DELTA UTILITY SERVICES LIMITED

Six Monthly Report
for the Period Ended
31 December 2015

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COMPANY PARTICULARS
as at 31 December 2015

DIRECTORS

Dr Ian M Parton (Chair)
David J Frow
Trevor J Kempton
Stuart J McLauchlan

MANAGEMENT

Chief Executive – Grady Cameron
Chief Financial Officer/General Manager Finance and Systems – Gary Dixon
General Manager Asset Management – Derek Todd
General Manager Capability and Risk – Matt Ballard
General Manager Energy and Communication – Kewal Bagal
General Manager Environmental Services – Richard King

REGISTERED OFFICE

10 Halsey Street
Dunedin
New Zealand

BANKER

Westpac Banking Corporation

SOLICITORS

Gallaway Cook Allan
Anderson Lloyd

AUDITOR

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

TAXATION ADVISOR

Deloitte

DIRECTORS' REPORT
for the Six Months Ended 31 December 2015

The Directors of the Delta Utility Services Limited are pleased to report on the financial results and associated matters for the six months ended 31 December 2015.

The financial accounts include the activities of Delta Utility Services Limited only as there were no trading subsidiaries in any of the three reported periods.

Principal Activities of the Company

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

Results for the Six Months Ended 31 December 2015

	$000
Operating profit before income tax	2,354
Less income tax expense	499
Net profit for the period	1,855

State of Affairs

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

Dividends

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

Reserves

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

	$000
Retained earnings - to (from)	605
Cash flow hedge reserve to (from)	0

DIRECTORS' REPORT
for the Six Months Ended 31 December 2015 - continued

Review of Operations

Employee and contractor safety remains a prime focus. A Total Recordable Injury Frequency Rate of 3.9 (target under 4.0) per 200,000 hours worked was achieved for the period. This result is comparable with industry best practice and reflects an improving trend from previous periods. Considerable effort continues to be applied by management to employee safety issues.

The Company's net profit before income tax of $2.354 million (30 June 2015: $6.212 million and 31 December 2014: $2.970 million) provided a return on average Shareholder's equity of 23% (30 June 2015: 32% and 31 December 2014: 32%).

The Directors expect a satisfactory result at year-end. Delta has continued to grow its asset management, energy and environmental divisions, during the period under review.

Financial Statements

The unaudited financial statements for the six months ended 31 December 2015 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 the Directors section of this report.

Any significant contracts involving Directors' interests that were entered into during the period ended 31 December 2015 or existed at that date are disclosed in the related parties section of this report.

Directors' Benefits and Remuneration

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.

DIRECTORS' REPORT
for the Six Months Ended 31 December 2015 - continued

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.

Change of Directors

There were no changes in directorship during the period.

Events Subsequent to Balance Date

Aside from the matters above, the Directors are not aware of any matter or circumstance since the end of the financial period, not otherwise dealt with in this report or the Company's financial statements, that has significantly or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company.

On behalf of the Directors

....	....
I M Parton **CHAIRMAN**	**S J McLauchlan** **DIRECTOR**

11 February 2016

INFORMATION ON THE DIRECTORS

Director	Qualifications	Date Appointed	Declarations of Interests
Dr Ian M Parton Non-Executive Chairman	BE (Hons) PhD Dist.F.IPENZ CF.Inst.D.	October 2012	Chairman – Aurora Energy Limited Director – Auckland Transport Limited Director – Construction Techniques Group Limited Director – Skellerup Holdings Limited Chancellor – University of Auckland
David J Frow Non-Executive Director	B.Sc.Eng CF.Inst.D.	October 2012	Chairman and shareholder – Major Consulting Group Limited Chairman – Holmes Fire LP Director – Aurora Energy Limited Director – ETEL Limited Director – ETEL Transformers Pty Limited (Aus) Director – Rataworks Limited Senior Consultant – Strata Energy Consulting
Trevor J Kempton Non-Executive Director	BE (Hons) M.IPENZ F.NZIM CM.Inst.D.	November 2013	Director and shareholder – Long Beach Consulting Limited Director – Aurora Energy Limited Director – Constructing Excellence (NZ) Limited Director – The Academy of Construction Excellence (NZ) Limited Director – Trevian Properties Limited Councillor – Otago Regional Council Shareholder – Naylor Love Enterprise Group of companies
Stuart J McLauchlan Non-Executive Director	BCom FCA (PP) CF.Inst.D.	June 2007	Chairman and shareholder – Scott Technology Limited Chairman – Dunedin International Airport Limited Chairman – NZ Sports Hall of Fame Chairman – Pharmac Chairman – University of Otago Foundation Studies Limited Chairman – UDC Finance Limited Director and shareholder – Dunedin Casinos Limited Director and shareholder – Rosebery Holdings Limited Director – AD Instruments Pty Limited Director – Aurora Energy Limited Director – Cargill Hotel 2002 Limited Director – Energy Link Limited Director – HTS 110 Limited Director – Ngai Tahu Tourism Board Director – Otago & Southland Employers Association Director – Scenic Circle Hotels Limited and subsidiaries Director – University of Otago Holdings Limited Director – USC Investments Limited Member – Marsh Advisory Board Partner – G S McLauchlan & Co Pro Chancellor – University of Otago

TREND STATEMENT

	Six months ended 31 December:		12 months ended 30 June:		
	2015	2014	2015	2014	2013
	$000	$000	$000	$000[2]	$000[2]
[1] Total recordable injury frequency rate	3.94	5.50	4.16	8.79	N/A
Revenue	51,876	49,511	102,471	96,624	105,733
EBITDA before impairment charges	5,074	5,456	11,055	12,455	11,795
EBIT before impairment charges	3,304	3,787	7,700	8,239	6,411
Profit before tax and impairment charges	2,355	2,970	6,212	6,155	3,673
Impairment charges	0	0	0	455	288
Net surplus	1,855	2,295	4,657	4,377	4,606
Total assets	61,900	55,945	59,705	56,530	77,104
Ordinary dividends	1,250	1,250	2,500	2,500	2,000
Cash flow from operating activities	(782)	3,426	10,390	5,553	7,018
Shareholder's equity	16,409	14,756	15,804	13,757	11,675
Term debt	30,390	25,275	26,490	29,775	44,375
Return on average Shareholder's equity before impairment charges (annualised)	23%	32%	32%	37%	33%
EBIT before impairment charges / average funds employed (annualised)	11%	13%	13%	12%	8%
Equity to assets	27%	26%	26%	24%	15%
FTE (full time equivalent) employee numbers as at year end	602	523	572	505	605

Notes:

(1) Total recordable injuries per 200,000 hours worked. Recordable injuries include harm where either time has been lost from work, or formal medical treatment resulted. Delta changed its harm reporting metric from LTIFR in the 2015 financial year to align with industry best practice.

(2) The trend statement figures for the year ended 30 June 2013 and 30 June 2014 include a full consolidation of Delta Utility Services Limited (Parent) and its wholly owned subsidiary at that time, Delta Investments Limited. Delta Investments Limited was liquidated as at 31 March 2014 and was removed from the Register of Companies on 11 July 2014.

STATEMENT OF COMPREHENSIVE INCOME
for the Six Months Ended 31 December 2015

	Note	Six mths ended 31 Dec 15 $000	Year ended 30 Jun 15 $000	Six mths ended 31 Dec 14 $000
Operating revenue	3	49,899	99,375	48,076
Financial revenue	4	1,977	3,096	1,435
Total revenue		51,876	102,471	49,511
Less expenses				
Operating expenses	5	48,572	94,771	45,724
Financial expenses	6	950	1,488	817
Total expenses		49,522	96,259	46,541
Profit before tax		**2,354**	**6,212**	**2,970**
Income tax expense	9	499	1,555	675
Net profit for the period		**1,855**	**4,657**	**2,295**
Other comprehensive income				
Cash flow hedges		0	(110)	(46)
Total other comprehensive income		0	**(110)**	**(46)**
Total comprehensive income		**1,855**	**4,547**	**2,249**

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

STATEMENT OF CHANGES IN EQUITY
for the Six Months Ended 31 December 2015

	Note	Six mths ended 31 Dec 15 $000	Year ended 30 Jun 15 $000	Six mths ended 31 Dec 14 $000
Equity at the beginning of the period		15,804	13,757	13,757
Total comprehensive income		1,855	4,547	2,249
Less distribution to owners	8	1,250	2,500	1,250
Equity at the end of the period		**16,409**	**15,804**	**14,756**

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

BALANCE SHEET
as at 31 December 2015

	Note	31 Dec 15 $000	30 Jun 15 $000	31 Dec 14 $000
Equity				
Share capital	10	17,000	17,000	17,000
Cash flow hedge reserve	11	(161)	(161)	(97)
Retained earnings	12	(430)	(1,035)	(2,147)
Total equity		**16,409**	**15,804**	**14,756**
Current liabilities				
Trade and other payables	13	7,001	9,210	8,560
GST payable		1,079	557	1,232
Cash flow hedge instruments	14	224	223	134
Provisions	15	4,611	4,395	4,127
Taxation payable		1,792	2,664	1,541
Total current liabilities		14,707	17,049	15,594
Non-current liabilities				
Term borrowings	16	30,390	26,490	25,275
Provisions	15	394	362	320
Total non-current liabilities		30,784	26,852	25,595
Total liabilities		45,491	43,901	41,189
TOTAL EQUITY AND LIABILITIES		**61,900**	**59,705**	**55,945**

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

BALANCE SHEET
as at 31 December 2015 – continued

	Note	31 Dec 15 $000	30 Jun 15 $000	31 Dec 14 $000
Current assets				
Cash and cash equivalents	**21**	46	220	125
Trade and other receivables	**22**	23,051	25,244	24,326
Inventories	**23**	9,134	5,905	7,136
Prepayments		459	184	350
Intra group advance		513	350	175
Total current assets		33,203	31,903	32,112
Non-current assets				
Intangible assets	**25**	1,495	1,511	1,017
Deferred tax asset	**17**	4,405	3,771	2,796
Property, plant and equipment	**24**	22,797	22,520	20,020
Total non-current assets		28,697	27,802	23,833
TOTAL ASSETS		**61,900**	**59,705**	**55,945**

For and on behalf of the Board of Directors

I M Parton
CHAIRMAN

S J McLauchlan
DIRECTOR

11 February 2016

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

STATEMENT OF CASH FLOWS
for the Six Months Ended 31 December 2015

	Note	Six mths ended 31 Dec 15 $000	Year ended 30 Jun 15 $000	Six mths ended 31 Dec 14 $000
Cash flows from operating activities				
Cash was provided from				
Receipts from customers		49,450	97,120	46,071
Interest received		7	9	3
Net GST refund		562	0	389
		50,019	97,129	46,463
Cash was disbursed to				
Payments to suppliers and employees		47,777	83,795	41,864
Interest paid		856	1,499	804
Inter-group tax payments		163	350	175
Income tax paid		2,005	901	194
Net GST paid		0	194	0
		50,801	86,739	43,037
Net cash inflows/(outflows) from operations	**26**	**(782)**	**10,390**	**3,426**
Cash flows from investing activities				
Cash was provided from				
Sale of development property		0	1,208	1,218
Sale of property, plant and equipment		295	3,337	3,319
		295	4,545	4,537
Cash was disbursed to				
Purchase of property, plant and equipment		2,337	6,844	2,192
Investment in financial instrument		0	2,190	0
		2,337	9,034	2,192
Net cash inflows/(outflows) from investing activities		**(2,042)**	**(4,489)**	**2,345**

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

STATEMENT OF CASH FLOWS
for the Six Months Ended 31 December 2015 - continued

	Note	Six mths ended 31 Dec 15 $000	Year ended 30 Jun 15 $000	Six mths ended 31 Dec 14 $000
Cash flows from financing activities				
Cash was provided from				
Receipts from borrowings		44,575	76,690	35,350
		44,575	76,690	35,350
Cash was disbursed to				
Repayment of borrowings		40,675	79,975	39,850
Dividends paid		1,250	2,500	1,250
		41,925	82,475	41,100
Net cash inflows/(outflows) from financing activities		**2,650**	**(5,785)**	**(5,750)**
Net increase/(decrease) in cash, cash equivalents and bank overdraft		(174)	116	21
Cash and cash equivalents at the beginning of the period		220	104	104
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**21**	**46**	**220**	**125**

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

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015

1 REPORTING ENTITY

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

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.

Delta Investments Limited was a wholly-owned subsidiary of Delta Utility Services Limited and a Council Controlled Trading Organisation as defined in the Local Government Act 2002. Delta Investments Limited was liquidated as at 31 March 2014 and was removed from the Register of Companies on 11 July 2014.

Lakes Contract Services Limited was a non-trading company and was previously a wholly owned subsidiary of Delta Utility Services Limited. It was not consolidated and its shares were transferred to Dunedin City Holdings Limited on 17 December 2014.

No subsidiaries traded in the periods reported in these financial statements. The Trend Statement on page 6 includes Delta Investments Limited for the full years ending 30 June 2014 and 30 June 2013 only.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

The financial statements were authorised for issue by the Directors on 11 February 2016.

The interim financial statements are to be read in conjunction with the most recent annual financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of Accounting

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

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

Critical Accounting Judgements, Estimates and Assumptions

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

Revenue Recognition

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

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

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

Financial Revenue

Financial 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. Financial income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Leasing

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Construction Contracts

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

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

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

Borrowing Costs

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

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

Employee Entitlements

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

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

The Company recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The calculation is based on the value of excess sick leave taken within the previous 12 months.

Goods and Services Tax (GST)

Revenues, expenses, assets and liabilities are recognised net of the amount of GST, except for receivables and payables which are recognised inclusive of GST. The Statement of Cash Flows is inclusive of GST.

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation

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

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

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

Depreciation is charged so as to write off the costs of assets, other than land, properties under construction and capital work in progress, on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Rates used have been calculated to allocate the assets' costs less estimated residual values over their estimated remaining useful lives.

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

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

Depreciation rates and methods used are as follows:

	Rate	*Method*
Buildings	1% to 14%	straight line
Metering equipment	7% to 100%	straight line
Plant and equipment	1% to 50%	straight line
Motor vehicles	5% to 33%	straight line
Office equipment and fittings	7% to 25%	straight line
Assets under construction	no depreciation charged	

Intangible Assets

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

Impairment of Assets

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Inventories

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

Cash and Cash Equivalents

Cash and cash equivalents comprise of cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Financial Instruments

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

Trade and Other Payables

Trade and other payables are stated at cost.

Trade and Other Receivables

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

Borrowings

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

Provisions

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

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

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Cash Flow Hedge Instruments and Hedge Accounting

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

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

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

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

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

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

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

Changes in Accounting Policies

There have been no changes in accounting policies during the financial period.

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Standards Amended or Issued During the Period

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

Standards Issued but not yet Effective

The following accounting standards are relevant to the Company, but as they are not yet compulsory have not been adopted.

STANDARD	BRIEF OUTLINE
Amendments to NZ IAS 27 *Equity method in separate financial statements* Adoption date: periods beginning on or after 1 January 2016	Amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates. Delta Utility Services Limited no longer has any subsidiaries, joint ventures or associates, but may do in the future. Any amendments will be reflected in the treatment and disclosure of these transactions going forward.
Amendments to NZ IAS 1 *Disclosure initiatives* Adoption date: periods beginning on or after 1 January 2016	Changes were made in the following areas to provide clarity for preparers in exercising judgement when presenting their financial reports. Clarification was provided around: - Materiality in the preparation of the financial statements and when it should be applied - The aggregation of line items in the financial statements - Note ordering. The Company will review the new clarifications and ensure the financial statements are appropriately presented, e.g. whether notes are in the appropriate order, if materiality has reasonably been used in notes such as the related party note 29 and whether line items on the face of the financial statements were reasonably grouped. No material changes are envisaged.

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

STANDARD	BRIEF OUTLINE
Amendments to NZ IAS 15 *Revenue from Contracts and Customers* Adoption date: periods beginning on or after 1 January 2017	The amendments establish principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. This amendment is unlikely to have a major impact on the recognition and reporting of the Company's revenue. The Company will however review revenue to ensure that it is recognised in line with the revised standards and contracts in place.
NZ IFRS 9 (2010) *Financial Instruments* Adoption date: periods beginning on or after 1 January 2018	A revised version of NZ IFRS 9 will be released which includes changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of NZ IFRS 9 at the same time. The Company does not expect any material changes to current treatment or disclosure of its financial instruments.

	Six mths ended 31 Dec 15 $000	Year ended 30 Jun 15 $000	Six mths ended 31 Dec 14 $000
3 OPERATING REVENUE			
Sales revenue	49,899	99,375	48,076
	49,899	99,375	48,076
4 FINANCIAL REVENUE			
Interest received	1,977	3,096	1,435
	1,977	3,096	1,435

Interest revenue during the period includes $1.971 million (30 June 2015: $2.913 million, 31 December 2014: $1.257 million) from impaired financial assets, for which a full provision is included within Operating Expenses.

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

	Six mths ended 31 Dec 15 $000	Year ended 30 Jun 15 $000	Six mths ended 31 Dec 14 $000
5 OPERATING EXPENSES			
Included in the operating expenses are the following items			
Audit fees for audit of financial statements	27	54	27
Employee remuneration and benefits	22,131	39,580	19,269
Materials	9,120	19,469	9,273
Land cost of sales	0	1,380	1,380
Depreciation	1,770	3,356	1,669
Net foreign exchange loss	0	42	0
Rental expense	1,373	2,014	969
Directors' fees	53	104	51
Bad debts written off	6	24	0
Increase/(decrease) in impairment provision of trade and other receivables	2,007	4,924	1,178
Donations	30	35	25
(Gain)/loss on sale/disposal assets	(111)	(382)	(366)
Minimum lease payments	1,020	1,800	1,210
6 FINANCIAL EXPENSES			
Interest/facility fees - related parties	950	1,487	817
Interest – other	0	1	0
Total financial expenses	950	1,488	817

	Six mths ended 31 Dec 15	Year ended 30 Jun 15	Six mths ended 31 Dec 14

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 period.

	Six mths ended 31 Dec 15	Year ended 30 Jun 15	Six mths ended 31 Dec 14
Number of shares			
Weighted average number of ordinary shares	17,000,000	17,000,000	17,000,000
Basic earnings per share	10.92 cents	27.39 cents	13.51 cents

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 – continued

		Six mths ended 31 Dec 15 $000	Year ended 30 Jun 15 $000	Six mths ended 31 Dec 14 $000
8 DIVIDENDS				
Interim dividend				
December 2015	7.4 cents/share	1,250	0	0
December 2014	7.4 cents/share	0	1,250	1,250
Final dividend				
June 2015	7.4 cents/share	0	1,250	0
		1,250	2,500	1,250
	Cents per share	7.35	14.71	7.35

9 INCOME TAX

	Six mths ended 31 Dec 15 $000	Year ended 30 Jun 15 $000	Six mths ended 31 Dec 14 $000
Operating profit before income tax	2,356	6,212	2,970
Tax thereon at 28%	660	1,739	832
Plus/(less) the tax effect of differences			
Expenditure non-deductible for taxation	45	55	44
Non-assessable income	(123)	(159)	(54)
Under/(over) tax provision in prior years	(83)	(80)	(71)
Current year tax consolidated adjustment	0	0	(76)
Tax effect of differences	(161)	(184)	(157)
Tax expense/(benefit)	**499**	**1,555**	**675**
Represented by			
Current tax provision	1,185	3,088	1,237
Prior period adjustments to current tax	(53)	3	24
Deferred tax provision	(603)	(1,453)	(491)
Prior period adjustments to deferred tax	(30)	(83)	(95)
Income tax	499	1,555	675
Effective tax rate	**21.2%**	**25.0%**	**22.7%**

Delta Utility Services Limited is a member of an Income Tax Consolidated Group.

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 – continued

	Six mths ended 31 Dec 15 $000	Year ended 30 Jun 15 $000	Six mths ended 31 Dec 14 $000
10 SHARE CAPITAL			
Issued Capital			
17,000,000 fully paid ordinary shares	17,000	17,000	17,000
11 RESERVES			
Cash Flow Hedge Reserve			
Balance at the beginning of the period	(161)	(51)	(51)
Net revaluations	(1)	(152)	(64)
Deferred tax arising on hedges (see Note 17)	1	42	18
Balance at the end of the period	(161)	(161)	(97)

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to interest payments that have not yet occurred.

12 RETAINED EARNINGS

Balance at the beginning of the period	(1,035)	(3,192)	(3,192)
Net profit for the period	1,855	4,657	2,295
Dividend distributions	(1,250)	(2,500)	(1,250)
Balance at the end of the period	(430)	(1,035)	(2,147)

13 TRADE AND OTHER PAYABLES

Trade payables	3,687	4,066	4,075
Due to related parties	467	341	934
Other creditors	2,847	4,803	3,551
	7,001	9,210	8,560

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

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 – continued

	Six mths ended 31 Dec 15 $000	Year ended 30 Jun 15 $000	Six mths ended 31 Dec 14 $000

14 CASH FLOW HEDGE INSTRUMENTS

	Six mths ended 31 Dec 15 $000	Year ended 30 Jun 15 $000	Six mths ended 31 Dec 14 $000
Interest rate swap revaluations – payable	(224)	(223)	(134)
Analysed as:			
Current	(224)	(223)	(134)

The Company uses interest rate swaps to manage its exposure to interest rate movements on its multi-option facility borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. The treasury policy requires that the level of the fixed interest hedge should be limited to a series of ranges within set debt time periods. These interest rate swaps are all due to settle between 1 and 5 years of balance date and the carrying values disclosed also reflect the contractual values.

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

15 PROVISIONS

	Six mths ended 31 Dec 15 $000	Year ended 30 Jun 15 $000	Six mths ended 31 Dec 14 $000
(i) Current Liabilities			
Long service leave	140	140	132
Annual leave	3,982	3,711	3,430
Gratuities	235	290	350
Sick leave	122	122	115
Other provisions	132	132	100
	4,611	4,395	4,127
(ii) Non-Current Liabilities			
Long service leave	265	265	231
Gratuities	129	97	89
	394	362	320

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 – continued

	Six mths ended 31 Dec 15 $000	Year ended 30 Jun 15 $000	Six mths ended 31 Dec 14 $000
16 TERM BORROWINGS (secured)			
Dunedin City Treasury Ltd - related party	30,390	26,490	25,275
	30,390	26,490	25,275

The term borrowings are secured by a General Security Agreement over all the assets of the Company. The facility available is $34.500 million, reducing to $32.5 from 1 April 2016. The repayment period on the term borrowings is:

Repayable between one to two years	0	0	0
Repayable between two to five years	30,390	26,490	25,275
	30,390	26,490	25,275

The weighted average interest rate for the loan, inclusive of any current portion, was 6.36% (30 June 2015: 4.55% and 31 December 2015: 4.55%).

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

17 DEFERRED TAX

	Opening Balance Sheet $000	Charged to Equity $000	Charged to Income $000	Closing Balance Sheet Assets $000	Closing Balance Sheet Liabilities $000	Closing Balance Sheet Net $000
Six months ended 31 December 2015:						
Property, plant and equipment	(181)	0	(69)	0	(250)	(250)
Employee benefits	1,288	0	(22)	1,266	0	1,266
Provisions	2,602	0	725	3,327	0	3,327
Revaluations of cash flow hedge instruments	62	0	0	62	0	62
Balance at the end of the period	3,771	0	634	4,655	(250)	4,405
Year ended 30 June 2015:						
Property, plant and equipment	(162)	0	(19)	0	(181)	(181)
Employee benefits	1,136	0	152	1,288	0	1,288
Provisions	1,250	0	1,352	2,602	0	2,602
Revaluations of cash flow hedge instruments	20	42	0	62	0	62
Development costs	(52)	0	52	0	0	0
Balance at the end of the year	2,192	42	1,537	3,952	(181)	3,771
Six months ended 31 December 2014:						
Property, plant and equipment	(162)	0	100	0	(62)	(62)
Employee benefits	1,136	0	29	1,165	0	1,165
Provisions	1,250	0	405	1,942	(287)	1,655
Revaluations of cash flow hedge instruments	20	18	0	38	0	38
Development costs	(52)	0	52	0	0	0
Balance at the end of the period	2,192	18	586	3,145	(349)	2,796

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

	Six mths ended 31 Dec 15 $000	Year ended 30 Jun 15 $000	Six mths ended 31 Dec 14 $000
18 CONTINGENT LIABILITIES			
Performance bonds	1,220	1,446	1,658

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.

	Six mths ended 31 Dec 15 $000	Year ended 30 Jun 15 $000	Six mths ended 31 Dec 14 $000
19 CAPITAL EXPENDITURE COMMITMENTS			
Plant and equipment	1,202	490	2,099
20 LEASE COMMITMENTS			
Non-cancellable operating lease commitments:			
payable within one year	2,093	1,687	1,112
payable between one to five years	4,452	3,279	1,852
payable later than five years	9	100	134
	6,554	5,066	3,098
21 CASH AND CASH EQUIVALENTS			
Cash and bank	46	220	125

Cash and short-term deposits comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Short-term deposits are made at call deposit rates.

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

	Six mths ended 31 Dec 15 $000	Year ended 30 Jun 15 $000	Six mths ended 31 Dec 14 $000
22 TRADE AND OTHER RECEIVABLES			
Trade receivables	29,432	27,911	24,423
Less estimated doubtful debts	(11,768)	(9,761)	(6,015)
	17,664	18,150	18,408
Due from related parties	5,387	7,094	5,918
	23,051	25,244	24,326
23 INVENTORIES			
Materials and stores	3,048	2,626	2,522
Work in progress	6,086	3,279	4,614
	9,134	5,905	7,136

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 – continued

24 PROPERTY, PLANT AND EQUIPMENT

	Land $000	Buildings $000	Meters $000	Plant Equipment $000	Motor Vehicles $000	Office Equipment $000	Total $000
31 December 2015:							
Cost							
Balance at the beginning of the period	4,684	5,045	8,464	11,414	22,520	982	53,109
Purchases	0	13	0	643	1,313	45	2,014
Sales/disposals	0	0	0	(108)	(388)	(9)	(505)
Total cost	4,684	5,058	8,464	11,949	23,445	1,018	54,618
Accumulated depreciation							
Balance at the beginning of the period	0	1,275	7,358	8,165	13,016	775	30,589
Depreciation	0	53	42	437	994	27	1,553
Sales/disposals	0	0	0	(105)	(208)	(8)	(321)
Total accumulated depreciation	0	1,328	7,400	8,497	13,802	794	31,821
Balance at the end of the period	4,684	3,730	1,064	3,452	9,643	224	22,797
30 June 2015:							
Cost							
Balance at the beginning of the year	5,396	5,031	7,918	10,241	25,473	937	54,996
Purchases	0	23	546	1,299	3,792	56	5,716
Sales/disposals	(712)	(9)	0	(126)	(6,745)	(11)	(7,603)
Total cost	4,684	5,045	8,464	11,414	22,520	982	53,109
Accumulated depreciation							
Balance at the beginning of the year	0	1,154	7,288	7,427	15,589	734	32,192
Depreciation	0	130	70	862	1,931	52	3,045
Sales/disposals	0	(9)	0	(124)	(4,504)	(11)	(4,648)
Total accumulated depreciation	0	1,275	7,358	8,165	13,016	775	30,589
Balance at the end of the year	4,684	3,770	1,106	3,249	9,504	207	22,520
31 December 2014:							
Cost							
Balance at the beginning of the period	5,396	5,031	7,918	10,241	25,473	937	54,996
Purchases	0	23	137	541	959	28	1,688
Sales/disposals	(712)	0	0	(13)	(6,663)	(1)	(7,389)
Total cost	4,684	5,054	8,055	10,769	19,769	964	49,295
Accumulated depreciation							
Balance at the beginning of the period	0	1,154	7,288	7,427	15,589	734	32,192
Depreciation	0	66	28	414	984	26	1,518
Sales/disposals	0	0	0	(13)	(4,421)	(1)	(4,435)
Total accumulated depreciation	0	1,220	7,316	7,828	12,152	759	29,275
Balance at the end of the period	4,684	3,834	739	2,941	7,617	205	20,020

The Directors assess the fair value of land and buildings as the carrying value shown above.

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

25 INTANGIBLES

	31 Dec 2015 $000	30 June 2015 $000	31 Dec 2014 $000
Software			
Cost			
Balance at the beginning of the period	5,716	4,423	4,423
Purchases	201	1,293	641
Total cost	5,917	5,716	5,064
Accumulated amortisation			
Balance at the beginning of the period	4,205	3,896	3,896
Amortisation	217	309	151
Total amortisation	4,422	4,205	4,047
Balance at the end of the period	1,495	1,511	1,017

26 RECONCILIATION OF NET PROFIT FOR THE PERIOD TO CASHFLOWS FROM OPERATING ACTIVITIES

	31 Dec 2015 $000	30 June 2015 $000	31 Dec 2014 $000
Net profit for the period	1,855	4,657	2,295
Items not involving cash flows			
Depreciation	1,770	3,356	1,669
Deferred tax	(634)	(1,536)	(586)
Other non-cash items	2,013	4,948	1,178
Impact of changes in working capital items			
(Increase) / decrease in trade and other receivables	179	(5,360)	(672)
(Increase) / decrease in intra group advances	(163)	(350)	(175)
(Increase) / decrease in inventories	(3,229)	(1,388)	(2,619)
(Increase) / decrease in prepayments	(275)	(13)	(179)
Increase / (decrease) in trade and other payables	(2,209)	1,913	1,262
Increase / (decrease) in provision for tax	(872)	2,190	1,068
Increase / (decrease) in employee entitlements	247	464	153
Increase / (decrease) in other current liabilities	523	(306)	369
Items classified as investing or financing activities			
Net (gain) / loss on sale of property, plant and equipment	(111)	(340)	(366)
Items related to development property	0	173	173
Investment in financial instrument	0	2,190	0
Movement in capital creditors in accounts payable	124	(208)	(144)
Net cash inflows / (outflows) from operating activities	(782)	10,390	3,426

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

27 RELATED PARTY TRANSACTIONS

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

Transactions with Dunedin City Council

The Company undertakes transactions with Dunedin City Council and other Dunedin City Council controlled entities. These transactions are made on commercial terms and conditions and at market rates.

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

	31 Dec 2015 $000	30 June 2015 $000	31 Dec 2014 $000
Sales of services to Dunedin City Council Group entities:			
Capital works constructed	12,154	24,096	9,203
Network management and operations	10,014	20,226	9,156
Contracting services provided	851	1,341	805
Administration and accounting	217	384	180
Rent	0	16	0
	23,236	46,063	19,344
Sales of services to Dunedin City Council:			
Other contracting	3,638	7,317	3,748
At period end, the amounts receivable by the Company from Dunedin City Council entities:			
Receivable from Dunedin City Council	639	751	416
Receivable from Dunedin City Council Group entities	4,748	6,343	5,502
Work in progress for Dunedin City Council Group entities	2,670	1,412	2,232
Intra-group advance to Dunedin City Council Group entities	513	350	175

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

27 RELATED PARTY TRANSACTIONS - continued

	31 Dec 2015 $000	30 June 2015 $000	31 Dec 2014 $000
Purchases of goods and services from Dunedin City Council Group entities:			
Interest	950	1,474	811
Contracting services and supplies	234	631	242
Rent	13	26	13
Administration	0	1	0
	1,197	2,132	1,066
Management fee	25	50	25
Purchases of goods and services from Dunedin City Council:			
Contracting services and supplies	112	169	71
Rates	35	72	32
Rent	9	17	0
Royalties	0	31	0
	156	289	103
At period end, the amounts payable to Dunedin City Council entities exclusive of debt shown in note 16 are:			
Payable to Dunedin City Council	8	44	3
Payable to Dunedin City Council Group entities	459	297	931

No related party debts have been written off or forgiven during the period and no provision has been required for impairment of any receivables to related parties.

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

27 RELATED PARTY TRANSACTIONS - continued

Transactions with companies in which Directors have an interest

The Company undertakes transactions with related parties in the normal course of business on an arms-length commercial basis.

Dr I M Parton is Chancellor of the University of Auckland. During the financial period covered by this report, services valued at $5,387 were purchased from the University of Auckland (30 June 2015: and 31 December 2014: $nil). No monies were outstanding as at 31 December 2015 (30 June 2015: and 31 December 2014: $nil).

Mr S J McLauchlan is Pro Chancellor of the University of Otago. During the financial period covered by this report, contracting services of $13,520 were provided to the University of Otago (30 June 2015: $79,423 and 31 December 2014: $57,522). $104 was outstanding as at 31 December 2015 (30 June 2015: $2,621 and 31 December 2014: $1,425). Services valued at $8,840 were purchased from the University of Otago (30 June 2015: $24,217 and 31 December 2014: $7,600). No monies were payable at 31 December 2015 (30 June 2015 and 31 December 2014: $nil).

Mr McLauchlan is a Director of Cargill Hotel 2002 Limited. During the financial period covered by this report, no services were purchased from Cargill Hotel 2002 Limited (30 June 2015: $348 and 31 December 2014: $348). No monies were payable as at 31 December 2015 (30 June 2015 and 31 December 2014: $nil).

Mr McLauchlan is a Director of Otago & Southland Employers Association. During the financial period covered by this report, services of $8,796 were purchased from Otago & Southland Employers Association (30 June 2015: $14,919 and 31 December 2014: $12,519). No monies were payable as at 31 December 2015 (30 June 2015: $690 and 31 December 2014: $nil).

Mr McLauchlan is a Director and Shareholder of Rosebery Holdings Limited and during the financial period covered by this report directors fees of $12,180 were paid to Rosebery Holdings Limited for Mr McLauchlan's services (30 June 2015: $23,756 and 31 December 2014: $11,750). No monies were payable as at 31 December 2015 (30 June 2015 and 31 December 2014: $nil).

Mr McLauchlan is a Director of Scenic Circle Hotels Limited. During the financial period covered by this report, services valued at $252 were purchased from Scenic Circle Hotels Limited (30 June 2015: $278 and 31 December 2014: $nil). No monies were payable as at 31 December 2015 (30 June 2015 and 31 December 2014: $nil).

Mr D J Frow is a Director of ETEL Limited. During the financial period covered by this report, materials and services of $972,775 were purchased from ETEL Limited (30 June 2015: $1,899,666 and 31 December 2014: $969,217). $99,432 remained payable as at 31 December 2015 (30 June 2015: $51,068 and 31 December 2014: $113,468).

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

27 RELATED PARTY TRANSACTIONS – continued

Mr T J Kempton is a Councillor on the Otago Regional Council. During the financial period covered by this report, contracting services of $6,985 were provided to Otago Regional Council (30 June 2015: $71,961 and 31 December 2014: $65,721). $5,043 was outstanding as at 31 December 2015 (30 June 2015 and 31 December 2014: $nil). During the financial period covered by this report, rates of $3,851 were charged to the Group by the Otago Regional Council (30 June 2015: $4,226 and 31 December 2014: $4,226). No monies were payable as at 31 December 2015 (30 June 2015 and 31 December 2014: $nil).

Mr Kempton is a Director and Shareholder of Long Beach Consulting Limited and during the financial period covered by this report, directors fees of $10,659 were paid to Long Beach Consulting Limited for Mr Kempton's services (30 June 2015: $20,756 and 31 December 2014: $10,250). No monies were outstanding as at 31 December 2015 (30 June 2015 and 31 December 2014: $nil).

Transactions with Executive Staff

There were no significant transactions with executive staff during the six month period to 31December 2015.

Mr G W Cameron is the Chief Executive of Delta Utility Services Limited. During the year ended 30 June 2015 contracting services valued at $703 were provided to Mr Cameron (31 December 2014: $nil). No monies were outstanding in any of the periods under review.

Mr M Ballard is the General Manager of Capability and Risk of Delta Utility Services Limited. During the year ended 30 June 2015 contracting services valued at $1,362 were provided to Mr Ballard (31 December 2014: $nil). No monies were outstanding in any of the periods under review.

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

28 FINANCIAL INSTRUMENT RISKS

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

Interest Rate Risk

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

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

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

	31 Dec 2015 $000	30 June 2015 $000	31 Dec 2014 $000
Maturing in less than one year	0	0	2,500
Maturing between one and five years	5,000	5,000	5,000
Maturing after five years	0	0	00
	5,000	5,000	7,500

Credit Risk

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

The Company's exposure to credit risk is generally spread over a large number of counterparties and customers. As at 31 December 2015, however, there was some concentration of this risk around the secured debts described under counterparties without credit ratings below.

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

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

28 FINANCIAL INSTRUMENTS RISKS - continued

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

	31 Dec 2015 $000	30 June 2015 $000	31 Dec 2014 $000
Cash and cash equivalents	46	220	125
Trade and other receivables	23,051	25,244	24,326
Prepayments	459	184	350
Intra-group advance	513	350	175
Short term investments	6,086	3,279	4,614
	30,155	29,277	29,590

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.

	31 Dec 2015 $000	30 June 2015 $000	31 Dec 2014 $000
Counterparties with credit ratings			
Cash and cash equivalents			
AA-	46	220	125
Trade and other receivables			
AA-	639	751	416
Counterparties without credit ratings			
Trade and other receivables			
Existing counterparties with no defaults in the past	9,092	11,282	10,889
Existing counterparties with defaults in the past[1]	13,320	13,211	13,021

[1] This receivable is secured by a mix of mortgage securities and general security agreements. The counterparty to the debt defaulted on its obligations to pay principal sums of $6.350 million and $5.000 million and is also in breach of other financial obligations. Delta has reassessed the fair value of its secured debt receivable from the counterparty in default, by reference to market valuations and an assessment of the most likely means by which its security interests will be realised. As is generally the case with valuations, there are inherent assumptions and uncertainties that were built into the methodologies that were applied. The secured debts receivable have been classified as current as at 31 December 2015, on the basis that Delta expects to have enforced its security interests within 12 months of balance date.

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

28 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 ongoing basis. In general, the Company generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls. The Company maintains credit management and accounts receivable processes aimed at collecting all trade debtors and other receivable balances in cash by their agreed date(s) for payment.

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

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

	Maturity Dates Less than 1 Month	1 – 3 Months	3 Months to 1 Year	1 – 5 Years	More than 5 Years	Carrying Value
	$000	$000	$000	$000	$000	$000
As at 31 December 2015:						
Financial assets						
Cash and cash equivalents	46	0	0	0	0	46
Trade and other receivables	9,731	0	13,320	0	0	23,051
Intra group advance	0	0	513	0	0	513
	9,777	0	13,833	0	0	23,610
Financial liabilities						
Trade and other payables	7,001	0	0	0	0	7,001
GST payable	1,079	0	0	0	0	1,079
Cash flow hedge instruments	0	0	0	224	0	224
Term borrowings	0	0	0	30,390	0	30,390
	8,080	0	0	30,614	0	38,694

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

28 FINANCIAL INSTRUMENTS RISKS - continued

	Maturity Dates Less than 1 Month $000	1 – 3 Months $000	3 Months to 1 Year $000	1 – 5 Years $000	More than 5 Years $000	Carrying Value $000
As at 30 June 2015:						
Financial assets						
Cash and cash equivalents	220	0	0	0	0	220
Trade and other receivables	12,033	0	13,211	0	0	25,244
Intra group advance	0	0	350	0	0	350
	12,253	**0**	**13,561**	**0**	**0**	**25,814**
Financial liabilities						
Trade and other payables	9,210	0	0	0	0	9,210
GST payable	557	0	0	0	0	557
Cash flow hedge instruments	0	0	0	223	0	223
Term borrowings	0	0	0	26,490	0	26,490
	9,767	**0**	**0**	**26,713**	**0**	**36,480**
As at 31 December 2014:						
Financial assets						
Cash and cash equivalents	125	0	0	0	0	125
Trade and other receivables	11,305	0	13,021	0	0	24,326
Intra group advance	0	0	175	0	0	175
	11,430	**0**	**13,196**	**0**	**0**	**24,626**
Financial liabilities						
Trade and other payables	8,560	0	0	0	0	8,560
GST payable	1,232	0	0	0	0	1,232
Cash flow hedge instruments	1	0	0	133	0	134
Term borrowings	0	0	0	25,275	0	25,275
	9,793	**0**	**0**	**25,408**	**0**	**35,201**

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

28 FINANCIAL INSTRUMENTS RISKS - continued

Fair value of financial instruments

Fair value measurements recognised in the statement of financial position:

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

Level 1 Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

Level 3 Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
31 December 2015:				
Financial liabilities				
Derivative financial liabilities	0	224	0	224
30 June 2015:				
Financial liabilities				
Derivative financial liabilities	0	223	0	223
31 December 2014:				
Financial liabilities				
Derivative financial liabilities	0	134	0	134

NOTES TO THE FINANCIAL STATEMENTS
for the Six Months Ended 31 December 2015 - continued

29 CAPITAL MANAGEMENT STRATEGY

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

The Directors perform continual reviews of operating strategies and financial performance, and include in those reviews any strategies required to protect the capital of the Company. The Board seeks to maximise overall returns to the Shareholder, Dunedin City Holdings Limited, and to maintain the Company's financial strength.

The Company is required to provide to its Shareholder an annual Statement of Intent. This Statement of Intent includes information on planned distributions by way of dividend for the following three years.

30 EVENTS AFTER BALANCE DATE

There were no significant post balance sheet events.