

Delta Utility Services Limited

Interim Report

For the six months ended

31 December 2018

Delta Utility Services Limited

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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 2018.

Review of operations

The principal activity of the Company is the provision of contracting services, which encompasses a broad range of energy and environmental services to local authority and private sector customers. Our core business centres on the construction, operation and maintenance of essential energy and environmental infrastructure.

During the first half of financial year 2019, Delta continued to deliver on its existing long term contracts and managed to secure new work activity with both new and current customers.

In the power and communications sector, Delta continued to provide electricity distribution services to Aurora Energy in Dunedin and Central Otago, and to Nelson Electricity and Network Tasman in the Nelson and Tasman regions. Delta has also continued to provide services to the generation sector on a small scale and during the period was able to increase its market share by securing new works with both Meridian and Pioneer Energy.

In the Retailer Services sector, the work activity secured in the prior financial year has commenced and Delta continues to deliver good levels of service on these contracts, as well as on existing work.

Delta's Environmental Services teams provide tree maintenance, sports turf management, horticulture and roadside vegetation control services. Early in FY19, Delta was awarded a new tree services contract with Network Waitaki. We are also currently in the middle a competitive tender process, which if successful, will secure a major contract with an existing customer.

Every day, our people operate in working environments with critical risk exposure. This makes the management of health and safety a top priority for Delta and we are committed to the provision of safe and healthy work environments for our workers and the public. The company's total recordable injury frequency rate (TRIFR) of 5.09 per 200,000 hours worked was slightly higher than in the same period last year and the year ended 30 June 18 (FY18: 3.76, HY18: 4.07). Our statistics reflect Delta's conservative approach to health and safety by ensuring that high levels of care are provided to staff.

Total operating revenues of \$47.0 million were \$3.6 million (8%) higher than for the same period last year, largely due to the uplift in Aurora Capital projects during the period.

Delta remains comfortable with progress towards the recovery of its prior period debt related to infrastructure services provided for the Yaldhurst Village subdivision.

The Company's net profit after income tax of \$0.621 million (FY18: \$3.776 million, HY18: \$1.667 million) provided a return on average shareholder's equity of 6% (FY18: 18%, HY18: 16%). Delays in the awarding of several contracts in the energy sector as well as inclement weather and tighter margins in the environmental sector have put pressure on the company's bottom line during the first half of the year. Our parks and reserves maintenance contract for the Christchurch City Council also continues to provide unfavourable results and we are in discussions with them on the future of this contract.

Since transitioning away from Aurora on the 1 July 2017 good progress has been made to establish Delta as a standalone contracting services company, however a significant number of improvement initiatives remain in progress that will ensure the business continues to develop on a sound commercial footing for the future. A review of the Delta Environmental Policy took place in November 2018, with a view to strengthening our commitment to our environmental management system and Delta's community engagement on environmental matters. Delta also took further steps in its separation from Aurora, with a number of Aurora based back office staff migrating back across into Delta.

The Directors expect to report a satisfactory year-end result given the number of historic challenges that the Company continues to work through.

Delta Utility Services Limited

Directors' report *continued*

Result

\$000

Operating profit before income tax	530
Less income tax refund	- 91
	621

Seasonality

There is limited seasonality of earnings within the Company.

Dividends

A dividend of \$750,000 was declared and paid during the period.

Change of Directors

There were no changes in directors during the period.

Events after balance sheet date

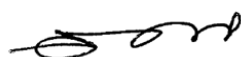
There were no significant events after the reporting period that would require adjustment or disclosure.

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 13, for the six months ended 31 December 2018 and authorises them for issue on 4 February 2019.



Brian Wood Chairman



Tony Allison Director

Delta Utility Services Limited

Statement of Comprehensive Income For the six months ending 31 December 2018

	Unaudited 6 months to 31 Dec 2018 \$'000	Unaudited 6 months to 31 Dec 2017 \$'000	Audited 12 months to 30 Jun 2018 \$'000
Operating revenue	47,011	43,411	92,731
Decrease in impairment provision for trade and other receivables	22	15	30
Gain on sale of assets	8	237	272
Interest revenue	451	452	910
Total revenue	47,492	44,115	93,943
Less expenses:			
Audit fees	35	49	66
Employee remuneration and benefits	21,778	19,443	39,180
Materials	9,323	9,365	19,666
Depreciation	1,990	1,921	3,976
Plant and Vehicle Leases	1,348	1,224	2,501
Directors' fees	102	88	190
Bad debts written off	-	12	38
Donations	4	5	14
Interest to Dunedin City Treasury Limited	543	575	1,129
Interest other	-	1	1
Other operating expenses	11,839	9,621	22,909
Total expenses	46,962	42,304	89,670
Net profit before tax	530	1,811	4,273
Income tax (revenue) / expense	(91)	144	497
Net profit after tax	621	1,667	3,776
Other comprehensive income:			
Interest rate swap hedges gains / (losses) during the year	34	39	73
Total other comprehensive income	34	39	73
Total comprehensive income	655	1,706	3,849

Delta Utility Services Limited

Statement of Changes in Equity For the six months ending 31 December 2018

	Share capital \$'000	Hedge reserve \$'000	Retained earnings \$'000	Total equity \$'000
Unaudited				
Equity as at 1 July 2018	17,000	(37)	5,159	22,122
Profit after income tax	-	-	621	621
Other comprehensive income for the period	-	34	-	34
Distribution to owners	-	-	(750)	(750)
Equity as at 31 December 2018	17,000	(3)	5,030	22,027
Unaudited				
Equity as at 1 July 2017	17,000	(110)	3,133	20,023
Profit after income tax	-	-	1,667	1,667
Other comprehensive income for the period	-	39	-	39
Distribution to owners	-	-	(875)	(875)
Equity as at 31 December 2017	17,000	(71)	3,925	20,854
Audited				
Equity as at 1 July 2017	17,000	(110)	3,133	20,023
Profit after income tax	-	-	3,776	3,776
Other comprehensive income for the period	-	73	-	73
Distribution to owners	-	-	(1,750)	(1,750)
Equity as at 30 June 2018	17,000	(37)	5,159	22,122

Delta Utility Services Limited

Balance Sheet As at 31 December 2018

	Note	Unaudited 6 months to 31 Dec 2018 \$'000	Unaudited 6 months to 31 Dec 2017 \$'000	Audited 12 months to 30 Jun 2018 \$'000
Current assets				
Cash and cash equivalents / (overdraft)		(302)	1,020	255
Trade and other receivables		14,635	10,602	16,800
Work in progress		5,465	6,046	4,370
Inventories - materials and stores		2,739	2,666	2,854
Total current assets		22,537	20,334	24,279
Non-current assets				
Property, plant and equipment	5	22,989	23,670	23,116
Term Receivable		12,468	13,291	11,968
Deferred tax asset		125	744	341
Intangible assets	6	868	1,141	1,042
Total non-current assets		36,450	38,846	36,467
Total assets		58,987	59,180	60,746
Current liabilities				
Trade and other payables		7,238	6,797	6,969
Provisions		3,034	3,458	3,741
Taxation payable		784	1,041	1,103
Derivative financial instruments	8	4	1	51
Intra group loan		-	1,156	-
Total current liabilities		11,060	12,453	11,864
Non-current liabilities				
Term Borrowings	7	25,200	25,100	26,100
Provisions		700	676	660
Derivative financial instruments	8	-	97	-
Total non-current liabilities		25,900	25,873	26,760
Total liabilities		36,960	38,326	38,624
Equity				
Share capital		17,000	17,000	17,000
Cash flow hedge reserves		(3)	(71)	(37)
Retained earnings		5,030	3,925	5,159
Total equity		22,027	20,854	22,122
Total liabilities and equity		58,987	59,180	60,746

Delta Utility Services Limited

Statement of Cash Flows For the six months ending 31 December 2018

	<i>Note</i>	Unaudited 6 months to 31 Dec 2018 \$'000	Unaudited 6 months to 31 Dec 2017 \$'000	Audited 12 months to 30 Jun 2018 \$'000
Cash flow from operating activities				
<i>Cash was provided from</i>				
Receipts from customers		48,192	47,052	93,016
Interest received		1	2	10
Net GST refund / (paid)		850	439	(285)
		49,043	47,493	92,741
<i>Cash was disbursed to</i>				
Payments to suppliers & employees		45,610	43,058	86,334
Income tax paid / (received)		-	165	417
Intra-group transition payments		-	-	902
Interest paid		560	598	1,164
		46,170	43,821	88,817
Net cash flow from operating activities	3	2,873	3,672	3,924
Cash flow from investing activities				
<i>Cash was provided from</i>				
Sale of property, plant and equipment		49	822	1,027
		49	822	1,027
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		1,829	2,403	3,750
		1,829	2,403	3,750
Net cash flow from investing activities		(1,780)	(1,581)	(2,723)
Cash flow from financing activities				
<i>Cash was provided from</i>				
Receipts from borrowings		36,850	54,530	83,790
		36,850	54,530	83,790
<i>Cash was disbursed to</i>				
Repayment of borrowings		37,750	54,895	83,155
Dividends paid		750	875	1,750
		38,500	55,770	84,905
Net cash flow from financing activities		(1,650)	(1,240)	(1,115)
Net increase/(decrease) in cash and cash equivalents		(557)	851	86
Opening cash and cash equivalents		255	169	169
Closing cash and cash equivalents		(302)	1,020	255

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2018

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 2018 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 2018 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 2018.

New standards impacting the Company that have been adopted in the financial statements for the period ended 31 December 2018, and which have resulted in changes to the Company's accounting policies are:

- NZ IFRS 9 Financial Instruments (NZ IFRS 9); and
- NZ IFRS 15 Revenue from Contracts with Customers (NZ IFRS 15)

The adoption of these standards has not resulted in a material change in the Company's reporting.

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2018.

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2018

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

	6 months to 31 Dec 2018 \$'000	6 months to 31 Dec 2017 \$'000	12 months to 30 Jun 2018 \$'000
Net profit after tax	621	1,667	3,776
<i>Items not involving cash flows</i>			
Depreciation	1,990	1,921	3,976
Other non-cash items	181	98	367
<i>Impact of changes in working capital items</i>			
(Increase) / decrease in trade and other receivables	1,686	5,385	499
(Increase) / decrease in work in progress	(1,095)	(2,526)	(850)
(Increase) / decrease in inventories	115	298	110
Increase / (decrease) in trade and other payables	269	(2,605)	(2,431)
Increase / (decrease) in intra group advances	-	1,156	-
Increase / (decrease) in provision for tax	(319)	10	72
Increase / (decrease) in employee entitlements	(667)	(1,657)	(1,390)
<i>Items classified as investing or financing activities</i>			
Net gain on sale of property, plant and equipment	(8)	(237)	(273)
Movement in capital creditors in accounts payable	100	162	68
Net cash inflows from operating activities	2,873	3,672	3,924

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2018

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 2018 \$'000	6 months to 31 Dec 2017 \$'000	12 months to 30 Jun 2018 \$'000
<i>Sales of Services to DCC Group Entities:</i>			
Capital works constructed	17,102	12,909	29,127
Network maintenance and contracting services	6,515	7,724	17,772
Administration / Accounting / Tax / Rent	198	207	434
	23,815	20,840	47,333
<i>Sales of Services to DCC:</i>			
Other contracting	3,042	2,463	5,861
<i>Amounts Receivable by the Company at period end from DCC Entities:</i>			
Receivable from DCC	704	594	763
Receivable from DCC Group Entities	7,689	4,846	9,614
	8,393	5,440	10,377
<i>Purchases of Goods and Services from DCC Group Entities:</i>			
Interest	543	575	1,129
Contracting services and supplies	423	755	384
Rent / Admin	30	22	1,275
Tax Compensation / Tax loss offsets	-	-	519
Management fee	25	25	50
	1,021	1,377	3,357
<i>Purchases of Goods and Services from DCC:</i>			
Contracting services and supplies	76	71	167
Tax loss offsets	-	-	173
Other	47	40	83
	123	111	423
<i>Amounts Payable by the Company at period end to DCC Entities:</i>			
Payable to DCC	5	-	31
Payable to Dunedin City Council entities	258	1,467	1,506
	263	1,467	1,537

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2018

4 Related Party Transactions *continued*

Transactions with Companies in which Directors have an interest

	6 months to 31 Dec 2018 \$'000	6 months to 31 Dec 2017 \$'000	12 months to 30 Jun 2018 \$'000
<i>Services provided to Companies in which Directors have an interest:</i>			
Sicon (Mr S W Grave is a Director)	3	-	-
Otago Regional Council (Mr T J Kempton is a Councillor)	3	7	13
Naylor Love Construction (Mr T J Kempton is the Chairman and a Shareholder)	2	-	6
<i>Amounts receivable from Companies in which directors have an interest:</i>			
Otago Regional Council (Mr T J Kempton is a Councillor)	-	8	1
<i>Purchases from Companies in which Directors have an interest:</i>			
Mainpower New Zealand (Mr B J Wood is a Director)	103	-	-
Whitestone Contracting (Mr S W Grave is a Director)	-	2	-
Naylor Love Construction (Mr T J Kempton is the Chairman and a Shareholder)	190	11	76
Otago Regional Council (Mr T J Kempton is a Councillor)	4	4	4
<i>Amounts payable to Companies in which directors have an interest:</i>			
Naylor Love Construction (Mr T J Kempton is the Chairman and a Shareholder)	-	-	43

Mr T D Allison was a Director of Dunedin International Airport Ltd during the period. Transactions with this entity are included under transactions with the Dunedin City Council group.

Transactions with Executive Staff

There were no material transactions with executive staff during the period.

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2018

5 Property, Plant and Equipment

	6 months to 31 Dec 2018 \$'000	6 months to 31 Dec 2017 \$'000	12 months to 30 Jun 2018 \$'000
Additions	1,730	2,375	3,705
Disposals (Book Value)	70	760	826
Capital commitments	1,032	269	400

There have been no material changes to the fair value assessment methods for property, plant and equipment asset classes between 30 June 2018 and 31 December 2018.

6 Intangible Assets

	6 months to 31 Dec 2018 \$'000	6 months to 31 Dec 2017 \$'000	12 months to 30 Jun 2018 \$'000
Additions	77	93	233
Disposals (Book Value)	48	183	185

There have been no material changes to the fair value assessment method for intangible assets between 30 June 2018 and 31 December 2018.

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 2018 and 31 December 2018.

8 Derivative Financial Instruments

	6 months to 31 Dec 2018 \$'000	6 months to 31 Dec 2017 \$'000	12 months to 30 Jun 2018 \$'000
Fair value			
Interest rate swaps	4	98	51
Analysed as:			
Current	4	1	51
Non-current	-	97	-
	4	98	51

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2018

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 2018 \$'000	6 months to 31 Dec 2017 \$'000	12 months to 30 Jun 2018 \$'000
Performance Bonds	990	1,111	1,269

Delta Utility Services Limited

Directory

Directors

Brian Wood
Steven Grave
Tony Allison
Trevor Kempton

Registered Office

33 Sturdee St
Dunedin
New Zealand

Bankers

Westpac Banking Corporation

Solicitors

Gallaway Cook Allan
Anderson Lloyd

Tax Advisors

Deloitte

Auditor

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