointed 14 March 2020, Ceased 21 May 2020 Director - LV Martin & Son Limited Appointed 14 March 2020, Ceased 21 May 2020 Director - Adventure Brands Limited Appointed 14 March 2020, Ceased 21 May 2020 Director - Quintana Investments Limited Appointed 14 March 2020, Ceased 21 May 2020
Trevor J Kempton Non-Executive Director	BE (Hons), M.IPENZ, F.NZIM, CM.Inst.D.	November 2013	Director and shareholder - Long Beach Consulting Limited Councillor - Otago Regional Council (did not seek re-election 12 October 2019) Chairman and Shareholder - Naylor Love Enterprise Group of companies Shareholder - Constructing Excellence (NZ) Limited Ceased 28 August 2019

FINANCIAL STATEMENTS

for the year ended 30 June 2020

CONTENTS

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2020

	Note	2020 $000	2019 $000
Operating revenue	3	99,682	97,453
Financial revenue	4	758	847
Total revenue		**100,440**	**98,300**
Less expenses			
Operating expenses	5	97,238	95,666
Financial expenses	6	1,031	929
Total expenses		98,269	96,595
Profit before tax		**2,171**	**1,705**
Income tax expense / (credit)	9	208	(217)
Net profit for the year		**1,963**	**1,922**
Other comprehensive income			
Cash flow hedges		–	37
Total other comprehensive income		**–**	**37**
Total comprehensive income		**1,963**	**1,959**

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 2020

	Note	Cash Flow Hedge Reserve $000	Share Capital $000	Retained Earnings $000	Total $000
Balance at 1 July 2019		-	17,000	5,581	22,581
Total comprehensive income		-	-	1,963	1,963
Less dividends paid	8	-	-	1,500	1,500
Balance at 30 June 2020		-	17,000	6,044	23,044

	Note	Cash Flow Hedge Reserve $000	Share Capital $000	Retained Earnings $000	Total $000
Balance at 1 July 2018		(37)	17,000	5,159	22,122
Total comprehensive income		37	-	1,922	1,959
Less dividends paid	8	-	-	1,500	1,500
Balance at 30 June 2019		-	17,000	5,581	22,581

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

BALANCE SHEET

as at 30 June 2020

	Note	2020 $000	2019 $000
EQUITY			
Share capital	10	17,000	17,000
Cash flow hedge reserve	11	-	-
Retained earnings		6,044	5,581
Total equity		23,044	22,581
CURRENT LIABILITIES			
Trade and other payables	12	7,135	6,309
Borrowings	15	63	-
GST payable		888	516
Provisions	14	4,763	4,229
Taxation payable		1,460	1,392
Lease liabilities	13	1,747	-
Total current liabilities		16,056	12,446
NON-CURRENT LIABILITIES			
Borrowings	15	22,550	25,350
Lease liabilities	13	3,844	-
Provisions	14	627	665
Total non-current liabilities		27,021	26,015
Total liabilities		43,077	38,461
TOTAL EQUITY AND LIABILITIES		66,121	61,042

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

BALANCE SHEET

as at 30 June 2020 – continued

	Note	2020 $000	2019 $000
CURRENT ASSETS			
Cash and cash equivalents	18	220	126
Trade and other receivables	19	13,867	15,002
Work in progress	20	6,824	6,350
Inventories – materials and stores		3,070	2,682
Prepayments		357	238
Total current assets		24,338	24,398
NON-CURRENT ASSETS			
Term receivable	19	10,023	11,041
Intangible assets	22	1,872	828
Deferred tax asset	9	886	483
Right-of-use asset	23	5,531	-
Property, plant and equipment	21	23,471	24,292
Total non-current assets		41,783	36,644
TOTAL ASSETS		66,121	61,042

For and on behalf of the Board of Directors

Brian Wood
CHAIRMAN

Tony Allison
DIRECTOR

23 October 2020

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 2020

	Note	2020 $000	2019 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from			
Receipts from customers		95,277	96,771
COVID-19 Wage Subsidy		3,841	-
Intra-group transition receipts		-	64
Intra-group tax receipts		-	374
Net GST received / (paid)		388	177
Interest received		3	2
		99,509	97,388
Cash was disbursed to			
Payments to suppliers and employees		89,757	91,189
Intra-group tax payments		543	-
Interest paid		929	976
		91,229	92,165
Net cash inflows/(outflows) from operations	24	8,280	5,223
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from			
Sale of property, plant and equipment		205	302
Receipts from loans		2,836	1,773
		3,041	2,075
Cash was disbursed to			
Purchase of property, plant and equipment		4,492	5,177
		4,492	5,177
Net cash inflows/(outflows) from investing activities		(1,451)	(3,102)

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 2020 - continued

	Note	2020 $000	2019 $000
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from			
Receipts from borrowings		80,175	78,105
		80,175	78,105
Cash was disbursed to			
Repayment of borrowings		82,975	78,855
Repayment of lease liabilities		2,435	-
Dividends paid		1,500	1,500
		86,910	80,355
Net cash inflows/(outflows) from financing activities		(6,735)	(2,250)
Net increase/(decrease) in cash, cash equivalents and bank overdraft		94	(129)
Cash and cash equivalents at the beginning of the period		126	255
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	18	220	126

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 2020

1 REPORTING ENTITY

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

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

The financial statements were authorised for issue by the Directors on 23 October 2020.

BASIS OF ACCOUNTING

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

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

CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

GOODS AND SERVICES TAX (GST)

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

2 SIGNIFICANT ACCOUNTING POLICIES - continued

INVENTORIES

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

IMPAIRMENT OF ASSETS

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

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

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

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

CHANGES IN ACCOUNTING POLICIES

Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore in line with the transitional provisions the 2019 comparative information has not been restated and continues to be reported under IAS 17.

Policy applicable from 1 July 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset through the period of use;
- the Company has the right to direct use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

This policy is applied to contracts entered into or changed on or after 1 July 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices. The Company was able to separate out lease and non-lease components for all leases.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Policy applicable before 1 July 2019

For contracts entered into before 1 July 2019, the Company has elected to apply the practical expedient and recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of NZ IAS 17 Leases.

The Company separately discloses its right-to-use assets (note 23) and lease liabilities (note 13) in its statement of financial position.

Short-term leases / low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term property leases that have a term of 12 months or less. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Under IAS 17

In the comparative period, as a lessee the Company classified leases as operating leases as they did not transfer substantially all of the risks and rewards of ownership. The leases were therefore not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

As a lessor

The accounting policies applicable to the Company as a lessor did not materially change. The Company acts as a lessor and leases out several buildings throughout the lower South Island.

None of these leases transfer substantially all of the risks and rewards incidental to ownership and therefore all of the leases are treated as operating leases.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of other sundry revenue. The leases contain lease and non-lease components and the Company gives consideration to IFRS 15 when allocating the consideration over time.

STANDARDS AMENDED OR ISSUED DURING THE YEAR

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three interpretations (IFRIC 4 'Determining whether an arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

As noted throughout these statements, the adoption of this new standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new standard has been applied using the modified retrospective approach, which in line with the transition provisions allows the Company to not restate comparative information.

The Company has elected not to adopt the practical expedient and not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 July 2019. At this date, the Company also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16. Consideration has however been given at the reporting date as to any impairment.

On transition to IFRS 16 the incremental borrowing rate applied to lease liabilities was 3.5%.

There were no other standard changes during the year that had a material impact on the financial statements of the Company.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

STANDARDS ISSUED BUT NOT YET EFFECTIVE

There are no new or revised standards issued, but not yet effective that have a material impact on the financial reporting of the Company.

3 OPERATING REVENUE

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

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

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

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

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

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

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

The Company earns revenue from the following main sources:

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

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

3 OPERATING REVENUE - continued

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

	2020 $000	2019 $000
Revenue from contracts with customers		
Electrical services	61,658	62,196
Meters and related services	9,204	8,441
Greenspace services	16,958	19,227
Tree services	7,460	6,901
Other		
Other sundry revenue	23	107
Lease income	455	447
COVID-19 Wage Subsidy	3,841	-
Gain on sale / disposal of assets	83	134
	99,682	97,453

Prior year disclosure has been amended to separate lease income from other sundry revenue as well as include gain on sale / disposal of assets in revenue rather than operating expenses.

The **COVID 19 Wage Subsidy** was a subsidy applied for through the Ministry of Social Development (MSD) during the COVID-19 lockdown. The Company was eligible for the subsidy as it met the criteria as set out by the MSD – including a 30% decline related to COVID-19 in actual or predicted revenue over the period of a month between January 2020 and June 2020, when compared with the same month last year. Among other things, the Company also took all reasonable steps to mitigate the financial impact from COVID-19 and to retain employees throughout the lockdown.

The Wage subsidy was accounted for in line with NZ IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. The Wage subsidy was physically received in April 2020 and was recognised in full in that month as the Company met the requisite conditions attached to the subsidy. The Wage subsidy was intended to assist businesses in meeting their wage and salary costs, in periods where revenue was significantly impacted (greater than 30% decline) anywhere within the period between January 2020 and June 2020 and therefore the Company recognised this amount in its Profit and Loss in April 2020, being the month most significantly impacted by the COVID-19 lockdown.

Lease income relates to the leasing out of surplus buildings and land. The Company classifies these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. The Company does not classify the property leased as investment property as the Company still occupy a significant portion of the leased space and, in many cases, overlap with the tenants.

	2020 $000	2019 $000

3 OPERATING REVENUE - continued

The following table sets out a maturity analysis of future lease income, showing the undiscounted future lease amounts to be received after the reporting date.

	2020 $000	2019 $000
Less than one year	496	
One to two years	501	
Two to three years	387	
Three to four years	45	
Four to five years	45	
Greater than five years	45	
	1,519	

4 FINANCIAL REVENUE

	2020 $000	2019 $000
Interest revenue	758	847
	758	847

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.

5 OPERATING EXPENSES

	2020 $000	2019 $000
Included in the operating expenses are the following items:		
Audit fees – for audit of financial statements	70	70
Employee remuneration and benefits	46,665	44,553
Materials	19,162	18,031
Depreciation and amortisation – Property Plant & Equipment / Intangibles	4,110	4,041
Depreciation Right-of-use asset[1]	2,320	-
Plant and Vehicle costs[1]	1,517	2,803
Building rent[1]	230	596
Directors' fees	213	210
Increase/(decrease) in impairment provision for trade and other receivables	-	(22)
Bad debts written off	1	4
Donations	9	9

1 Upon the adoption of IFRS 16 Leases all operating leases, previously expensed through the statement of financial performance, were capitalised on the balance sheet, recognising a 'right-of-use' asset and a lease liability for the present value of the obligation. Lease expenses in the statement of financial performance (included as part of Plant and Vehicle costs and Building rent) were replaced with depreciation on a right-of-use asset and interest costs.

	2020 $000	2019 $000

6 FINANCIAL EXPENSES

	2020 $000	2019 $000
Interest - related parties	854	927
Interest on leases	176	-
Interest - other	1	2
Total financial expenses	1,031	929

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

	2020	2019
Number of shares		
Weighted average number of ordinary shares	17,000,000	17,000,000
Basic earnings per share	11.55 cents	11.31 cents

8 DIVIDENDS

		2020 $000	2019 $000
Interim dividend December 2019 (December 2018: 4.4 cents/share)	4.4 cents/share	750	750
Final dividend June 2020 (June 2019: 4.4 cents/share)	4.4 cents/share	750	750
		1,500	1,500
	Cents per share	8.82	8.82

9 TAXATION

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 - continued

9 TAXATION - continued

INCOME TAX

	2020 $000	2019 $000
Total operating profit before income tax	2,171	1,705
Tax thereon at 28%	608	477
Plus / (less) the tax effect of differences		
Expenditure non-deductible for taxation	16	27
Non-assessable income	(135)	(1,162)
Reduction in deferred tax liability following reintroduction of tax depreciation on commercial buildings	(155)	-
Intra-group tax compensation	24	549
Under/(over) tax provision in prior years	(150)	(108)
Tax effect of differences	(400)	(694)
Tax expense /(benefit)	208	(217)
Represented by:		
Current tax provision	692	(459)
Intra-group tax compensation	24	549
Prior period adjustments to current tax	(106)	(175)
Deferred tax provision	(203)	(199)
Prior period adjustments to deferred tax	(44)	67
Reduction in deferred tax liability following reintroduction of tax depreciation on commercial buildings	(155)	-
Income tax	208	(217)
Effective tax rate	9.6%	-12.7%

Profits arising on assets constructed for DCHL subsidiary, Aurora Energy Limited, have been deducted from the calculation of taxable income for the consolidated tax group, and have also been removed from the cost of the relevant Aurora Energy assets for tax depreciation purposes. For accounting purposes, the Company has recognised the adjustment to remove the profit component of these assets and has reflected a tax compensation payment of $24,000 (FY19: $549,000) from Delta to Aurora Energy.

Imputation credit account

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

9 TAXATION - continued

DEFERRED TAX

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

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

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

	Opening Balance Sheet $000	Charged to Equity $000	Charged to Income $000	Reduction in Deferred Tax Liabilities on Buildings $000	Closing Balance Sheet Assets $000	Closing Balance Sheet Liabilities $000	Closing Balance Sheet Net $000
YEAR ENDED 30 JUNE 2020:							
Property, plant and equipment	(340)	-	56	155	-	(129)	(129)
Employee benefits	1,277	-	168	-	1,445	-	1,445
Provisions	(454)	-	7	-	-	(447)	(447)
IFRS 16 Lease adoption	-	-	17	-	17	-	17
Revaluations of cash flow hedge instruments	-	-	-	-	-	-	-
Balance at the end of the year	483	-	248	155	1,462	(576)	886

	Opening Balance Sheet $000	Charged to Equity $000	Charged to Income $000	Transfer of Employees $000	Closing Balance Sheet Assets $000	Closing Balance Sheet Liabilities $000	Closing Balance Sheet Net $000
YEAR ENDED 30 JUNE 2019:							
Property, plant and equipment	(498)	-	158	-	-	(340)	(340)
Employee benefits	1,109	-	143	25	1,277	-	1,277
Provisions	(285)	-	(169)	-	-	(454)	(454)
Revaluations of cash flow hedge instruments	15	(15)	-	-	-	-	-
Balance at the end of the year	341	(15)	132	25	1,277	(794)	483

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 - continued

	2020 $000	2019 $000
10 SHARE CAPITAL		
Issued capital		
17,000,000 fully paid ordinary shares	17,000	17,000

11 RESERVES

	2020 $000	2019 $000
Cash flow hedge reserve		
Balance at the beginning of the year	-	(37)
Net revaluations	-	52
Deferred tax released (see Note 9)	-	(15)
Balance at the end of the year	-	-

The cash flow hedge reserve comprised the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to interest payments that have not yet occurred. All cash flow hedges expired within the 2019 financial year.

12 TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost and include:	2020 $000	2019 $000
Trade payables	3,871	3,745
Due to related parties	170	60
Income in advance	541	-
Other creditors	2,553	2,504
	7,135	6,309

Prior year disclosure has been amended to include amounts payable to Inland Revenue under Other Creditors rather than Trade Payables, in line with current year disclosure.

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

13 LEASE LIABILITIES

Building leases

The Company leases land and buildings for operational purposes. The leases typically run for a period of between 3 and 5 years. Some leases include an option to renew the lease for an additional period after the end of the contract term.

Where applicable the Company seeks to include extension options in new leases to provide operational flexibility. Options to extend are held by the Company and not by the lessor. The Company assesses at lease commencement or upon the adoption of IFRS 16 Leases whether it is reasonably certain to exercise the extension options.

Vehicle leases

The Company leases vehicles and plant with lease terms of up to 10 years. The Company agrees the residual value of the leased assets at the end of the contract term. The Company seeks information from its lease partner to determine changes to the residual value of these assets and as at the 30 June 2020 a provision was held for the expected amount payable.

	2020 $000	2019 $000
(i) Current liabilities		
Building and land leases	425	-
Vehicle leases	1,322	-
	1,747	-
(ii) Non-current liabilities		
Building and land leases	1,221	-
Vehicle leases	2,623	-
	3,844	-

The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate inherent in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate, as the interest rate inherent in its building leases is not easily identified.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in index or rate.

MATURITY ANALYSIS – CONTRACTUAL UNDISCOUNTED CASHFLOWS

	2020 $000	2019 $000
Payable with one year	1,948	2,806
Payable between one to five years	3,338	3,669
Payable later than five years	781	193
	6,067	6,668

See note 23 right-of-use asset and note 2 significant accounting policies for more information.

14 PROVISIONS

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

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

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

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

	2020 $000	2019 $000
(i) Current liabilities		
Long service leave	209	176
Annual leave	4,098	3,486
Gratuities	233	191
Sick leave	57	95
Other provisions	166	281
	4,763	4,229
(ii) Non-current liabilities		
Long service leave	475	467
Gratuities	152	198
	627	665

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 - continued

15 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 Statement of Comprehensive Income 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.

	2020 $000	2019 $000
Dunedin City Treasury Limited – related party	22,613	25,350
	22,613	25,350

The total facility available is $32.500 million. The repayment period on the non-current borrowings is as follows:

Repayable between one to two years	–	–
Repayable between two to five years	–	–
Repayable greater than five years	22,550	25,350
	22,550	25,350

The weighted average interest rate for the loan at balance date was 3.35% (2019: 3.95%).

16 CONTINGENT LIABILITIES

Performance bonds	1,243	1,119
	1,243	1,119

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.

17 CAPITAL EXPENDITURE COMMITMENTS

Plant and equipment	464	894
	464	894

18 CASH AND CASH EQUIVALENTS

Cash and bank	220	126

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.

	2020 $000	2019 $000
19 TRADE AND OTHER RECEIVABLES		
Trade receivables	6,859	7,367
Less estimated doubtful debts	(5)	(5)
	6,854	7,362
Due from related parties	7,013	7,640
	13,867	15,002
Term receivable	10,023	11,041
	10,023	11,041

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

The term receivable arose from the supply of infrastructure services on a Christchurch development property and it is secured by a second mortgage over that development property. Interest is payable on this balance and loan repayments commenced February 2019. As at 30 June 2020 $0.709mil (2019: $1.772mil) was classified as a trade receivable as it was due within 12 months of balance date.

Past due, but not impaired, receivables are:

		2020 $000	2019 $000
Age analysis:	1 - 30 days	277	3,303
	30 - 60 days	151	145
	60 - 90 days	236	631
	90 days plus	30	745
		694	4,824

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

The estimated doubtful debts provision relates entirely to the general provision for estimated credit loss and there were no individually impaired trade receivable balances at year end.

	2020 $000	2019 $000
Opening doubtful debts provision	(5)	(26)
Additional provisions made during the year	(1)	(11)
Receivables written off during the year	1	3
Provisions reversed during the year	-	29
Closing doubtful debts provision	(5)	(5)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 - continued

20 WORK IN PROGRESS

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

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

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable and where Delta believes the identified performance obligations have been satisfied. Contract costs are recognised as expenses in the period in which they are incurred.

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

	2020 $000	2019 $000
Work in progress – construction contracts	1,221	1,112
Work in progress – other	5,603	5,238
	6,824	6,350
Included within work in progress is $4.508 million for Dunedin City Council Group entities (2019: $4.232 million).		
Work in progress – construction contracts		
Gross construction work in progress plus margin to date	24,275	21,029
Progress billings	(23,054)	(19,917)
Total construction work in progress	1,221	1,112
Retentions held by customers	248	299
Due from customers under construction contracts	2,098	3,033

Included in operating revenue is $34.6 million of construction contract revenue (2019: $34.5 million).

21 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

Depreciation of these assets commences when the assets are ready for their intended use and no depreciation is charged on assets under construction.

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

Depreciation rates and methods used are as follows:

	Rate	Method
Buildings	1% to 14%	straight line
Metering equipment	7% to 100%	straight line
Plant and equipment	1% to 100%	straight line
Motor vehicles	5% to 33%	straight line

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 - continued

21 PROPERTY, PLANT AND EQUIPMENT - continued

	Land $000	Buildings $000	Meters $000	Plant and Equipment $000	Motor Vehicles $000	Assets under Construction $000	Total $000
YEAR ENDED 30 JUNE 2020:							
Cost							
Balance at the beginning of the year	4,566	5,969	2,473	12,703	26,326	325	52,362
Purchases	-	173	518	674	1,627	-	2,992
Sales/disposals	-	(62)	-	(840)	(1,640)	-	(2,542)
Transfers	-	144	-	7	174	(325)	-
Total cost	4,566	6,224	2,991	12,544	26,487	-	52,812
Accumulated depreciation							
Balance at the beginning of the year	-	1,715	873	8,752	16,730	-	28,070
Depreciation	-	207	160	1,092	2,263	-	3,722
Sales/disposals	-	(61)	-	(817)	(1,573)	-	(2,451)
Transfers	-	-	-	-	-	-	-
Total accumulated depreciation	-	1,861	1,033	9,027	17,420	-	29,341
Balance at the end of the year	4,566	4,363	1,958	3,517	9,067	-	23,471
YEAR ENDED 30 JUNE 2019:							
Cost							
Balance at the beginning of the year	4,684	5,318	1,992	11,754	24,596	114	48,458
Purchases	-	619	481	1,526	2,063	319	5,008
Sales/disposals	(118)	(8)	-	(577)	(401)	-	(1,104)
Transfers	-	40	-	-	68	(108)	-
Total cost	4,566	5,969	2,473	12,703	26,326	325	52,362
Accumulated depreciation							
Balance at the beginning of the year	-	1,599	747	8,118	14,878	-	25,342
Depreciation	-	122	126	1,137	2,253	-	3,638
Sales/disposals	-	(6)	-	(503)	(401)	-	(910)
Transfers	-	-	-	-	-	-	-
Total accumulated depreciation	-	1,715	873	8,752	16,730	-	28,070
Balance at the end of the year	4,566	4,254	1,600	3,951	9,596	325	24,292

Post the COVID-19 pandemic additional consideration was given to the carrying value of assets. No impairment was considered necessary given the Company's strong forward workload, the planned/future requirement of all assets held as at 30 June 2020, the favourable operating results post lockdown and the conservative carrying value of our high value assets – specifically land and buildings.

21 PROPERTY, PLANT AND EQUIPMENT - continued

Included within Land and buildings are the following assets subject to operating leases:

	Land $000	Buildings $000
YEAR ENDED 30 JUNE 2020:		
Cost		
Balance at the beginning of the year	4,566	1,620
Purchases	-	-
Sales/disposals	-	-
Total cost	4,566	1,620
Accumulated depreciation		
Balance at the beginning of the year	-	770
Depreciation	-	36
Sales/disposals	-	-
Total accumulated appreciation	-	806
Balance at the end of the year	4,566	814

22 INTANGIBLES

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

	2020 $000	2019 $000
SOFTWARE		
Cost		
Balance at the beginning of the year	4,440	5,198
Purchases	97	185
Transfers	52	62
Disposals	(266)	(1,005)
Total cost	4,323	4,440
ACCUMULATED AMORTISATION		
Balance at the beginning of year	3,664	4,218
Amortisation	388	403
Disposals	(266)	(957)
Total amortisation	3,786	3,664

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 - continued

22 INTANGIBLES - continued

	2020 $000	2019 $000
SOFTWARE WORK IN PROGRESS		
Balance at the beginning of the year	52	62
Purchases	1,335	52
Transfers	(52)	(62)
Total work in progress	1,335	52
Balance at the end of year	1,872	828

23 RIGHT-OF-USE ASSET

	Property $000	Vehicles $000	Total $000
Cost			
Balance as at 1 July 2019	1,311	3,850	5,161
Additions	923	1,806	2,729
Disposals	(147)	(82)	(229)
Total cost as at 30 June 2020	2,087	5,574	7,661
Accumulated depreciation			
Balance as at 1 July 2019	-	-	-
Depreciation	589	1,730	2,319
Disposals	(147)	(42)	(189)
Total accumulated depreciation as at 30 June 2020	442	1,688	2,130
Balance as at 30 June 2020	1,645	3,886	5,531

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus, where applicable, any indirect costs incurred and an estimate of costs to dismantle or/and remove the asset or reinstate/restore the asset or the site where it is located.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The estimated useful lives of the assets are determined on the same basis as those of property and equipment. In addition, the asset is periodically reviewed for impairment.

See note 13 leases and note 2 significant accounting policies for more information.

24 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES

	2020 $000	2019 $000
Net profit for the year	1,963	1,922
Items not involving cash flows		
Depreciation and amortisation	4,110	4,041
Depreciation RoU Asset	2,320	-
Interest leases	176	-
Deferred tax	(403)	(157)
Bad debts	1	4
Doubtful debts	-	(22)
Impact of changes in working capital items		
(Increase)/decrease in trade and other receivables	2,148	2,493
(Increase)/decrease in inventories	(388)	172
(Increase)/decrease in work in progress	(474)	(1,980)
(Increase)/decrease in prepayments	(118)	14
Increase/(decrease) in trade and other payables	888	(163)
Increase/(decrease) in provision for tax	69	289
Increase/(decrease) in employee entitlements	497	492
Increase/(decrease) in GST payable	372	19
Items classified as investing or financing activities		
Net (gain)/loss on sale of property, plant and equipment	(83)	(134)
Investment in Financial Instrument	(2,836)	(1,773)
Movement of capital creditors in accounts payable	38	6
Net cash inflows from operating activities	8,280	5,223

RECONCILIATION OF CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES	Opening Balance Sheet $000	Cash Flows $000	Non-cash Movement $000	Closing Balance Sheet $000
YEAR ENDED 30 JUNE 2020:				
Long term borrowings	25,350	(2,800)	-	22,550
Short term borrowings	-	-	63	63
Lease liabilities	-	(2,435)	8,026	5,591
Total liabilities from financing activities	25,350	(5,235)	8,089	28,204
YEAR ENDED 30 JUNE 2019:				
Long term borrowings	26,100	(750)	-	25,350
Total liabilities from financing activities	26,100	(750)	-	25,350

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 - continued

25 RELATED PARTY TRANSACTIONS

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

TRANSACTIONS WITH DUNEDIN CITY COUNCIL

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

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

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

	2020 $000	2019 $000
PROVISION OF SERVICES TO DUNEDIN CITY COUNCIL GROUP ENTITIES:		
Capital construction works	26,279	32,430
Network maintenance and contracting services	17,655	16,434
Administration and accounting	0	3
Rent	427	404
	44,361	49,271
PROVISION OF SERVICES TO DUNEDIN CITY COUNCIL:		
Other contracting services	5,465	6,878
AT YEAR END THE AMOUNTS RECEIVABLE FROM RELATED PARTIES WERE:		
Receivable from Dunedin City Council	368	977
Receivable from Dunedin City Council Group entities	6,646	6,676
INTRAGROUP TRANSFERS:		
Tax compensation received	759	374
RECEIPT OF GOODS AND SERVICES FROM DUNEDIN CITY COUNCIL GROUP ENTITIES:		
Interest	854	927
Contracting services and supplies	591	469
Rent	79	54
Administration	503	620
Management fee	50	50
Tax compensation	24	549
	2,101	2,669

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 - continued

25 RELATED PARTY TRANSACTIONS - continued

	2020 $000	2019 $000
RECEIPT OF GOODS AND SERVICES FROM DUNEDIN CITY COUNCIL:		
Contracting services and supplies	138	151
Rates	70	65
Rent	20	17
	228	233
AT YEAR END THE AMOUNTS PAYABLE TO DUNEDIN CITY COUNCIL ENTITIES EXCLUSIVE OF BORROWINGS SHOWN IN NOTE 15 ARE:		
Payable to Dunedin City Council	34	9
Payable to Dunedin City Council Group entities	905	1,957

TRANSACTIONS WITH ENTITIES IN WHICH DIRECTORS HAVE AN INTEREST:

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

Mr B J Wood is a Director of Mainpower New Zealand Limited. During the financial period covered by this report, metering services to the value of $9,277 were purchased from Mainpower New Zealand (2019: $109,149). Monies payable at 30 June 2020 totalled to $1,165 (2019: $352).

Mr B J Wood is a Director of E-Spatial Limited. During the financial period covered by this report, services to the value of $12,500 were purchased from E-Spatial (2019: $10,000). Monies payable at 30 June 2020 totalled to $2,875 (2019: Nil).

Mr T J Kempton was a Councillor on the Otago Regional Council up until 12 October 2019. During the financial period covered by this report, services to the value of $16,731 were provided to Otago Regional Council (2019: $5,200). Monies receivable at 30 June 2020 totalled $7,493 (2019: Nil). During the financial period covered by this report, rates to the value of $5,491 were paid to Otago Regional Council (2019: $4,308). No monies were payable as at 30 June 2020 (2019: Nil).

Mr T J Kempton is the Chairman and a Shareholder of the Naylor Love Enterprise Group of Companies. During the financial period covered by this report, contracting services to the value of $111,399 were provided to the Naylor Love Group (2019: $4,278). No monies were receivable as at 30 June 2020 (2019: $201). During the financial period covered by this report, contracting services to the value of $115,497 were purchased from the Naylor Love Group (2019: $254,872). No monies were payable as at 30 June 2020 (2019: Nil).

Mr T D Allison is the Chairman of Dunedin International Airport Limited. During the financial period covered by this report, contracting services to the value of $47,313 were provided to Dunedin International Airport (2019: $41,049). Monies receivable at 30 June 2020 totalled to $3,799 (2019: $3,799).

Mr T D Allison is the Chairman of Otago Polytechnic. During the financial period covered by this report, services to the value of $19,067 were purchased from the Otago Polytechnic (2019: $9,536). No monies were payable as at 30 June 2020 (2019: $280).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020 - continued

25 RELATED PARTY TRANSACTIONS - continued

KEY MANAGEMENT PERSONNEL REMUNERATION

	2020 $000	2019 $000
Short-term employment benefits – Senior Management	2,114	1,952
Short-term employment benefits – Directors	213	210

26 FINANCIAL INSTRUMENTS RISKS

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

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

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

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

INTEREST RATE RISK

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

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

As at balance date all interest rate swaps had expired.

CREDIT RISK

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

The Company's exposure to credit risk is generally spread over a large number of counterparties and customers. As at 30 June 2020, however, there was some concentration of this risk around the secured Term receivable described in Note 19.

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

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

26 FINANCIAL INSTRUMENTS RISKS – continued

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

	2020 $000	2019 $000
Cash and cash equivalents	220	126
Trade and other receivables	13,867	15,002
Prepayments	357	238
Work in progress	6,283	6,350
Term receivable	10,023	11,041
	30,750	32,757

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.

	2020 $000	2019 $000
COUNTERPARTIES WITH CREDIT RATINGS		
Cash and cash equivalents		
AA	220	126
Trade and other receivables		
AA	368	977
COUNTERPARTIES WITHOUT CREDIT RATINGS		
Trade and other receivables / Term receivable	23,522	25,066

26 FINANCIAL INSTRUMENTS RISKS – continued

LIQUIDITY RISK

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

Contractual obligations in respect of interest expense on 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 loan balance and weighted average interest rate are included in note 15.

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

	Maturity Dates Less than 1 Month $000	1 Month to 1 Year $000	1 - 5 Years $000	More than 5 Years $000	Carrying Value $000
AS AT 30 JUNE 2020:					
Financial assets					
Cash and cash equivalents	220	-	-	-	220
Trade and other receivables	13,158	709	-	-	13,867
Term receivable	-	-	10,023	-	10,023
	13,378	709	10,023	-	24,110
Financial liabilities					
Trade and other payables	7,135	-	-	-	7,135
Lease liabilities	171	1,777	3,338	781	6,067
GST payable	888	-	-	-	888
Borrowings	63	-	-	22,550	22,613
	8,257	1,777	3,338	23,331	36,703
AS AT 30 JUNE 2019:					
Financial assets					
Cash and cash equivalents	126	-	-	-	126
Trade and other receivables	13,230	1,772	-	-	15,002
Term receivable	-	-	11,041	-	11,041
	13,356	1,772	11,041	-	26,169
Financial liabilities					
Trade and other payables	6,309	-	-	-	6,309
GST payable	516	-	-	-	516
Borrowings	-	-	-	25,350	25,350
	6,825	-	-	25,350	32,175

26 FINANCIAL INSTRUMENTS RISKS – continued

SENSITIVITY ANALYSIS

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

The table below illustrates the potential profit and loss and equity (excluding retained earnings) impact for 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 $000	Profit $000	Equity $000	Profit $000	Equity $000
AS AT 30 JUNE 2020:					
Financial liabilities					
Borrowings (unhedged)	22,613	(226)	-	226	-
	22,613	(226)	-	226	-
AS AT 30 JUNE 2019:					
Financial liabilities					
Borrowings (unhedged)	25,350	(254)	-	254	-
	25,350	(254)	-	254	-

27 CAPITAL MANAGEMENT STRATEGY

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

The Directors of the Company perform continual reviews of its 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 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.

28 COVID-19, GOING CONCERN

On March 11, 2020 the World Health Organisation declared the outbreak of COVID-19 (a novel Coronavirus) a pandemic. Two weeks later, on 26 March, New Zealand increased it's COVID-19 alert to level 4 and a nationwide lockdown commenced. During the Level 4 phase of the lockdown the Company continued to provide essential maintenance services whilst most non-essential work was deferred. New Zealand moved to Level 3 on Monday 27 April and at that stage the company was able to recommence all operations. The Company's results were impacted for the month of April but since then the company has been able to increase capacity to recover a proportion of lost revenue.

The Company was able to reduce costs during Level 4 of the lockdown to partly offset the drop in revenue for this period. In addition, the Company received support from the New Zealand Government by way of the wage subsidy. The Directors revised the 2020 financial forecast during COVID-19 to assess the potential financial impact on the Company.

The Directors are aware that the company may be impacted by COVID-19 over the coming period and this has been incorporated into future budgets and strategy. Evidence to date, being ongoing contracts from existing customers and normal customer credit arrangements support these assumptions. Based on the budget for the 12 months ended 30 June 2021 the Company will be able to meet it's obligations as they fall due. This is supported by trading evidence subsequent to balance date. In the event that the risk situation deteriorates unexpectedly, sufficient debt facility headroom is available to maintain the Company for a period of disrupted trading conditions.

29 EVENTS AFTER BALANCE DATE

There were no significant post balance sheet date events.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INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of Delta Utilities Services Limited's financial statements and performance information for the year ended 30 June 2020

The Auditor-General is the auditor of Delta Utilities Services Limited (the Company). The Auditor-General has appointed me, Rudie Tomlinson, 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 his behalf.

Opinion

We have audited:

- the financial statements of the Company on pages 38 to 70, that comprise the balance sheet as at 30 June 2020, 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 32 to 33.

In our opinion:

- the financial statements of the Company on pages 38 to 70:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2020; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards; and
- the performance information of the Company on pages 32 to 33 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 2020.

Our audit was completed on 23 October 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the impact of COVID-19 on the Company. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Emphasis of matter – impact of COVID-19

Without modifying our opinion, we draw attention to the disclosures about the impact of COVID-19 on the Company as set out in note 28 of the financial statements and page 32 of the performance information.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the Company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the Company.

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

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Company for assessing the Company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

Independent Auditor's Report - continued

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 30 and 34 to 35, but does not include the financial statements and the performance information, and our auditor's report thereon.

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

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

Independence

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

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

Rudie Tomlinson
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand

COMPANY DIRECTORY

DIRECTORS

Brian Wood (Chair)

Steven Grave

Tony Allison

Trevor Kempton

MANAGEMENT

Mike Costelloe
Chief Executive

Michael Price
General Manager Power and Communication Services

Richard King
General Manager Environmental Services

Lynne Bas
General Manager Metering and Field Operations

John Llewellyn
General Manager People and Capability

Hayden Wingfield
Chief Financial Officer

Daryl Putt
Business Accountant

Matt Sadgrove
Manager, Health and Safety

Glenda McGowan
Executive Assistant

Shane Spicer
Commercial Manager

REGISTERED OFFICE

33 Sturdee Street
Dunedin
New Zealand

BANKER

Westpac Banking Corporation

SOLICITORS

Gallaway Cook Allan

Anderson Lloyd

AUDITOR

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

TAXATION ADVISOR

Deloitte

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