Delta Utility Services Limited

Interim Report

For the six months ended

31 December 2016

Delta Utility Services Limited

Contents

Delta Utility Services Limited

Directors' report

The Directors of Delta Utility Services Limited are pleased to present their report for the six months ended 31 December 2016.

Review of operations

The principal activites of the Company include the management, construction, operation and maintenance of infrastructure assets and related services.

During the period under review, the company's shareholder Dunedin City Holdings Ltd commissioned an independent review of Aurora Energy Ltd and Delta Utility Services Ltd following public allegations of safety risks on the Aurora electricity network. The Deloitte report was released in December 2016. The Board has accepted the findings in the report and is presently working through the implications of recommendations with its shareholder.

Delta continues to provide a broad range of energy and environmental services to local authority and private sector customers.

In the energy sector, Delta continued to provide asset management and electricity distribution services to its sister company, Aurora Energy Ltd, together with other specialist services along the electricity supply chain from generation to distribution and retail. Delta remained active in the field based metering and smart meter deployment markets, and continued to provide distribution services under its long term network maintenance contract with Network Tasman Ltd.

Delta's greenspace and tree services businesses supplied sports turf, horticulture and roadside vegetation control services throughout the South Island from Southland to Tasman. The solid waste business also performed well, providing services to Clutha, Dunedin City and Waitaki local authorities, including operating Dunedin City Council's Green Island landfill.

Delta's people operate in high hazard environments, making health & safety a critical priority for the organisation. The company made further improvements in its safety performance indicators, reducing total recordable injuries per 200,000 hours worked to 2.89 (FY 2016: 3.11, 6 Mths to 31 Dec 15: 3.94).

Total operating revenues of $51.7 million were $1.8 million (3%) higher than for the same period last year, driven by increases in the value of metering services provided to electricity retailers and distribution services.

In August 2016, the Directors were pleased to announce that Delta had entered a secured loan agreement with the new owner of a Christchurch development property, following the successful conclusion of a mortgagee sale. Delta received a debt repayment of $0.9 million on settlement of the sale and the new loan replaces an existing debt owed by a counterparty in default. The fair value of the new loan was assessed as $12.8 million as at 31 December 2016. The new loan has been classified as a term receivable on the basis that it is not repayable within 12 months of balance date.

The Company's net profit before income tax of $2.532 million (30 June 2016: $6.135 million and 31 December 2015: $2.354 million) provided a return on average shareholder's equity of 21% (30 June 2016: 28% and 31 December 2015: 23%). Profit after tax of $1.8 million was in line with last year's result.

Total assets declined by $1.0 million from $61.2 million to $60.2 million during the six month period, mostly due to a $3.6 million reduction in trade and other receivables.

The Directors expect a satisfactory result at year-end.

Delta Utility Services Limited

Directors' report *continued*

Result

	$000
Operating profit before income tax	2,532
Less income tax expense	688
	1,844

Seasonality

There is limited seasonality of earnings within the Company.

Dividends

A dividend of $1.25 million was declared and paid during the period.

Change of Directors

Dr I M Parton and Mr S J McLauchlan retired as Directors on 12 December 2016.
Mr S R Thompson was appointed as Chairman on 12 December 2016.
Mr B J Wood was appointed as a Director on 12 December 2016.

Events after balance sheet date

There were no significant events after the reporting period that would require adjustment or disclosure.

Statement of responsibility

The Directors accept responsibility for the preparation of the interim financial statements and the judgements used in them:

The Directors accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and in the opinion of the Directors, the interim financial statements fairly reflect the financial position and operations of Delta Utility Services Limited.

The Board of Directors of Delta Utility Services Limited have pleasure in presenting the interim financial statements, set out on pages 4 to 14, for the six months ended 31 December 2016 and authorises them for issue on 26 February 2017.

Director

Director

Delta Utility Services Limited

Statement of Comprehensive Income
For the six months ending 31 December 2016

	Unaudited 6 months to 31 Dec 2016 $'000	Unaudited 6 months to 31 Dec 2015 $'000	Audited full year to 30 Jun 2016 $'000
Operating revenue	51,657	49,899	102,545
Interest revenue	553	1,977	4,118
Total revenue	52,210	51,876	106,663
Less expenses:			
Audit fees	30	27	55
Employee remuneration and benefits	23,169	22,131	44,420
Materials	9,048	9,120	17,914
Depreciation	1,839	1,770	3,599
Rental expense	1,461	1,373	2,851
Directors' fees	65	53	109
Increase/(decrease) in impairment provision for trade and other receivables	1,320	2,007	(9,732)
Bad debts written off	1	6	13,528
Donations	30	30	38
(Gain)/loss on sale of disposal assets	(137)	(111)	(296)
Interest to Dunedin City Treasury Limited	723	950	1,703
Interest other	-	-	35
Other operating expenses	12,129	12,166	26,304
Total expenses	49,678	49,522	100,528
Net profit before tax	2,532	2,354	6,135
Income tax expense	688	499	1,462
Net profit after tax	1,844	1,855	4,673
Other comprehensive income:			
Interest rate swap hedges gains (losses) during the year	51	-	(24)
Total other comprehensive income	51	-	(24)
Total comprehensive income	1,895	1,855	4,649

The accompanying notes form part of these financial statements

Delta Utility Services Limited

Statement of Changes in Equity
For the six months ending 31 December 2016

	Share capital $'000	Hedge reserve $'000	Retained earnings $'000	Total equity $'000
Unaudited				
Equity as at 1 July 2016	17,000	(185)	803	17,618
Profit after income tax	-	-	1,844	1,844
Other comprehensive income for the period	-	51	-	51
Distribution to owners	-	-	(1,250)	(1,250)
Equity as at 31 December 2016	17,000	(134)	1,397	18,263
Unaudited				
Equity as at 1 July 2015	17,000	(161)	(1,370)	15,469
Profit after income tax	-	-	1,855	1,855
Other comprehensive income for the period	-	-	-	-
Distribution to owners	-	-	(1,250)	(1,250)
Equity as at 31 December 2015	17,000	(161)	(765)	16,074
Audited				
Equity as at 1 July 2015	17,000	(161)	(1,370)	15,469
Profit after income tax	-	-	4,673	4,673
Other comprehensive income for the period	-	(24)	-	(24)
Distribution to owners	-	-	(2,500)	(2,500)
Equity as at 30 June 2016	17,000	(185)	803	17,618

Delta Utility Services Limited

Balance Sheet
As at 31 December 2016

	Note	Unaudited 6 months to 31 Dec 2016 $'000	Unaudited 6 months to 31 Dec 2015 $'000	Audited full year to 30 Jun 2016 $'000
Current assets				
Cash and cash equivalents		93	46	202
Intra group advances		-	513	-
Trade and other receivables		11,189	23,510	27,647
Work in progress		5,583	6,086	3,733
Inventories - materials and stores		3,270	3,048	2,927
Current taxation asset		-	-	1,307
Total current assets		20,135	33,203	35,816
Non-current assets				
Property, plant and equipment	5	23,256	22,797	22,781
Term Receivable		12,838	-	-
Deferred tax asset		2,482	4,535	1,068
Intangible assets	6	1,476	1,495	1,498
Total non-current assets		40,052	28,827	25,347
Total assets		60,187	62,030	61,163
Current liabilities				
Trade and other payables		8,430	8,080	8,886
Provisions		4,480	4,665	4,370
Taxation payable		520	1,792	-
Total current liabilities		13,430	14,537	13,256
Non-current liabilities				
Term Borrowings	7	27,440	30,390	29,165
Provisions		867	805	867
Derivative financial instruments	8	187	224	257
Total non-current liabilities		28,494	31,419	30,289
Total liabilities		41,924	45,956	43,545
Equity				
Share capital		17,000	17,000	17,000
Cash flow hedge reserves		(134)	(161)	(185)
Retained earnings		1,397	(765)	803
Total equity		18,263	16,074	17,618
Total liabilities and equity		60,187	62,030	61,163

The accompanying notes form part of these financial statements

Delta Utility Services Limited

Statement of Cash Flows
For the six months ending 31 December 2016

	Note	unaudited 6 months to 31 Dec 2016 $'000	unaudited 6 months to 31 Dec 2015 $'000	audited full year to 30 Jun 2016 $'000
Cash flow from operating activities				
Cash was provided from				
Receipts from customers		53,586	49,450	100,461
Interest received		2	7	10
Net GST refund		542	562	7
		54,130	50,019	100,478
Cash was disbursed to				
Payments to suppliers & employees		47,972	47,777	93,158
Income tax paid		295	2,005	1,395
Intra-group tax payments		-	163	845
Interest paid		749	856	1,641
		49,016	50,801	97,039
Net cash flow from operating activities	3	5,114	(782)	3,439
Cash flow from investing activities				
Cash was provided from				
Sale of property, plant and equipment		249	295	547
		249	295	547
Cash was disbursed to				
Purchase of property, plant and equipment		2,497	2,337	4,179
		2,497	2,337	4,179
Net cash flow from investing activities		(2,248)	(2,042)	(3,632)
Cash flow from financing activities				
Cash was provided from				
Receipts from borrowings		42,125	44,575	81,650
		42,125	44,575	81,650
Cash was disbursed to				
Repayment of borrowings		43,850	40,675	78,975
Dividends paid		1,250	1,250	2,500
		45,100	41,925	81,475
Net cash flow from financing activities		(2,975)	2,650	175
Net increase / (decrease) in cash and cash equivalents		(109)	(174)	(18)
Opening cash and cash equivalents		202	220	220
Closing cash and cash equivalents		93	46	202

The accompanying notes form part of these financial statements

Delta Utility Services Limited

Notes to the Financial Statements (unaudited)
For the six months ending 31 December 2016

1 Reporting entity

The financial statements presented here 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 of Delta Utility Services Limited are for the six months ended 31 December 2016 and comply with the Financial Reporting Act 1993.

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

The Company is a Tier 1 for–profit entity as defined by the External Reporting Board (expenses over $30 million).

2 Basis of Preparation

The financial statements for the period ended 31 December 2016 are unaudited.

The financial statements have been prepared in accordance with and comply with NZ IAS 34, Interim Financial Reporting, and should be read in conjunction with the audited financial statements for the year ended 30 June 2016.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2016.

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2016.

Delta Utility Services Limited

Notes to the Financial Statements (unaudited)
For the six months ending 31 December 2016

3 Reconciliation of Operating Surplus to Net Cash Flows from Operating Activities

	6 months to 31 Dec 2016 $'000	6 months to 31 Dec 2015 $'000	12 months to 30 Jun 2016 $'000
Net profit after tax	1,844	1,855	4,673
Items not involving cash flows			
Depreciation	1,839	1,770	3,599
Other non-cash items	(882)	1,379	6,999
Impact of changes in working capital items			
(Increase) / decrease in trade and other receivables	3,071	(96)	(6,376)
(Increase) / decrease in intra group advances	-	(163)	350
(Increase) / decrease in work in progress	(1,850)	(2,807)	(454)
(Increase) / decrease in inventories	(343)	(422)	(301)
Increase / (decrease) in trade and other payables	(688)	(2,209)	(1,181)
Increase / (decrease) in provision for tax	1,827	(872)	(3,971)
Increase / (decrease) in employee entitlements	110	247	15
Increase / (decrease) in other current liabilities	231	523	300
Items classified as investing or financing activities			
Net gain on sale of property, plant and equipment	(137)	(111)	(296)
Movement in capital creditors in accounts payable	92	124	82
Net cash inflows from operating activities	5,114	(782)	3,439

Delta Utility Services Limited

Notes to the Financial Statements (unaudited)
For the six months ending 31 December 2016

4 Related Party Transactions

Transactions with Dunedin City Council

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

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

	6 months to 31 Dec 2016 $'000	6 months to 31 Dec 2015 $'000	12 months to 30 Jun 2016 $'000
Sales of Services to DCC Group Entities:			
Capital works constructed	12,546	12,154	27,685
Network management and operations	10,800	10,014	20,347
Contracting services provided	989	851	1,847
Administration and accounting	218	217	463
	24,553	23,236	50,342
Sales of Services to DCC:			
Other contracting	3,584	3,638	7,154
Amounts Receivable by the Company at period end from DCC Entities:			
Receivable from DCC	820	639	713
Receivable from DCC Group Entities	4,860	4,748	7,451
Work in progress for DCC Group entities	2,907	2,670	1,959
Intra-group advance to DCC Group entities	-	513	-
	8,587	8,570	10,123
Purchases of Goods and Services from DCC Group Entities:			
Interest	723	950	1,710
Contracting services and supplies	130	234	202
Rent / Admin	13	13	27
Tax loss offsets	-	-	845
Management fee	25	25	50
	891	1,222	2,834
Purchases of Goods and Services from DCC:			
Contracting services and supplies	71	112	187
Other	51	44	88
	122	156	275
Amounts Payable by the Company at period end to DCC Entities:			
Payable to DCC	10	8	8
Payable to Dunedin City Council entities	603	459	272
	613	467	280

Delta Utility Services Limited

Notes to the Financial Statements (unaudited)
For the six months ending 31 December 2016

4 Related Party Transactions *continued*

Transactions with Companies in which Directors have an interest

	6 months to 31 Dec 2016 $	6 months to 31 Dec 2015 $	12 months to 30 Jun 2016 $
Services provided to Companies in which Directors have an interest:			
Scott Technology Ltd	904	-	-
(Mr S J McLauchlan is the Chairman and also a Shareholder)			
University of Otago	1,566	13,520	32,386
(Mr S J McLauchlan is the Pro Chancellor)			
Otago Regional Council	5,573	6,985	19,514
(Mr T J Kempton is a Councillor)			
Amounts receivable from Companies in which directors have an interest:			
Scott Technology Ltd	1,039	-	-
(Mr S J McLauchlan is the Chairman and also a Shareholder)			
University of Otago	460	104	305
(Mr S J McLauchlan is the Pro Chancellor)			
Purchases from Companies in which Directors have an interest:			
ETEL Ltd	815,915	972,775	1,621,786
(Mr D J Frow is a Director)			
Rosebery Holdings Ltd	12,354	12,180	24,535
(Mr S J McLauchlan is a Director and Shareholder)			
Otago & Southland Employers Association	11,136	8,796	14,717
(Mr S J McLauchlan is a Director)			
University of Otago	7,600	8,840	8,840
(Mr S J McLauchlan is the Pro Chancellor)			
Long Beach Consulting Ltd	10,811	10,659	21,470
(Mr T J Kempton is a Director and Shareholder)			
Otago Regional Council	3,999	3,851	3,851
(Mr T J Kempton is a Councillor)			
Amounts payable to Companies in which Directors have an interest:			
ETEL Ltd	51,498	99,432	64,119
(Mr D J Frow is a Director)			
Transactions with Executive Staff			
Services provided to Executive staff:			
G W Cameron (Chief Executive) - Contracting Services	373	-	998

5 Property, Plant and Equipment

	6 months to 31 Dec 2016 $'000	6 months to 31 Dec 2015 $'000	12 months to 30 Jun 2016 $'000
Additions	2,201	2,014	3,645
Disposals	117	184	254
Capital commitments	259	1,202	516

There have been no material changes to the fair value assessment methods for property, plant and equipment asset classes between 30 June 2016 and 31 December 2016.

6 Intangible Assets

	6 months to 31 Dec 2016 $'000	6 months to 31 Dec 2015 $'000	12 months to 30 Jun 2016 $'000
Additions	209	201	456
Disposals	-	-	-

There have been no material changes to the fair value assessment method for intangible assets between 30 June 2016 and 31 December 2016.

7 Term Borrowings

There has been no material changes to the accounting treatment of the term loan from Dunedin City Treasury Limited between 30 June 2016 and 31 December 2016.

8 Derivative Financial Instruments

	6 months to 31 Dec 2016 $'000	6 months to 31 Dec 2015 $'000	12 months to 30 Jun 2016 $'000
Fair Value			
Interest rate swaps	187	224	257
Analysed as:			
Current	-	-	-
Non-current	187	224	257
	187	224	257

9 Financial Instruments

All financial assets are recognised at cost/face value while financial liabilities are recognised at amortised cost except derivative financial instruments which are recognised at fair value.

10 Contingent Liabilities

	6 months to 31 Dec 2016 $'000	6 months to 31 Dec 2015 $'000	12 months to 30 Jun 2016 $'000
Performance Bonds	1,124	950	1,220

11 Prior Period Restatement

The 31 December 2016 numbers previously reported in the Six Monthly Report for the Period Ended 31 December 2015 have been restated to reflect an adjustment to discount factors used in Employee Entitlement calculations. Restatements were made to the opening retained earnings balance, provisions and deferred tax. The discount rate used in Employee Entitlements provisions was adjusted down from a previously used weighted average cost of capital to the risk free rate. The following changes were made to the 31 December 2015 figures:

Statement of Changes in Equity	Original Retained earnings $'000	Restated Retained earnings $'000
Retained Earnings as at 1 July 2015	(1,035)	(1,370)
Profit after income tax	1,855	1,855
Other comprehensive income for the period	-	-
Distribution to owners	(1,250)	(1,250)
Retained Earnings as at 31 December 2015	(430)	(765)

Delta Utility Services Limited

Notes to the Financial Statements (unaudited)
For the six months ending 31 December 2016

11 Prior Period Restatement *continued*

Balance Sheet	Original 6 months to 31 Dec 2015 $'000	Restated 6 months to 31 Dec 2015 $'000
Current assets		
Cash and cash equivalents	46	46
Intra group advances	513	513
Trade and other receivables	23,510	23,510
Work in progress	6,086	6,086
Inventories - materials and stores	3,048	3,048
Current taxation asset	-	-
Total current assets	33,203	33,203
Non-current assets		
Property, plant and equipment	22,797	22,797
Deferred tax asset	4,405	4,535
Intangible assets	1,495	1,495
Total non-current assets	28,697	28,827
Total assets	61,900	62,030
Current liabilities		
Trade and other payables	8,080	8,080
Provisions	4,611	4,665
Taxation payable	1,792	1,792
Total current liabilities	14,483	14,537
Non-current liabilities		
Term Borrowings	30,390	30,390
Provisions	394	805
Derivative financial instruments	224	224
Total non-current liabilities	31,008	31,419
Total liabilities	45,491	45,956
Equity		
Share capital	17,000	17,000
Cash flow hedge reserves	(161)	(161)
Retained earnings	(430)	(765)
Total equity	16,409	16,074
Total liabilities and equity	61,900	62,030

Delta Utility Services Limited

Directory

Directors

Stephen Thompson (Chair)
David Frow
Trevor Kempton
Brian Wood

Registered Office

10 Halsey Street
Dunedin
New Zealand

Bankers

Westpac Banking Corporation

Solicitors

Anderson Lloyd
Galloway Cook Allan

Tax Advisors

Deloitte

Auditor

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