

Delta Utility Services Limited

Interim Report

For the six months ended

31 December 2017

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 2017.

Review of operations

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

With effect from 1 July 2017 Delta has been established as a standalone contracting business. A new board and management structure was implemented with Brian Wood was appointed Chairman and Mike Costelloe as Chief Executive.

Delta continues to provide a broad range of energy and environmental services to local authority and private sector customers. The principal activities of the Company include the construction, operation and maintenance of infrastructure assets and related services. Aurora continues to be Delta's primary customer.

In the energy sector, Delta continues to provide 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.

During the financial period under review, Delta took the decision to exit its former solid waste business activities by selling assets and assigning its related contracts to another party. The related transactions were effective from 1 December 2017, and resulted in a gain on sale of the assets.

Delta's people operate in environments that often involve high hazard activities. This makes management of health & safety a critical priority for the organisation. In early November a Delta employee was fatally injured in a workplace incident on one of our North Canterbury worksites where he was undertaking roadside mowing. The employee, Alan Scott, was experienced, trained and competent in the activity he was undertaking at the time of his death and following this incident we have reviewed other similar activity to ensure we were not exposed to a wider hazard across the business. Managing our response to this incident has been a difficult time for our staff. Our sympathies are with Alan's family and all necessary support was offered at the time of the incident. We are fully cooperating with the WorkSafe investigation and are working our way through our own independent investigation to determine as best we can the causes of this incident. The company's total recordable injury rate (TRIFR) of 4.07 per 200,000 hours worked was slightly higher than in the same period last year but lower than for the year end 30 June 2017 (FY17: 4.33, HY17: 2.89).

Total operating revenues of \$43.4 million were \$8.2 million (16%) lower than for the same period last year, largely due to the new contracting arrangements between Delta and Aurora Energy. With effect from 1 July 2017, Delta was contracted to provide network maintenance and asset construction services to Aurora Energy, however we no longer manage or operate the Aurora Energy network on Aurora's behalf.

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 \$1.667 million (FY17: \$4.830 million, HY17: \$1.844 million) provided a return on average shareholder's equity of 14% (FY17: 21%, HY17: 15%).

Whilst not directly reflected in the financial results reported for the six months to 31 December 2017, Delta's new management team have commenced work on a number of improvement initiatives that are necessary to ensure that the business develops itself on a sound commercial footing for the future. A new safety strategy has been developed and implemented and work is currently underway on finalising the business and growth strategies that will provide a clear business improvement focus for the remainder of this financial year. The outlook for the future is improving.

The Directors expect a satisfactory result at year-end.

Delta Utility Services Limited

Directors' report *continued*

Result

\$000

Operating profit before income tax	1,811
Less income tax expense	144
	1,667

Seasonality

There is limited seasonality of earnings within the Company.

Dividends

A dividend of \$875,000 was declared and paid during the period.

Change of Directors

Mr B J Wood was appointed as Chairman with effect from 1 July 2017
Mr S W Grave was appointed as a Director with effect from 1 July 2017.
Mr T D Allison was appointed as a Director with effect from 1 November 2017.
Mr D J Frow and Mr S R Thompson retired as a Directors with effect from 30 June 2017.

Events after balance sheet date

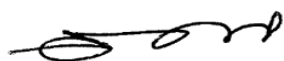
There were no significant events after the reporting period that would require adjustment or disclosure.

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 2017 and authorises them for issue on 2 February 2017.



Brian Wood Chairman



Tony Allison Director

Delta Utility Services Limited

Statement of Comprehensive Income For the six months ending 31 December 2017

	Unaudited 6 months to 31 Dec 2017 \$'000	Unaudited 6 months to 31 Dec 2016 \$'000	Audited 12 months to 30 Jun 2017 \$'000
Operating revenue	43,411	51,657	105,178
Interest revenue	452	553	555
Total revenue	43,863	52,210	105,733
Less expenses:			
Audit fees	49	30	66
Employee remuneration and benefits	19,443	23,169	47,154
Materials	9,365	9,048	18,466
Depreciation	1,921	1,839	3,899
Rental expense	1,548	1,461	3,084
Directors' fees	88	65	150
Increase/(decrease) in impairment provision for trade and other receivables	(15)	1,320	81
Bad debts written off	12	1	509
Donations	5	30	45
(Gain)/loss on sale of disposal assets	(237)	(137)	(464)
Interest to Dunedin City Treasury Limited	575	723	1,371
Interest other	1	-	4
Other operating expenses	9,297	12,129	25,551
Total expenses	42,052	49,678	99,916
Net profit before tax	1,811	2,532	5,817
Income tax expense	144	688	987
Net profit after tax	1,667	1,844	4,830
Other comprehensive income:			
Interest rate swap hedges gains (losses) during the year	39	51	75
Total other comprehensive income	39	51	75
Total comprehensive income	1,706	1,895	4,905

Delta Utility Services Limited

Statement of Changes in Equity For the six months ending 31 December 2017

	Share capital	Hedge reserve	Retained earnings	Total equity
	\$'000	\$'000	\$'000	\$'000
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
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
Audited				
Equity as at 1 July 2016	17,000	(185)	803	17,618
Profit after income tax	-	-	4,830	4,830
Other comprehensive income for the period	-	75	-	75
Distribution to owners	-	-	(2,500)	(2,500)
Equity as at 30 June 2017	17,000	(110)	3,133	20,023

Delta Utility Services Limited

Balance Sheet As at 31 December 2017

	Note	Unaudited 6 months to 31 Dec 2017 \$'000	Unaudited 6 months to 31 Dec 2016 \$'000	Audited 12 months to 30 Jun 2017 \$'000
Current assets				
Cash and cash equivalents		1,020	93	169
Trade and other receivables		10,602	11,189	16,435
Work in progress		6,046	5,583	3,520
Inventories - materials and stores		2,666	3,270	2,964
Total current assets		20,334	20,135	23,088
Non-current assets				
Property, plant and equipment	5	23,670	23,256	23,771
Term Receivable		13,291	12,838	12,841
Deferred tax asset		744	2,482	728
Intangible assets	6	1,141	1,476	1,436
Total non-current assets		38,846	40,052	38,776
Total assets		59,180	60,187	61,864
Current liabilities				
Trade and other payables		6,797	8,430	9,401
Provisions		3,458	4,480	4,905
Taxation payable		1,041	520	1,031
Derivative financial instruments	8	1	-	17
Intra group loan		1,156	-	-
Total current liabilities		12,453	13,430	15,354
Non-current liabilities				
Term Borrowings	7	25,100	27,440	25,465
Provisions		676	867	886
Derivative financial instruments	8	97	187	136
Total non-current liabilities		25,873	28,494	26,487
Total liabilities		38,326	41,924	41,841
Equity				
Share capital		17,000	17,000	17,000
Cash flow hedge reserves		(71)	(134)	(110)
Retained earnings		3,925	1,397	3,133
Total equity		20,854	18,263	20,023
Total liabilities and equity		59,180	60,187	61,864

Delta Utility Services Limited

Statement of Cash Flows For the six months ending 31 December 2017

	Note	Unaudited 6 months to 31 Dec 2017 \$'000	Unaudited 6 months to 31 Dec 2016 \$'000	Audited 12 months to 30 Jun 2017 \$'000
Cash flow from operating activities				
<i>Cash was provided from</i>				
Receipts from customers		47,052	53,586	102,675
Interest received		2	2	4
Net GST refund / (paid)		439	542	(85)
		47,493	54,130	102,594
<i>Cash was disbursed to</i>				
Payments to suppliers & employees		43,058	47,972	93,232
Income tax paid / (received)		165	295	(1,661)
Interest paid		598	749	1,411
		43,821	49,016	92,982
Net cash flow from operating activities	3	3,672	5,114	9,612
Cash flow from investing activities				
<i>Cash was provided from</i>				
Sale of property, plant and equipment		822	249	699
Investment in Financial Instrument		-	-	881
		822	249	1,580
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		2,403	2,497	5,025
		2,403	2,497	5,025
Net cash flow from investing activities		(1,581)	(2,248)	(3,445)
Cash flow from financing activities				
<i>Cash was provided from</i>				
Receipts from borrowings		54,530	42,125	83,825
		54,530	42,125	83,825
<i>Cash was disbursed to</i>				
Repayment of borrowings		54,895	43,850	87,525
Dividends paid		875	1,250	2,500
		55,770	45,100	90,025
Net cash flow from financing activities		(1,240)	(2,975)	(6,200)
Net increase/(decrease) in cash and cash equivalents		851	(109)	(33)
Opening cash and cash equivalents		169	202	202
Closing cash and cash equivalents		1,020	93	169

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2017

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 2017 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 2017 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 2017.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2017.

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2017.

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2017

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

	6 months to 31 Dec 2017 \$'000	6 months to 31 Dec 2016 \$'000	12 months to 30 Jun 2017 \$'000
Net profit after tax	1,667	1,844	4,830
<i>Items not involving cash flows</i>			
Depreciation	1,921	1,839	3,899
Other non-cash items	98	(882)	900
<i>Impact of changes in working capital items</i>			
(Increase) / decrease in trade and other receivables	5,385	3,071	(3,098)
(Increase) / decrease in work in progress	(2,526)	(1,850)	213
(Increase) / decrease in inventories	298	(343)	(37)
Increase / (decrease) in trade and other payables	(2,396)	(688)	853
Increase / (decrease) in intra group advances	1,156	-	-
Increase / (decrease) in provision for tax	10	1,827	2,338
Increase / (decrease) in employee entitlements	(1,657)	110	66
Increase / (decrease) in other current liabilities	(209)	231	150
<i>Items classified as investing or financing activities</i>			
Net gain on sale of property, plant and equipment	(237)	(137)	(464)
Movement in capital creditors in accounts payable	162	92	(38)
Net cash inflows from operating activities	3,672	5,114	9,612

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2017

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 2017 \$'000	6 months to 31 Dec 2016 \$'000	12 months to 30 Jun 2017 \$'000
<i>Sales of Services to DCC Group Entities:</i>			
Capital works constructed	12,909	12,546	26,526
Network maintenance and operation	4,439	10,800	22,720
Contracting services provided	3,285	989	2,814
Administration / Accounting / Tax / Rent	207	218	1,270
	20,840	24,553	53,330
<i>Sales of Services to DCC:</i>			
Other contracting	2,463	3,584	7,653
<i>Amounts Receivable by the Company at period end from DCC Entities:</i>			
Receivable from DCC	594	820	799
Receivable from DCC Group Entities	4,846	4,860	9,469
Work in progress for DCC Group entities	-	2,907	2,124
	5,440	8,587	12,392
<i>Purchases of Goods and Services from DCC Group Entities:</i>			
Interest	575	723	1,371
Contracting services and supplies	755	130	268
Rent / Admin	22	13	107
Tax Compensation	-	-	700
Management fee	25	25	50
	1,377	891	2,496
<i>Purchases of Goods and Services from DCC:</i>			
Contracting services and supplies	71	71	167
Other	40	51	95
	111	122	262
<i>Amounts Payable by the Company at period end to DCC Entities:</i>			
Payable to DCC	-	10	5
Payable to Dunedin City Council entities	1,467	603	1,005
	1,467	613	1,010

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2017

4 Related Party Transactions *continued*

Transactions with Companies in which Directors have an interest

	6 months to 31 Dec 2017 \$	6 months to 31 Dec 2016 \$	12 months to 30 Jun 2017 \$
<i>Services provided to Companies in which Directors have an interest:</i>			
Westreef Services Ltd (Mr B J Wood is the Chairman)	491	-	-
Otago Regional Council (Mr T J Kempton is a Councillor)	6,985	5,573	13,973
Whitestone Contracting (Mr S W Grave is a Director)	183	-	-
<i>Amounts receivable from Companies in which directors have an interest:</i>			
Westreef Services Ltd (Mr B J Wood is the Chairman)	565	-	-
Otago Regional Council (Mr T J Kempton is a Councillor)	8,033	-	9,304
<i>Purchases from Companies in which Directors have an interest:</i>			
Naylor Love Construction (Mr T J Kempton is the Chairman and a Shareholder)	11,043	-	-
Whitestone Contracting (Mr S W Grave is a Director)	2,016	-	-
Steve Grave Consulting Ltd (Mr S W Grave is a Director and Shareholder and has his Director's fees paid through this company)	21,771	-	-
Long Beach Consulting Ltd (Mr T J Kempton is a Director and Shareholder and has his Director's fees paid through this company)	21,250	10,811	23,763
Otago Regional Council (Mr T J Kempton is a Councillor)	3,984	3,999	3,999

Mr B J Wood was a Director of Dunedin City Holdings Ltd and Dunedin City Treasury Ltd until 31 December 2017. Transactions with these entities are reported under transactions with the Dunedin City Council group.

Mr T D Allison was a Director of Dunedin International Airport Ltd and City Forests Ltd (until 31 December 2017). Transactions with these entities are reported under transactions with the Dunedin City Council group.

Transactions with Executive Staff

Services provided to Executive staff:

Richard King (General Manager, Environmental Services) purchased \$28 worth of tools from the Company during the 6 months ended 31 December 2017.

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2017

5 Property, Plant and Equipment

	6 months to 31 Dec 2017 \$'000	6 months to 31 Dec 2016 \$'000	12 months to 30 Jun 2017 \$'000
Additions	2,375	2,201	4,542
Disposals (Book Value)	760	117	137
Capital commitments	269	259	910

There have been no material changes to the fair value assessment methods for property, plant and equipment asset classes between 30 June 2017 and 31 December 2017.

6 Intangible Assets

	6 months to 31 Dec 2017 \$'000	6 months to 31 Dec 2016 \$'000	12 months to 30 Jun 2017 \$'000
Additions	93	209	423
Disposals	183	-	-

There have been no material changes to the fair value assessment method for intangible assets between 30 June 2017 and 31 December 2017.

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 2017 and 31 December 2017.

8 Derivative Financial Instruments

	6 months to 31 Dec 2017 \$'000	6 months to 31 Dec 2016 \$'000	12 months to 30 Jun 2017 \$'000
Fair value			
Interest rate swaps	98	187	153
Analysed as:			
Current	1	-	17
Non-current	97	187	136
	98	187	153

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2017

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 2017 \$'000	6 months to 31 Dec 2016 \$'000	12 months to 30 Jun 2017 \$'000
Performance Bonds	1,111	1,124	1,124

Delta Utility Services Limited

Directory

Directors

Brian Wood
Trevor Kempton
Tony Allison
Steven Grave

Registered Office

10 Halsey Street
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