

Delta Utility Services Limited

Interim Report

For the six months ended

31 December 2019

Delta Utility Services Limited

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Delta Utility Services Limited

Directors' report

The Directors of Delta Utility Services Limited present their interim report for the six months ended 31 December 2019.

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 2020, 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 Communication's 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 private developers and to the generation sector.

In the Retailer Services sector Delta continues to grow its revenue levels with both new and existing customers, it also continues to deliver good levels of service on existing contracts.

Delta's Environmental Services teams provide tree maintenance, sports turf management, horticulture and roadside vegetation control services. Early in FY20, Delta was awarded a new Parks and Reserves Maintenance contract with the Central Otago District Council for the provision of Greenspace Services across the district and began working with Orion to supply tree services on their electricity network in Canterbury. Delta are also currently in the middle of a competitive tender process, which if successful, will secure significant additional Greenspace maintenance work for the group with a new 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 3.88 per 200,000 hours worked was slightly lower than in the same period last year and the year ended 30 June 19 (FY19: 4.90, HY19: 5.09) reflecting an increase in training on tasks where injuries were frequently occurring and a focus on risks when planning our jobs.

Total operating revenues of \$49.2 million were \$2.2 million (5%) higher than for the same period last year, largely due to good volumes of Power and Communications work across both Central Otago and the Tasman region.

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 \$0.395 million (FY19: \$1.922 million, HY19: \$0.621 million) provided a return on average shareholder's equity of 4% (FY19: 9%, HY19: 6%). Below budget levels of work in the Power and Communications sector has put pressure on the company's bottom line during the first half of the year.

Significant progress has been made over the past year to get the Company on a sound commercial footing for the future. Amalgamation of premises, further separation of our IT systems with Aurora and the establishment of a dedicated team tasked with replacing our legacy / underlying business systems all occurred during the period. On top of this, a business Improvement plan covering people / culture, planning tools and workflow / resource management, procurement as well as health and safety was developed in conjunction with our major customer Aurora Energy. Delta also completed the reorganisation of its Christchurch Environmental team following the exit from the Parks and Reserves Maintenance contract with the Christchurch City Council.

The Directors expect an improvement in results over the second half of FY20.

Delta Utility Services Limited

Directors' report *continued*

Result

\$000

Operating profit before income tax	212
Plus income tax refund	183
	395

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

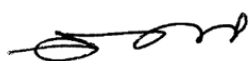
There were no significant events after the reporting period that would require adjustment or disclosure.

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 present the interim financial statements, set out on pages 4 to 13, for the six months ended 31 December 2019 and authorises them for issue on 30 January 2020.



Brian Wood Chairman



Tony Allison Director

Delta Utility Services Limited

Statement of Comprehensive Income For the six months ending 31 December 2019

	Unaudited 6 months to 31 Dec 2019 \$'000	Unaudited 6 months to 31 Dec 2018 \$'000	Audited 12 months to 30 Jun 2019 \$'000
Operating revenue	49,233	47,011	97,319
Decrease in impairment provision for trade and other receivables	-	22	-
Gain on sale of assets	42	8	-
Interest revenue	392	451	847
Total revenue	49,667	47,492	98,166
Less expenses:			
Audit fees	38	35	70
Employee remuneration and benefits	23,444	21,778	44,553
Materials	9,523	9,323	18,031
Depreciation on fixed assets	2,039	1,990	4,041
Depreciation on right of use asset	1,127	-	-
Plant and Vehicle Leases	597	1,348	2,803
Directors' fees	106	102	210
Bad debts written off	-	-	4
Donations	5	4	9
Interest to Dunedin City Treasury Limited	467	543	927
Interest other	90	-	2
Other operating expenses	12,019	11,839	25,811
Total expenses	49,455	46,962	96,461
Net profit before tax	212	530	1,705
Income tax refund	183	91	217
Net profit after tax	395	621	1,922
Other comprehensive income:			
Interest rate swap hedges gains during the year	-	34	37
Total other comprehensive income	-	34	37
Total comprehensive income	395	655	1,959

Delta Utility Services Limited

Statement of Changes in Equity For the six months ending 31 December 2019

	Share capital \$'000	Hedge reserve \$'000	Retained earnings \$'000	Total equity \$'000
Unaudited				
Equity as at 1 July 2019	17,000	-	5,581	22,581
Profit after income tax	-	-	395	395
Other comprehensive income for the period	-	-	-	-
Distribution to owners	-	-	(750)	(750)
Equity as at 31 December 2019	17,000	-	5,226	22,226
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
Audited				
Equity as at 1 July 2018	17,000	(37)	5,159	22,122
Profit after income tax	-	-	1,922	1,922
Other comprehensive income for the period	-	37	-	37
Distribution to owners	-	-	(1,500)	(1,500)
Equity as at 30 June 2019	17,000	-	5,581	22,581

Delta Utility Services Limited

Balance Sheet As at 31 December 2019

	Note	Unaudited 6 months to 31 Dec 2019 \$'000	Unaudited 6 months to 31 Dec 2018 \$'000	Audited 12 months to 30 Jun 2019 \$'000
Current assets				
Cash and cash equivalents / (overdraft)		1,460	(302)	126
Trade and other receivables		14,916	14,635	15,240
Work in progress		7,644	5,465	6,350
Inventories - materials and stores		2,913	2,739	2,682
Total current assets		26,933	22,537	24,398
Non-current assets				
Property, plant and equipment	5	24,783	22,989	24,292
Term Receivable		10,545	12,468	11,041
Right-of-use asset		5,291	-	-
Deferred tax asset		903	125	483
Intangible assets	6	1,008	868	828
Total non-current assets		42,530	36,450	36,644
Total assets		69,463	58,987	61,042
Current liabilities				
Trade and other payables		7,035	7,238	6,825
Provisions		4,078	3,034	4,229
Lease liability current		2,122	-	-
Taxation payable		326	784	1,392
Derivative financial instruments	8	-	4	-
Total current liabilities		13,561	11,060	12,446
Non-current liabilities				
Term borrowings	7	29,800	25,200	25,350
Provisions		682	700	665
Lease liability term		3,194	-	-
Total non-current liabilities		33,676	25,900	26,015
Total liabilities		47,237	36,960	38,461
Equity				
Share capital		17,000	17,000	17,000
Cash flow hedge reserves		-	(3)	-
Retained earnings		5,226	5,030	5,581
Total equity		22,226	22,027	22,581
Total liabilities and equity		69,463	58,987	61,042

Delta Utility Services Limited

Statement of Cash Flows

For the six months ending 31 December 2019

	Note	Unaudited 6 months to 31 Dec 2019 \$'000	Unaudited 6 months to 31 Dec 2018 \$'000	Audited 12 months to 30 Jun 2019 \$'000
Cash flow from operating activities				
<i>Cash was provided from</i>				
Receipts from customers		47,557	48,192	96,771
Interest received		2	1	2
Intra-group transition payments		-	-	64
Net GST refund / (paid)		(7)	850	177
		47,552	49,043	97,014
<i>Cash was disbursed to</i>				
Payments to suppliers & employees		46,546	45,610	91,189
Income tax paid / (received)		1,302	-	(374)
Interest paid		567	560	976
		48,415	46,170	91,791
Net cash flow from operating activities	3	(863)	2,873	5,223
Cash flow from investing activities				
<i>Cash was provided from</i>				
Sale of property, plant and equipment		119	49	302
Receipts from investments		2,216	-	1,773
		2,335	49	2,075
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		2,736	1,829	5,177
		2,736	1,829	5,177
Net cash flow from investing activities		(401)	(1,780)	(3,102)
Cash flow from financing activities				
<i>Cash was provided from</i>				
Receipts from borrowings		43,675	36,850	78,105
		43,675	36,850	78,105
<i>Cash was disbursed to</i>				
Repayment of borrowings		39,225	37,750	78,855
Repayments of lease liabilities		1,102	-	-
Dividends paid		750	750	1,500
		41,077	38,500	80,355
Net cash flow from financing activities		2,598	(1,650)	(2,250)
Net increase/(decrease) in cash and cash equivalents		1,334	(557)	(129)
Opening cash and cash equivalents		126	255	255
Closing cash and cash equivalents		1,460	(302)	126

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2019

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 2019 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 2019 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 2019.

NZ IFRS 16 Leases has been adopted in the financial statements for the period ended 31 December 2019. Delta's leases mainly relate to vehicle leases, but also include several properties throughout the South Island. The impact of IFRS 16 Leases standard is that nearly all operating leases, which were previously being expensed directly through the statement of comprehensive income, are capitalised on the balance sheet by recognising a 'right-of-use' asset and a lease liability for the present value of the future obligation. The lease expense in the statement of financial performance is replaced with depreciation on a right-of-use asset and interest costs.

At this stage Delta has not changed any of its Company policies as a result of IFRS 16 Leases implementation and are treating it as a presentational financial reporting adjustment only.

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2019.

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2019

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

	6 months to 31 Dec 2019 \$'000	6 months to 31 Dec 2018 \$'000	12 months to 30 Jun 2019 \$'000
Net profit after tax	395	621	1,922
<i>Items not involving cash flows</i>			
Depreciation	2,039	1,990	4,041
Other non-cash items	(784)	181	(175)
<i>Impact of changes in working capital items</i>			
(Increase) / decrease in trade and other receivables	323	1,686	2,507
(Increase) / decrease in work in progress	(1,294)	(1,095)	(1,980)
(Increase) / decrease in inventories	(231)	115	172
Increase / (decrease) in trade and other payables	209	269	(144)
Increase / (decrease) in provision for tax	(1,066)	(319)	289
Increase / (decrease) in employee entitlements	(134)	(667)	492
<i>Items classified as investing or financing activities</i>			
Net gain on sale of property, plant and equipment	(42)	(8)	(134)
Investment in Financial Instrument	(1,330)		(1,773)
Movement in capital creditors in accounts payable	(50)	100	6
Lease liability principal repayments	1,102	-	-
Net cash inflows from operating activities	(863)	2,873	5,223

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2019

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 2019 \$'000	6 months to 31 Dec 2018 \$'000	12 months to 30 Jun 2019 \$'000
<i>Sales of Services to DCC Group Entities:</i>			
Capital works constructed	13,182	17,102	32,430
Network maintenance and contracting services	9,686	6,515	16,434
Administration / Accounting / Tax / Rent	212	198	407
	23,080	23,815	49,271
<i>Sales of Services to DCC:</i>			
Other contracting	3,086	3,042	6,878
<i>Amounts Receivable by the Company at period end from DCC Entities:</i>			
Receivable from DCC	598	704	977
Receivable from DCC Group Entities	7,482	7,689	6,676
	8,080	8,393	7,653
<i>Intrgroup Transfers:</i>			
Tax Compensation received	-	-	374
<i>Purchases of Goods and Services from DCC Group Entities:</i>			
Interest	467	543	927
Contracting services and supplies	393	81	469
Rent / Administration	248	372	674
Tax Compensation / Tax loss offsets	-	-	549
Management fee	25	25	50
	1,133	1,021	2,669
<i>Purchases of Goods and Services from DCC:</i>			
Contracting services and supplies	43	76	151
Other	42	47	82
	85	123	233
<i>Amounts Payable by the Company at period end to DCC Entities:</i>			
Payable to DCC	3	5	9
Payable to Dunedin City Council entities	226	258	1,957
	229	263	1,966

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2019

4 Related Party Transactions *continued*

Transactions with Companies in which Directors have an interest

	6 months to 31 Dec 2019 \$'000	6 months to 31 Dec 2018 \$'000	12 months to 30 Jun 2019 \$'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 was a Councillor up until 12 October 2019)	3	3	5
Naylor Love Construction (Mr T J Kempton is the Chairman and a Shareholder)	108	2	4
<i>Amounts receivable from Companies in which Directors have an interest:</i>			
Otago Regional Council (Mr T J Kempton was a Councillor up until 12 October 2019)	3	-	-
Naylor Love Construction (Mr T J Kempton is the Chairman and a Shareholder)	45	-	-
<i>Purchases from Companies in which Directors have an interest:</i>			
Mainpower New Zealand (Mr B J Wood is a Director)	5	103	109
E-Spatial Limited (Mr B J Wood is a Director)	5	-	10
Whitestone Contracting (Mr S W Grave is a Director)	-	-	-
Naylor Love Construction (Mr T J Kempton is the Chairman and a Shareholder)	115	190	255
Otago Regional Council (Mr T J Kempton was a Councillor up until 12 October 2019)	5	4	4
Mornington Health Centre Limited (Mr D T Allison is the Chairman of the Advisory Board)	1	-	2
<i>Amounts payable to Companies in which Directors have an interest:</i>			
E-Spatial Limited (Mr B J Wood is a Director)	3	-	-

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 2019

5 Property, Plant and Equipment

	6 months to 31 Dec 2019 \$'000	6 months to 31 Dec 2018 \$'000	12 months to 30 Jun 2019 \$'000
Additions	2,415	1,730	5,008
Disposals (Book Value)	76	70	194
Capital commitments	204	1,032	894

There have been no material changes to the fair value assessment methods for property, plant and equipment asset classes between 30 June 2019 and 31 December 2019.

6 Intangible Assets

	6 months to 31 Dec 2019 \$'000	6 months to 31 Dec 2018 \$'000	12 months to 30 Jun 2019 \$'000
Additions	371	77	237
Disposals (Book Value)	-	48	48

There have been no material changes to the fair value assessment method for intangible assets between 30 June 2019 and 31 December 2019.

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 2019 and 31 December 2019.

8 Derivative Financial Instruments

	6 months to 31 Dec 2019 \$'000	6 months to 31 Dec 2018 \$'000	12 months to 30 Jun 2019 \$'000
Fair value			
Interest rate swaps	-	4	-
Analysed as:			
Current	-	4	-
Non-current	-	-	-
	-	4	-

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2019

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 2019 \$'000	6 months to 31 Dec 2018 \$'000	12 months to 30 Jun 2019 \$'000
Performance Bonds	1,142	990	1,119

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