ANNUAL REPORT 2014

DELTA
THINK.INFRASTRUCTURE

CONTENTS

SUMMARY / 02
CHAIRMAN AND CHIEF EXECUTIVE'S REPORT / 03
DIRECTORS' REPORT / 08
TREND STATEMENT / 13
STATEMENT OF SERVICE PERFORMANCE / 14
INFORMATION ON THE DIRECTORS / 16

FINANCIAL CONTENTS / 19
FINANCIAL STATEMENTS / 20
NOTES TO THE FINANCIAL STATEMENTS / 26
INDEPENDENT AUDITOR'S REPORT / 65

COMPANY DIRECTORY / 69

OUR VALUES

DO IT FIRST. DO IT RIGHT. DO IT TOGETHER.

SUMMARY

FINANCIAL HIGHLIGHTS

- Turnover of $96.6 million
- Increased EBITDA before impairment charges of $12.5 million
- Increased operating profit before income tax and impairment charges of $6.2 million
- Net surplus of $4.4 million after tax
- Total assets of $56.5 million
- Paid dividends of $2.5 million to our shareholder, Dunedin City Holdings Limited. Delta has returned total dividends of $50.5 million to our shareholder since the company was formed in 1998

OPERATIONAL HIGHLIGHTS

- A major revision of the Aurora ten-year asset management plan ahead of an increased phase of asset renewal and system upgrades
- Managed $21.3 million of capital projects on the Aurora Energy electricity network
- Completed upgrades of Aurora Energy's Roxburgh and Queenstown substations and replacement of 33-kilovolt underground cables in Anderson's Bay, Dunedin
- Completed $5.3 million of overhead line reconstruction and vegetation management for improved reliability on the Aurora Energy network
- Won the contract to provide technical and tunnel services for Contact Energy's Clutha hydroelectric power stations
- Deployment of nearly 24,200 smart meters across New Zealand
- New vegetation control and grounds maintenance contracts in Hurunui and Dunedin
- Completed third and final stage of the Mossburn to Athol 66/22 kilovolt electricity supply line for PowerNet

CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

for the Year Ended 30 June 2014

We make our communities better places to live by providing reliable, quality infrastructure for everyday life. Our people keep the power on, manage recycling and waste and make public spaces beautiful and safe to enjoy.

Delta's refocus on its core energy and environmental businesses has resulted in improved profitability and a stronger balance sheet. During the financial year ended 30 June 2014 (FY14), we completed the progressive exit from water and civil construction operations that followed a strategic review of our position in that market during FY13. Our former subsidiary, Delta Investments Limited, also entered unconditional contracts for the sale of all of its remaining development properties.

These actions have lowered the risk profile of Delta's business and customer portfolio and the company is now well positioned to continue to build on its improved profitability in the future.

For financial reporting purposes, Delta's water & civil construction operations and the performance of its former subsidiary, Delta Investments Limited, are included as discontinued operations. We note however, that the financial information referred to within the Chairman and Chief Executive's Report is stated inclusive of both continuing and discontinued operations.

Throughout the period, we continued to achieve measured growth and solid performance in our energy, solid waste and greenspace businesses. We secured significant new long term contracts in electrical maintenance and greenspace services.

The Group recorded an operating profit before income tax and impairment charges of $6.2 million, an increase of 68 per cent on the previous year (FY13 $3.7 million).

Earnings before interest, tax, depreciation and amortisation (EBITDA) before impairment charges were $12.5 million for FY14, an increase of 6 per cent on the previous year (FY13: $11.8 million).

Turnover was $96.6 million for FY14, a decrease of 9 per cent on the previous year (FY13: $105.7 million), reflecting the phased exit from our water and civil activities during the year.

The Group recorded a net surplus of $4.4 million for the year under review (FY13: $4.6 million).

Total assets reduced from $77.1 million to $56.5 million during FY14, reflecting the sale of vehicles, plant and equipment associated with our former civil construction business and development properties.

The proceeds from these asset sales were applied predominantly to reduce term debt. Delta's term borrowings were reduced by $14.6 million from $44.4 million to $29.8 million during the year.

As a member of the Dunedin City Council group of companies, Delta is committed to providing financial returns to its shareholder Dunedin City Holdings Limited and to ensuring projected dividend levels are maintained. Including FY14, Delta has returned total dividends of $50.5 million to its shareholder since the company was formed in July 1998.

As forecasted in its 2013/14 Statement of Intent, Delta paid a dividend of $2.5 million during FY14 (FY13: $2.0 million). In approving this dividend, the Board took a considered approach to the balancing of shareholder returns and retained earnings.

DELTA INVESTMENTS LIMITED

Delta Investments Limited was a wholly-owned subsidiary of Delta Utility Services Limited and previously engaged in property investment and development. As reported previously, Delta revised its strategy in 2012 to refocus on core energy and environmental services and took the decision to exit development property ownership.

Delta Investments Limited previously participated in the Luggate Park Developments Joint Venture, which was holding land for development and sale at Luggate. The last of this land was sold in August 2013 and the joint venture has since been dissolved. Delta holds no further interest in the Luggate Park development.

Delta Investments Limited was also previously the owner of development properties at Jack's Point, prior to its entering into unconditional contracts for the sale of all of Delta's remaining land holdings during December 2013. The last of these unconditional contracts has since been assigned to the parent company and Delta Investments Limited was removed from the Companies Register during July 2014.

EXIT FROM WATER AND CIVIL CONSTRUCTION

In July, we confirmed the decision to exit our entire water and civil construction business. We completed a progressive closure of our remaining business units beginning with Christchurch in July, Dunedin in August, Central Otago in September and Southland in November, where we were able to secure a transfer of employees and the sale of assets to a local contracting company. During the transition, we provided job search assistance to affected employees. We were pleased that almost every employee seeking work found alternative employment within a short space of time.

ENERGY

We continued to deliver asset management and distribution services to the Aurora Energy electricity network under a long term services agreement. This year, we prepared a revised ten-year asset management plan for Aurora Energy ahead of a phase of increased investment in maintenance and asset renewals, capacity upgrades and systems upgrades.

During FY14, we managed $21.3 million of capital projects for Aurora Energy. These included completing the upgrades to its Roxburgh and Queenstown substations and the replacement of 33-kilovolt underground cables in Anderson's Bay, Dunedin. We also completed a project to convert overhead lines to underground cables in Cardrona, Wanaka.

In FY14, we cleared more than 15 kilometres of vegetation growing near overhead power lines and replaced or installed 650 power poles with associated equipment, primarily in Port Chalmers and Halfway Bush, Dunedin and Omakau, Central Otago. A total of $5.3 million of overhead line reconstruction and vegetation management work was completed to improve the reliability of the network.

There has been a noticeable increase in irrigation-related projects connecting to the Aurora Energy network. During FY14, Delta has installed the electricity supply needed for irrigation projects in Tarras, Hawea Flats, Queensberry, Omakau and Ida Valley.

We continued to expand our revenues from the wider electricity services sectors of transmission, generation and distribution. Our success is based on a reputation for combining technical expertise and a partnership approach with our customers.

In the transmission sector, we completed transmission upgrade projects for Transpower to design and build 11 line crossings on the Roxburgh to Clyde 220-kilovolt transmission line. We performed specialist cable testing services on Transpower's 33-kilovolt assets in Southland and continued to provide after-hours first response for Transpower in Frankton.

Delta provided its expertise in power generation and electricity services to electricity generators. We were awarded the contract to provide technical and tunnel services to Contact Energy on its Clutha hydroelectric power stations. This two-year contract, which includes an option to extend for a further two years, will see Delta carry out the operation and maintenance of electrical plant and equipment in Contact Energy's Cromwell Gorge tunnels. Delta will also perform the electrical testing of the four generators at the Clyde power station and eight at the Roxburgh power station. The contract is the first to be awarded to Delta since we were appointed as an approved supplier to Contact Energy for electrical services in August 2013.

We continued engineering and project management support in the refurbishment

of the generator at Genesis Energy's Tekapo A hydro power station on Lake Tekapo in Canterbury.

In the distribution market, we completed the third and final stage of the Mossburn to Athol 66/22-kilovolt electricity supply line for PowerNet. We were awarded the final stage as sole contractor, based on our performance on earlier stages of the project.

We provide operations and maintenance services to the Nelson and Tasman electricity networks under a long term contract. During FY14, we completed all scheduled annual lines maintenance successfully and provided effective storm response over Easter, when the top of the South Island experienced extreme weather. We also helped out the neighbouring Buller Electricity network with storm responses at the request of Network Tasman.

Delta worked on capital projects for the Nelson and Tasman electricity networks. We upgraded the Brightwater zone substation, completing a new 11-kilovolt switch room with indoor switchgear and second transformer bay. We performed the fit out and cable jointing for Nelson Electricity's Haven Road substation project and installed 33-kilovolt underground cables into Nelson.

We continued to maintain Dunedin's street lighting network, consistently achieving a 99 per cent lighting reliability against a service level of 95 per cent. Asset owner Dunedin City Council renewed the contract, appreciating our solid performance, excellent feedback and advice on asset management.

The country-wide changeover from traditional analogue meters to advanced digital meters represents the single greatest change in customer-facing metering technology in generations. Demand for smart meter installation, maintenance and testing continues as electricity meter owners look to meet their recertification requirements by April 2015. During FY14, Delta deployed nearly 24,200 advanced meters in Dunedin, Central Otago, Hawkes Bay and the Gisborne area.

COMMUNICATIONS

During FY14, we extended the Network Tasman fibre network for new customers. In Wanaka, we installed additional wireless access points for Telecom, to increase mobile data capacity, particularly during peak holiday periods. At Trustpower's Waipori hydro power scheme, we installed fibre to link the top power station to their wider communications network, providing visibility of gate positions on the dam and inlet structure. The project also included upgrading the power supplies to the motors controlling inlet valves and spill gates.

ENVIRONMENTAL

Greenspace

For our greenspace and sports turf management business, we have the strategic objective of diversifying our customer base and service mix and growing market share through long term contracts. During FY14, we were successful in securing contracts with new customers and expanding our geographic coverage. We delivered a range of turf, horticulture and roadside vegetation control services throughout the South Island including Southland, coastal and inland Otago, Canterbury, Kaikoura and Tasman.

We won a new, three-year contract with the Hurunui District Council for township mowing across the entire district. We also secured a new five-year contract with Dunedin City Council for maintenance of its central city cemeteries. We were pleased to continue our relationship with the Canterbury Earthquake Recovery Authority, providing property maintenance and mowing in the Kaiapoi region.

Delta provides amenity and sports turf management services to local authorities and sports clubs. Highlights included upgrading the playground at Torlesse Park, Rangiora and preparing the cricket pitch for the test match between New Zealand and the West

Indies played in December at the University Oval in Dunedin. We completed an upgrade to one of the main walking tracks on Mount Cargill, Dunedin, improving drainage and re-gravelling the upper section of the path.

Solid waste

Our capability and presence in regional waste services continued to develop. During FY14, Delta provided solid waste services to all three local authorities in coastal Otago - Clutha, Dunedin City and Waitaki.

We continued to operate the municipal landfill for Dunedin City Council at Green Island. We completed phase one of the landfill capping programme to the landscaping stage. Landfill capping creates a physical barrier between the disposed waste and the surface, reducing water infiltration and the potential for contaminants to leach. Once again, we passed the annual independent audit to confirm EnviroMark® Gold accreditation for the landfill. The standard gives reassurance that we have the required systems and control and quality measures in place to manage the potential environmental effects.

FY14 was our second full year of providing solid waste services to Clutha District Council, which includes managing kerbside rubbish and recycling collections and the Mount Cooee landfill under a long term contract. As part of our ongoing commitment to quality improvement, we invested in a new side lifter truck with automatic bin lifting technology. The new vehicle will improve the efficiency and safety of kerbside collection and enhance customer service.

We manage rural transfer stations for Waitaki District Council as part of a long term services contract. The district's main landfill in Oamaru is scheduled to close in 2016 and Waitaki District Council is considering options for managing waste disposal post-closure. We are actively seeking opportunities for increasing our involvement in the local waste market.

OUR PEOPLE

Our ability to deliver smart thinking for our customers relies on our people going above and beyond ordinary expectations. Our Minds at Work employee awards, now in its second year, recognise and encourage employees who demonstrate our core values through leadership, initiative or innovation.

The category winners for the 2013 Minds at Work Awards were the Anderson's Bay 33-kilovolt cable pulling team (Do It First award for getting it right first time and extraordinary cooperation), Simon Westoby (Do It Right award for dedication and mentoring on smart meter deployment projects), the commercial services team (Do It Together award for successful completion of the Gentrack billing system upgrade project). A special award was made to Ian Melvin for his commitment to health and safety and improving relationships within the organisation.

Given the complexity of the infrastructure we manage, skills and training for our people are critical to us working safely and working smarter for our customers. Delta sent competitors and judges to the Annual Connection event in October where line mechanics and cable jointers compete against their peers. Delta took first place in the first aid section of the competition.

We have also nurtured young engineering talent in a joint initiative with the University of Canterbury Electrical Engineering Department. We gave four electrical engineering students the opportunity to work on an actual engineering problem while completing the requirements of their final year honours project.

SAFETY AND RISK

Delta has an ongoing commitment to improving its health and safety performance. That is critical given the high hazard environments we work in every day.

The Board of Directors has established a health and safety committee that met twice in FY14. The Board has reviewed and endorsed a new health and safety strategy that renews our commitment to getting everyone home safe, every day and sets out Delta's next round of improvement in safety performance.

This year, Delta has aligned its safety reporting to wider industry practice in New Zealand against 200,000 hours (rather than 1 million hours). Our total recordable injury frequency rate for FY14 was 8.79 against a target of 5.00 per 200,000 hours. We are disappointed not to have met our safety performance target this year, after five consecutive years of achieving the target. Our new health and safety strategy has an increased focus on risk management and leadership accountability with the goal of improving our safety performance on a sustained basis.

The newly created Capability and Risk function reaffirms the importance of Delta's organisational capability, risk management and health and safety. New safety initiatives introduced during the year, include a company-wide safety alert to share risks and learnings from incidents immediately after they occur.

We initiated training for line managers to carry out incident analysis using the Incident Cause Analysis Method. By being involved in investigating incidents, working out what caused them and determining corrective actions with their teams, we ensure those people designing and managing the work are responsible for making the required improvements.

A new electronic incident and reporting system is now operational. This system captures incident information for improved visibility and reporting on the types and causes of incidents, supporting a focus on corrective and preventative action.

Delta continues to be accredited at the highest level of ACC's Workplace Safety Management Programme. Our tertiary status was recently reconfirmed following the annual independent audit.

OUR COMMUNITIES

Our Charity Challenge campaign raises safety awareness among employees by encouraging regular reporting of close calls (also known as "near misses"). We encourage the monitoring and reporting of close calls as an important way to identify potential hazards and take preventative action.

The Charity Challenge fund accrues each time an employee reports a close call or identifies a new hazard. During the year, Delta made donations from the safety fund to Child Cancer Foundation, Heart Kids Otago, Nelson Tasman Region Hospice Trust, Prostate Cancer Foundation New Zealand, Ronald McDonald House South Island, SPCA Otago and St John Wanaka.

We also supported the biennial Central Otago and Queenstown Lakes District Relay for Life held in March. The 24-hour event brings the community together to raise money and support the Cancer Society to provide services to people affected by cancer.

GOVERNANCE

We thank our long standing Chair, Ray Polson who stepped down from the Board in November. Ray can feel rightly proud of his leadership in the development of Delta from its beginnings in 1998 as an electricity services contractor to the diversified infrastructure specialist it is today. Dr Ian Parton, who commenced as a non-executive director in October 2012, has been appointed as the new Chair of the Board.

Trevor Kempton joined the Board as a non-executive director in October 2013, with effect from 1 November 2013. Trevor is a professional engineer with 40 years' experience in civil and environmental engineering, project management, construction and business. He was formerly managing director of Naylor Love Construction until his retirement in 2010 and is in his second term as an Otago Regional Councillor.

We note with sadness the recent death of former director Ross Liddell. He had joined the Board of Delta at its formation and served continuously until 2012, during a period of significant growth for the company.

OUR THANKS

Finally, we wish to extend our thanks and appreciation to everyone at Delta for their hard work and skill. Our people are committed to getting the right result for our customers. Their expertise and energy make the difference to the quality and performance of the infrastructure we build, operate and maintain and the satisfaction of our customers. Together, we look forward to continuing the measured growth and improved performance achieved this year.

Ian Parton
CHAIRMAN

Grady Cameron
CHIEF EXECUTIVE

2 September 2014

DIRECTORS' REPORT

The Directors of the Delta Utility Services Limited consolidated group (the Group) are pleased to report on the financial results and associated matters for the year ended 30 June 2014.

The financial accounts in this report include the activities of Delta Utility Services Limited (Parent) and of the Group, which is a full consolidation of Delta Utility Services Limited and its wholly owned subsidiary, Delta Investments Limited. Lakes Contract Services Limited is a non-trading company and a wholly owned subsidiary of Delta Utility Services Limited and is not consolidated.

DIRECTORS' REPORT

for the year ended 30 June 2014

PRINCIPAL ACTIVITIES OF THE GROUP

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

	GROUP	PARENT
RESULTS FOR THE YEAR ENDED 30 JUNE 2014	**$000**	**$000**
Operating profit before tax and impairment charges	6,377	6,716
Less impairment charges / (reversal)	0	(762)
Operating profit before income tax	6,377	7,478
Less income tax expense	1,673	1,790
Net profit for the period from continuing operations	4,704	5,688
Net loss for the period from discontinued operations	(327)	(201)
Net profit for the period	4,377	5,487

STATE OF AFFAIRS

The Directors believe that the state of affairs of the Company and Group are satisfactory.

DIVIDENDS

Dividends of $2.5 million were declared and paid during the year.

RESERVES

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

	$000	$000
Retained earnings - to (from)	1,877	2,987
Cash flow hedge reserve to (from)	205	205

DIRECTORS' REPORT

for the year ended 30 June 2014 – continued

REVIEW OF OPERATIONS

Delta successfully concluded its phased exit from the water and civil construction market during the year, and is now refocused on the delivery of asset management and contracting services in the energy and environmental sectors.

The Group's net profit before income tax for both continuing and discontinued operations of $5.700 million (2013: $3.385 million) provided a return on average Shareholder's equity before impairment of 34% (2013: 33%).

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2014 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 Directors section of this report.

Any significant contracts involving Directors' interests that were entered into during the year ended 30 June 2014 or existed at that date are disclosed in the related parties section of this report.

DIRECTORS' BENEFITS

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.

CHANGE OF DIRECTORS

Mr Ray Polson retired as Chairman of the Board with effect from 1 November 2013. The Company acknowledges the substantial contribution made by Mr Polson, during his lengthy service.

Dr Ian Parton was appointed as the new Chairman of the Board.

Mr Trevor Kempton was appointed to the Board during October 2013 with effect from 1 November 2013. The Company welcomes Mr Kempton.

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.

DIRECTORS' REPORT

for the year ended 30 June 2014 – continued

DIRECTORS' REMUNERATION

The remuneration paid to Directors during the year was:

Dr Ian M Parton	$	31,875
Stuart J McLauchlan	$	24,375
David J Frow	$	23,250
Trevor J Kempton	$	13,667
Raymond S Polson	$	14,250
	$	107,417

EMPLOYEES' REMUNERATION

The number of employees and former employees who received remuneration and benefits above $100,000:

$100,001 - $110,000	27
$110,001 - $120,000	12
$120,001 - $130,000	4
$130,001 - $140,000	7
$140,001 - $150,000	4
$150,001 - $160,000	4
$160,001 - $170,000	1
$170,001 - $180,000	2
$180,001 - $190,000	1
$230,001 - $240,000	1
$250,001 - $260,000	1
$270,001 - $280,000	1
$470,001 - $480,000	1
	66

AUDIT AND RISK COMMITTEE

Stuart McLauchlan, Ian Parton, David Frow, Trevor Kempton and Ray Polson were members of the Audit and Risk Committee of the Board during the year. Ray Polson resigned on 1 November 2013. The Audit and Risk Committee has the responsibility for agreeing the arrangements for audit of the Company's financial accounts. Its responsibilities include ensuring that appropriate audit consideration is given to the following issues:

- effectiveness of systems and standards of internal control
- quality of management controls
- management of business risk
- compliance with legislation, standards, policies and procedures
- appointing and monitoring the internal audit function.

Crowe Horwath (previously WHK Taylor Limited) continues as internal auditor to the Company. Specific areas for its review were identified and a number of reviews have been completed, with the results reported to the Audit and Risk Committee and the Board. Review of further areas is on-going and progress is satisfactory.

DIRECTORS' REPORT

for the year ended 30 June 2014 – continued

HEALTH AND SAFETY BOARD COMMITTEE

A new Health and Safety Board Committee was established during the year. Its principal responsibility is to review and make recommendations to the Board on the appropriateness and effectiveness of the Company's health and safety strategy, performance and governance.

David Frow, Ian Parton, Stuart McLauchlan and Trevor Kempton were appointed members of the Health and Safety Committee on 1 May 2014.

NOMINATION COMMITTEE

A new Nomination Committee of the Board was established during the year. Its principal responsibility is to identify and nominate, for approval by the Shareholder, external candidates to fill board vacancies as they arise.

Ian Parton, David Frow, Stuart McLauchlan and Trevor Kempton were appointed members of the Nomination Committee on 1 May 2014.

REMUNERATION COMMITTEE

Ian Parton, Stuart McLauchlan, David Frow, Trevor Kempton and Ray Polson were members of the Remuneration Committee of the Board during the year Mr Polson resigned in November 2013. The Remuneration Committee's role is to develop and implement policies relating to the remuneration and other terms and conditions of service of the Chief Executive and senior staff and to oversee remuneration practices.

AUDITOR

The Auditor-General is appointed as Auditor pursuant to S70 of the Local Government Act 2002. The Auditor-General has contracted the audit to Audit New Zealand.

EVENTS SUBSEQUENT TO BALANCE DATE

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

Ian Parton
CHAIRMAN

Stuart McLauchlan
DIRECTOR

2 September 2014

TREND STATEMENT

Years ended 30 June	Note	GROUP[3] 2014 $000	2013 $000	2012 $000	2011 $000	2010 $000
Safety first - lost time injuries	1	6.17	1.97	1.84	12.17	7.29
Turnover		96,624	105,733	108,633	103,679	87,008
EBITDA before impairment charges		12,455	11,795	10,529	13,484	11,466
EBIT before impairment charges		8,239	6,411	4,699	7,933	5,983
Profit before tax and impairment charges		6,155	3,673	2,131	6,059	4,879
Impairment charges	2	455	288	9,044	-	-
Net surplus		4,377	4,606	(5,880)	5,423	2,929
Total assets		56,530	77,104	75,725	77,792	57,221
Ordinary dividends		2,500	2,000	4,500	4,000	3,500
Cash flow from operating activities		5,553	7,018	863	7,182	9,011
Shareholder's equity		13,757	11,675	8,773	19,167	17,744
Term debt		29,775	44,375	50,925	41,000	23,790
Return on average Shareholder's equity before impairment charges		34%	33%	18%	30%	16%
EBIT before impairment charges / average funds employed		12%	8%	6%	12%	11%
Equity to assets		24%	15%	12%	25%	31%
Average number of employees		510	632	675	657	571

NOTES:

1 Number of lost time injuries per 1 million hours worked. The lost time injury rate of 1.84 for 2012 includes 1 lost time injury that was reported during 2013 but relates back to an incident in the prior year.

2 The aftermath of the Global Financial Crisis impacted negatively on the regional property development market. The Group recognised a further impairment of $0.455 million (before tax) upon entering unconditional contracts for the sale of its last remaining development properties during 2014 (2013: $0.288 million).

3 The trend statement figures include items from both continuing and discontinued operations.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2014

GENERAL OBJECTIVES

1 To review the Statement of Intent and Strategic Plan for consistency with the objectives of Dunedin City Holdings Limited.

ACHIEVED

The Statement of Intent and Strategic Plan were reviewed and confirmed as being consistent with the objectives of Dunedin City Council.

2 To review the operating activities of the Company for compliance with the goals and objectives stated in the Statement of Intent and Strategic Plan.

ACHIEVED

The operating activities are in accordance with the goals and objectives stated in the Statement of Intent and Strategic Plan.

3 To report all matters of substance to the Shareholder within five days of occurrence.

ACHIEVED

Matters of substance were reported to the Shareholder within the required timeframe.

ECONOMIC OBJECTIVES

1 To achieve all financial projections.

NOT ALL ACHIEVED

		PARENT[1]	
		Actual	Target
	ACHIEVED	$000	$000
EBITDA	x	13,514	14,231
Net profit after income tax	√	5,487	4,011
Shareholder's funds	√	13,757	11,523
Dividends	√	2,500	2,500
Shareholder's funds to total assets	√	24%	18%

[1] These figures include the results of both continuing and discontinued operations.

2 To pursue management of an additional group of utility assets.

ACHIEVED

However, in spite of continuous promotion of contracting out as a best-practice option for asset owners to access large-scale solutions, limited opportunities arose for Delta to bid.

3 To ensure that the reporting requirements of the Company and the Shareholder are met.

ACHIEVED

Group reporting was undertaken within the timeframes specified in the Statement of Intent.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2014 - continued

SOCIAL AND ENVIRONMENTAL OBJECTIVES	OUTCOMES
1 Compliance with all employment legislation.	ACHIEVED All employment legislation has been complied with.
2 No complaints of discrimination are received.	ACHIEVED No complaints were received during the year.
3 Operates open and non-discriminatory employment practices.	ACHIEVED The Group operates employment practices that are open and non-discriminatory.
4 No transgression of environmental and resource laws.	ACHIEVED No notification of any breaches of any resource laws has been received.
5 Review the activities undertaken by the Company for purposes of being a good socially and environmentally responsible corporate citizen by 30 June 2014.	ACHIEVED The Group regularly reviews its contribution to the community to ensure it acts as good corporate citizen.
6 Employee safety target.	NOT ACHIEVED

	Actual	Target
Lost time injuries per 1 million hours worked.	6.17	4.00

INFORMATION ON THE DIRECTORS

DIRECTOR	QUALIFICATIONS	DATE APPOINTED	DECLARATIONS OF INTERESTS
Dr Ian M Parton Non-Executive Chairman	BE (Hons), PhD, Dist. F.IPENZ, F.Inst.D.	October 2012	Chairman – Aurora Energy Limited Chairman – Delta Investments 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, F.Inst.D.	October 2012	Chairman – Bathurst Resources (New Zealand) Limited Director – Aurora Energy Limited Director – Delta Investments Limited Director – ETEL Limited Director – ETEL Transformers Pty Ltd (Aus) Director – Holmes Fire & Safety Limited Director – Holmes GP Fire Limited Director and Shareholder – Major Consulting Group Limited Senior Consultant – Strata Energy Consulting
Stuart J McLauchlan Non-Executive Director	BCom, FCA (PP), AF.Inst.D.	June 2007	Chairman – Dunedin International Airport Limited Chairman – NZ Sports Hall of Fame Chairman – Pharmac Chairman – Scott Technology Limited Chairman – UDC Finance Limited Director – AD Instruments Pty Limited Director – Aurora Energy Limited Director – Cargill Hotel 2002 Limited Director – Delta Investments Limited Director – Dunedin Casinos Limited Director – Energy Link Limited Director – HTS 110 Limited Director – Lund South Limited Director – Otago & Southland Employers Association Director – Scenic Circle Hotels Limited and subsidiaries Director – University of Otago Foundation Studies Limited Director – University of Otago Holdings Limited Director – USC Investments Limited Director – XRock Automation Pty Limited Member – Marsh Advisory Board Partner – G S McLauchlan & Co Pro Chancellor – University of Otago Director – Rosebery Holdings Limited Director – Roxdale Foods Limited (resigned 7 April 2014)

INFORMATION ON THE DIRECTORS – continued

DIRECTOR	QUALIFICATIONS	DATE APPOINTED	DECLARATIONS OF INTERESTS
Trevor J Kempton Non-Executive Director	BE (Hons), MIPENZ, FNZIM, M.Inst.D.	November 2013	Director – Aurora Energy Limited Director – Constructing Excellence (NZ) Limited Director – Long Beach Consulting Limited Director – The Academy of Construction Excellence (NZ) Limited Director – Trevian Properties Limited Councillor – Otago Regional Council Shareholder – Naylor Love Enterprise Group of companies
Raymond S Polson Non-Executive Chairman	BCom, FCA, AF.Inst.D.	October 1994 (Resigned 1 November 2013)	Chairman – Mactodd Chairman – Ophir Gold Limited Director – Lakes Contract Services Limited Director – Luggate Nominee Limited Director – Otago Power Limited Director – Marsh Advisory Board Chairman – Aurora Energy Limited (resigned 1 November 2013) Chairman – Delta Investments Limited (resigned 1 November 2013)

FINANCIAL STATEMENTS

for the year ended 30 June 2014

CONTENTS

Statement of comprehensive income / 20

Statement of changes in equity / 21

Balance sheet / 22

Statement of cash flows / 24

Notes to the financial statements / 26

Independent auditor's report / 65

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2014

		GROUP		PARENT	
	Note	2014 $000	2013 $000	2014 $000	2013 $000
Operating revenue	3	86,214	77,928	86,239	77,978
Financial revenue	4	2,024	1,553	2,421	2,229
Total revenue		88,238	79,481	88,660	80,207
Less expenses					
Operating expenses	5	79,796	68,447	79,117	69,707
Financial expenses	6	2,065	2,719	2,065	2,719
Total expenses		81,861	71,166	81,182	72,426
Profit before tax		6,377	8,315	7,478	7,781
Income tax expense/(refund)	10	1,673	154	1,790	357
Net profit from continuing operations		4,704	8,161	5,688	7,424
Net loss from discontinued operations	7	(327)	(3,555)	(201)	(4,262)
Net profit for the year		4,377	4,606	5,487	3,162
Other comprehensive income					
Cash flow hedges		205	296	205	296
Total other comprehensive income		205	296	205	296
Total comprehensive income		4,582	4,902	5,692	3,458

The results and operations of both the parent and the group for the year ended 30 June 2013 have been restated to include the civil construction business units as discontinued operations. The results and operations of the group for the year ended 30 June 2013 have also been restated to include Delta Investments Limited's operations as discontinued operations. See note 7 for further information.

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2014

		GROUP		PARENT	
	Note	2014 $000	2013 $000	2014 $000	2013 $000
Equity at beginning of the year		11,675	8,773	10,565	9,107
Total comprehensive income		4,582	4,902	5,692	3,458
Less distribution to owner	9	2,500	2,000	2,500	2,000
Equity at end of the year		13,757	11,675	13,757	10,565

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

BALANCE SHEET

as at 30 June 2014

	Note	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
EQUITY					
Share capital	11	17,000	17,000	17,000	17,000
Cash flow hedge reserve	12	(51)	(256)	(51)	(256)
Retained earnings	13	(3,192)	(5,069)	(3,192)	(6,179)
Total equity		13,757	11,675	13,757	10,565
CURRENT LIABILITIES					
Trade and other payables	14	7,297	8,165	7,297	7,955
Westpac loan (secured)	16	0	857	0	0
Payable to Luggate Properties Limited		0	347	0	0
Payable to Luggate Park Developments Joint Venture		0	5,288	0	0
GST payable		863	779	863	777
Cash flow hedge instruments	15	70	356	70	356
Provisions	17	3,963	4,639	3,963	4,639
Taxation payable		474	234	474	234
Total current liabilities		12,667	20,665	12,667	13,961
NON-CURRENT LIABILITIES					
Term borrowings	18	29,775	44,375	29,775	44,375
Provisions	17	331	389	331	389
Total non-current liabilities		30,106	44,764	30,106	44,764
Total liabilities		42,773	65,429	42,773	58,725
TOTAL EQUITY AND LIABILITIES		56,530	77,104	56,530	69,290

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

BALANCE SHEET

as at 30 June 2014 – continued

	Note	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
CURRENT ASSETS					
Cash and cash equivalents	23	104	384	104	371
Trade and other receivables	24	24,834	25,298	24,834	25,350
Inventories	25	4,516	5,237	4,516	5,237
Prepayments		173	141	173	141
Development property held for sale	30	1,380	7,584	1,380	0
Investment in joint venture	29	0	5,288	0	0
Advance to subsidiary	31	0	0	0	6,716
Total current assets		31,007	43,932	31,007	37,815
NON-CURRENT ASSETS					
Intangible assets	27	527	332	527	332
Deferred tax asset	19	2,192	3,001	2,192	1,302
Property, plant and equipment	26	22,804	29,839	22,804	29,841
Total non-current assets		25,523	33,172	25,523	31,475
TOTAL ASSETS		56,530	77,104	56,530	69,290

For and on behalf of the Board of Directors

Ian Parton
CHAIRMAN

Stuart McLauchlan
DIRECTOR

2 September 2014

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

STATEMENT OF CASH FLOWS

for the year ended 30 June 2014

	Note	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from					
Receipts from customers		80,499	77,783	83,150	76,582
Interest received		2	54	399	729
Income tax refund received		0	171	0	171
		80,501	78,008	83,549	77,482
Cash was disbursed to					
Payments to suppliers and employees		71,653	62,968	71,873	61,667
Interest paid		1,745	2,073	1,990	2,685
Inter-group tax payments		559	0	558	0
Tax asset purchased from Subsidiary		0	0	2,104	0
Net GST paid		452	83	276	78
		74,409	65,124	76,801	64,430
Net cash inflows from operating activities from continuing operations		6,092	12,884	6,748	13,052
Net cash inflows/(outflows) from operating activities from discontinued operations		(539)	(5,866)	242	(5,098)
Net cash inflows from operations	28	**5,553**	**7,018**	**6,990**	**7,954**
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from					
Sale of development property		1,553	0	1,553	0
Sale of property, plant and equipment		850	835	850	835
Repayments from subsidiaries		0	0	8,331	2,033
Repayments from investment in financial Instrument		35	0	35	0
		2,438	835	10,769	2,868
Cash was disbursed to					
Development property		1	0	2,760	0
Purchase of property, plant and equipment		3,909	2,479	3,909	2,483
Advance to subsidiaries		0	0	853	873
Investment in financial instrument		1,200	0	1,200	0
		5,110	2,479	8,722	3,356

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

STATEMENT OF CASH FLOWS

for the year ended 30 June 2014 - continued

	Note	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Net cash inflows/(outflows) from investing activities from continuing operations		(2,672)	(1,644)	2,047	(488)
Net cash inflows/(outflows) from investing activities from discontinued operations		14,812	3,334	7,796	1,226
Net cash inflows/(outflows) from investing activities		**12,140**	**1,690**	**9,843**	**738**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from					
Receipts from borrowings		69,625	70,850	69,625	70,850
		69,625	70,850	69,625	70,850
Cash was disbursed to					
Repayment of borrowings		76,712	81,272	76,712	73,528
Dividends paid		2,500	2,000	2,500	2,000
		79,212	83,272	79,212	75,528
Net cash inflows/(outflows) from financing activities from continuing operations		(9,587)	(12,422)	(9,587)	(4,678)
Net cash inflows/(outflows) from financing activities from discontinued operations		(8,386)	3,861	(7,513)	(3,872)
Net cash inflows/(outflows) from financing activities		**(17,973)**	**(8,561)**	**(17,100)**	**(8,550)**
Net increase/(decrease) in cash, cash equivalents and bank overdraft		**(280)**	**147**	**(267)**	**142**
Cash and cash equivalents at the beginning of the period		384	237	371	229
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	23	**104**	**384**	**104**	**371**

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014

1 REPORTING ENTITY

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

The Group consists of Delta Utility Services Limited and a full consolidation of subsidiary, Delta Investments Limited. Lakes Contract Services Limited is a non-trading company and a wholly owned subsidiary of Delta Utility Services Limited and is not consolidated.

Delta Utility Services Limited 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. The Subsidiary previously participated in the Luggate Park Developments Joint Venture, which was holding land for sale at Luggate. The last of this land was sold in August 2013. The Subsidiary also previously held development land at Jacks Point. During the year Delta Investments Limited negotiated unconditional contracts for the sale of all of its remaining properties at Jacks Point and concluded a number of settlements with third parties. As at 31 March 2014, the last of the Subsidiary's remaining Jacks Point sections and third party sale contracts were sold to Delta Utility Services Ltd at market value. A special resolution was passed on 1 May 2014 by Delta Utility Services Limited to have the Subsidiary removed from the Companies Register. Confirmation has since been received that Delta Investments Limited was removed from the Companies Register on 11 July 2014.

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

The financial statements are presented in New Zealand dollars 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 annual 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 2 September 2014.

BASIS OF ACCOUNTING

The financial statements have been prepared on the historic cost basis, except for the revaluation of certain assets including derivatives. The going concern assumption has been applied.

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

CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these financial statements, each entity 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

SUBSIDIARIES

Subsidiaries are those entities controlled, directly or indirectly, by the Company (Parent). The financial statements of consolidated subsidiaries are included in the financial statements using the proportionate method of consolidation.

JOINT VENTURES

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The Company recognises in its financial statements the assets it controls, the liabilities and expenses it incurs, and the share of income that it earns from the joint venture. The Company had a 50% interest in Luggate Park Developments Joint Venture. The financial statements were prepared using the proportionate method of consolidation from 1 July 2013 until 31 December 2013, the date at which the assets and liabilities of this joint venture were fully liquidated. The joint venture is now dissolved.

IFRS 11 Joint Arrangements effective for annual periods beginning on or after 1 January 2013 only allows the equity method of consolidation. Given the joint venture was dissolved as at 31 December 2013 this accounting standard change has no material impact on the results for the year ending 30 June 2014.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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 Group.

The Group 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 twelve months.

GOODS AND SERVICES TAX (GST)

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST. The Statement of Cashflows is inclusive of GST.

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 Group'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.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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. 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 2%	straight line
Metering equipment	10% to 100%	straight line
Plant and equipment	2.5% to 25%	straight line
Motor vehicles	5% to 30%	straight line
Office equipment and fittings	5% to 25%	straight line
Construction in progress	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 five years.

IMPAIRMENT OF ASSETS

At each balance sheet date, the Group 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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.

DEVELOPMENT PROPERTY HELD FOR SALE

Development property intended for resale is stated at the current market value as determined by reference to unconditional sale and purchase agreements. Operating costs including interest are expensed as incurred.

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 Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

INVESTMENTS

Investments include long term equity in joint ventures. These are measured at cost and are assessed annually for impairment. Any resultant loss or impairment is recognised in the income statement for the period in which it occurs.

BORROWINGS

Borrowings are initially recorded 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.

CASH FLOW HEDGE INSTRUMENTS AND HEDGE ACCOUNTING

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

The Group 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. 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.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

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.

PROVISIONS

A provision is recognised in the balance sheet when the Group 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 Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

DISCONTINUED OPERATIONS

Discontinued operations consist of business units and other non-core assets that have either been sold or discontinued during the year or are classified as held-for-sale at year end.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the financial year, as the below standards introduced or amended did not materially impact the company.

Comparative year Financial Revenue and Operating Expenses have been restated to include interest on impaired financial assets which is consistent with the treatment in the current year. This reclassification has had no impact on net profit for the comparative year.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

STANDARDS AMENDED OR ISSUED DURING THE YEAR

During the year the following accounting standards became effective or were amended.

STANDARD	BRIEF OVERVIEW OF EFFECT ON GROUP AND PARENT
Amendments to NZ IAS 1 Presentation of Financial Statements	The amendment is limited to additional disclosure only; it has no impact in the current period or subsequent reporting period on the financial performance or net asset position of the Parent or Group.
Amendments to NZ IAS 19 Employee Benefits	The adoption of the amendments has had no impact on the recognition or measurement of financial assets or liabilities, and changes have been limited to additional note disclosure.
NZ IFRS 10 Consolidated Financial Statements was issued	The standard supersedes the consolidation requirements in NZ IAS 27 Consolidated and Separate Financial Statements and NZ SIC-12 Consolidation – Special Purpose Entities. The changes do not result in any change to the mechanics of consolidation and the accounting for any controlling interests and changes in control remains the same.
NZ IFRS 11 Interests in Joint Ventures	The standard supersedes the consolidation requirements in NZ IAS 31 Interests in Joint Ventures. The Directors have reviewed the composition of the Group and its relationship with other entities in light of the revised definition of control under this new standard and have not identified additional subsidiaries, joint ventures or associates which had not been previously recognised.
NZ IFRS 13 Fair Value Measurements	The standard establishes a single source of guidance for fair value measurements. The application of the new standard in the current year has not significantly changed the basis for determining the carrying amounts of assets and liabilities measured at fair value.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

STANDARD	BRIEF OUTLINE
Amendments to NZ IAS 32 *Offsetting Financial Assets and Financial Liabilities* Adoption date: year ended 30 June 2015	The key change from the amendment is the introduction of additional criterion that must be met to demonstrate that an entity "currently has legally enforceable right to set off the recognised amounts" and that an entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously". The amendment only changed the application guidance. There were no other changes to the standard.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Amendments to NZ IFRS 10, NZ IFRS 11, NZ IFRS 12 and NZ IAS 27 Adoption date: year ended 30 June 2015	The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in NZ IFRS 12 and NZ IAS 27.
Amendments to NZ IFRSs arising from the Annual Improvements Project (2010-2012) Adoption date: year ended 30 June 2015	The following standards have been amended: NZ IFRS 3 – Clarifies the classification requirements for contingent consideration in a business combination by removing all references to NZ IAS 37. NZ IFRS 13 – Amendments to clarify the measurement requirements for those short-term receivables and payables. NZ IAS 16 & NZ IAS 38 – Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts. NZ IAS 24 – Defines a management entity providing Key Management Personnel (KMP) Services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of NZ IAS 24 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be disclosed separately.
Amendments to NZ IFRSs arising from the Annual Improvements Project (2011-2013) Adoption date: year ended 30 June 2015	The following standards have been amended: NZ IFRS 3 – Amends the scope paragraph for the formation of a joint arrangement. NZ IFRS 13 - Clarifies that the portfolio exception in paragraph 52 of NZ IFRS 13 applies to all contracts within the scope of NZ IAS 39 or NZ IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in NZ IAS 32. NZ IAS 40 – Clarifies that judgement is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of NZ IFRS 3 that includes an investment property. That judgement is based on guidance in NZ IFRS 3.
NZ IFRS 9 *Financial Instruments* Adoption date: year ended 30 June 2018	NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 and most of Phase 3 has been completed. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus or deficit.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
3 OPERATING REVENUE				
Sales revenue	86,214	77,928	86,239	77,978
	86,214	77,928	86,239	77,978
4 FINANCIAL REVENUE				
Interest received	2,024	1,553	2,421	2,229
	2,024	1,553	2,421	2,229

Interest received during the period includes $1.731 million (2013: $1.500 million) from impaired financial assets, for which a full provision is included within Operating Expenses.

5 OPERATING EXPENSES

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Included in the operating expenses are the following items:				
Audit fees - for audit of financial statements	53	48	53	48
Employee remuneration and benefits	35,006	31,331	35,006	31,331
Materials	14,538	12,583	15,918	12,583
Land cost of sales	1,380	0	0	0
Depreciation	3,834	3,401	3,834	3,401
Impairment charges	0	0	(762)	1,260
Rental expense	1,227	1,132	1,227	1,132
Directors' fees	107	126	107	126
Bad debts written off	8	2	8	2
Increase/(decrease) in impairment provision for trade and other receivables	3,274	1,481	3,274	1,481
Donations	31	40	31	40
(Gain)/loss on sale/disposal assets	(76)	(120)	(74)	(120)
Minimum lease payments	1,063	1,076	1,063	1,076

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000

6 FINANCIAL EXPENSES

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Interest/facility fees - related parties	2,063	2,717	2,063	2,717
Interest - other	2	2	2	2
Total financial expenses	2,065	2,719	2,065	2,719

7 DISCONTINUED OPERATIONS

Discontinued operations represent components of the Group that have been disposed of or classified as held-for-sale during the period. In accordance with IFRS 5 'Non-Current Assets Held For Sale and Discontinued Operations', the results and cash flows of these "disposal business units" are reported separately from the performance of continuing operations at each reporting date.

On 12 July 2013 the Group announced plans to cease operations in the civil construction sector. All civil construction business units completed their contracts before exiting the sector by the end of June 2014. The civil construction business units are reported as discontinued operations.

A special resolution was passed on 1 May 2014 by Delta Utility Services Limited to have its subsidiary Delta Investments Limited removed from the Companies Register. The Subsidiary was removed from the register on 11 July 2014. Delta Investments Limited's operations are included as discontinued operations.

The results from discontinued operations which are included in the consolidated income statement have been disclosed below. The water and civil construction business units being discontinued are within the parent entity Delta Utility Services Limited and hence the group results. Delta Investments Limited's operations are within the group results only, as it is a subsidiary of Delta Utility Services Limited.

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Net profit from discontinued operations				
Operating revenue	8,371	26,251	3,961	24,255
Interest revenue	15	1	2	0
Total revenue	8,386	26,252	3,963	24,255
Less expenses				
Operating expenses	9,044	31,163	4,208	28,703
Financial expenses	19	19	19	19
Total expenses	9,063	31,182	4,227	28,722
Loss before tax from discontinued operations	**(677)**	**(4,930)**	**(264)**	**(4,467)**
Income tax benefit	350	1,375	63	205
Net loss from discontinued operations	**(327)**	**(3,555)**	**(201)**	**(4,262)**

	GROUP 2014	GROUP 2013	PARENT 2014	PARENT 2013

8 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit/(loss) attributable to the Shareholder of the Group by the weighted average number of ordinary shares on issue during the year

	GROUP 2014	GROUP 2013	PARENT 2014	PARENT 2013
NUMBER OF SHARES				
Weighted average number of ordinary shares	17,000,000	17,000,000	17,000,000	17,000,000
Basic earnings per share before impairment charges	28.43 cents	20.08 cents	27.79 cents	26.01 cents
Basic earnings per share	25.75 cents	27.09 cents	32.27 cents	18.60 cents

9 DIVIDENDS

			GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Interim dividend	December 2013	7.4 cents/share	1,250	0	1,250	0
(December 2012: 0.0 cents/share)						
Final dividend	June 2014	7.4 cents/share	1,250	2,000	1,250	2,000
(June 2013: 11.8 cents/share)						
			2,500	2,000	2,500	2,000
		Cents per share	14.71	11.76	14.71	11.76

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

10 INCOME TAX

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
Operating profit before income tax from continuing activities	6,377	8,315	7,478	7,781
Operating loss before income tax from discontinuing activities	(677)	(4,930)	(264)	(4,467)
Total operating profit before income tax	5,700	3,385	7,214	3,315
Tax thereon at 28%	1,596	948	2,020	928
Plus / (Less) the Tax Effect of Differences				
Expenditure non-deductible for taxation	28	23	94	319
Non-assessable income	(160)	0	(373)	0
Under/(over) tax provision in prior years	(43)	(29)	84	(294)
Deferred taxation	0	(1,469)	0	0
Current period DCC Group tax losses utilised	0	(694)	0	(801)
Current year tax consolidated adjustment	(98)	0	(98)	0
Tax effect of differences	(273)	(2,169)	(293)	(776)
Tax expense /(benefit)	1,323	(1,221)	1,727	152
Represented by				
Continued operations	1,673	154	1,790	357
Discontinued operations	(350)	(1,375)	(63)	(205)
Income tax	1,323	(1,221)	1,727	152
Represented by				
Current tax provision	475	812	2,576	812
Prior period adjustments to current tax	119	(33)	225	(281)
Deferred tax provision	924	(2,005)	(900)	(366)
Prior period adjustments to deferred tax	(195)	5	(174)	(13)
Income tax	1,323	(1,221)	1,727	152
Effective tax rate	23.2%	(36.1%)	23.9%	4.6%

Delta Utility Services Limited is a member of an Income Tax Consolidated Group. Tax losses of $nil (2013: $2,478,782 (tax effect of $694,059)) for the current year in other companies in the Dunedin City Council Group were utilised.

In the current year tax losses of $7,505,489 were transferred from Delta Investments Limited to the parent Delta Utility Services Limited (tax effect $2,101,537).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
11 EQUITY - SHARE CAPITAL				
ISSUED CAPITAL				
17,000,000 ordinary shares	17,000	17,000	17,000	17,000
12 RESERVES				
Cash flow hedge reserve				
Balance at beginning of the year	(256)	(552)	(256)	(552)
Net revaluations	285	411	285	411
Deferred tax arising on hedges (see Note 19)	(80)	(115)	(80)	(115)
Balance at the end of the year	(51)	(256)	(51)	(256)

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.

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
13 RETAINED EARNINGS				
Balance at the beginning of the year	(5,069)	(7,675)	(6,179)	(7,341)
Net profit for the year	4,377	4,606	5,487	3,162
Dividend distributions	(2,500)	(2,000)	(2,500)	(2,000)
Balance at the end of the year	(3,192)	(5,069)	(3,192)	(6,179)
14 TRADE AND OTHER PAYABLES				
Trade payables	3,404	3,743	3,404	3,727
Due to related parties	180	303	180	303
Land sale deposits	173	149	173	0
Other creditors	3,540	3,970	3,540	3,925
	7,297	8,165	7,297	7,955

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.

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000

15 CASH FLOW HEDGE INSTRUMENTS

Interest rate swap revaluations – payable	(70)	(356)	(70)	(356)
Analysed as:				
Current	(70)	(356)	(70)	(356)

The Group 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.

16 WESTPAC LOAN (secured)

Westpac Loan	0	857	0	0
	0	857	0	0

The Westpac Loan balance was fully repaid in August 2013. The Westpac term loan was secured by a registered first mortgage over all the assets of the Luggate Park Developments Joint Venture. Interest was charged on the loan at the floating rate, previously 6.38% plus a default margin rate of 5.00%.

17 PROVISIONS

(i) Current liabilities				
Long service leave	132	141	132	141
Annual leave	3,301	4,102	3,301	4,102
Gratuities	315	175	315	175
Sick leave	115	103	115	103
Other provisions	100	118	100	118
	3,963	4,639	3,963	4,639
(ii) Non-current liabilities				
Long service leave	231	270	231	270
Gratuities	100	119	100	119
	331	389	331	389

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000

18 TERM BORROWINGS (secured)

Dunedin City Treasury Limited – related party	29,775	44,375	29,775	44,375
	29,775	44,375	29,775	44,375

The term borrowings are secured by a General Security Agreement over all the assets of the Group. The facility available is $47.500 million. The repayment period on the term borrowings is as follows:

Repayable between one to two years	0	0	0	0
Repayable between two to five years	29,775	44,375	29,775	44,375
	29,775	44,375	29,775	44,375

The weighted average interest rate for the loan, inclusive of any current portion, was 4.64% (2013: 4.35%).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

19 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
	GROUP					
YEAR ENDED 30 JUNE 2014:						
Property, plant and equipment	(93)	0	(69)	0	(162)	(162)
Employee benefits	1,345	0	(209)	1,136	0	1,136
Provisions	(50)	0	1,300	1,534	(284)	1,250
Revaluations of cash flow hedge instruments	100	(80)	0	20	0	20
Development costs	1,699	0	(1,751)	0	(52)	(52)
Balance at the end of the year	3,001	(80)	(729)	2,690	(498)	2,192
YEAR ENDED 30 JUNE 2013:						
Property, plant and equipment	(21)	0	(72)	0	(93)	(93)
Employee benefits	1,457	0	(112)	1,345	0	1,345
Provisions	(613)	0	563	0	(50)	(50)
Revaluations of cash flow hedge instruments	215	(115)	0	100	0	100
Development costs	78	0	1,621	1,699	0	1,699
Balance at the end of the year	1,116	(115)	2,000	3,144	(143)	3,001

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

19 DEFERRED TAX - continued

	Opening Balance Sheet $000	Charged to Equity $000	Charged to Income $000	Transferred from Subsidiary $000	Closing Balance Sheet Assets $000	Closing Balance Sheet Liabilities $000	Closing Balance Sheet Net $000
	PARENT						
YEAR ENDED 30 JUNE 2014:							
Property, plant and equipment	(93)	0	(69)	0	0	(162)	(162)
Employee benefits	1,345	0	(209)	0	1,136	0	1,136
Provisions	(50)	0	1,300	0	1,534	(284)	1,250
Revaluations of cash flow hedge instruments	100	(80)	0	0	20	0	20
Development costs	0	0	52	(104)	0	(52)	(52)
Balance at the end of the year	1,302	(80)	1,074	(104)	2,690	(498)	2,192
YEAR ENDED 30 JUNE 2013:							
Property, plant and equipment	(21)	0	(72)	0	0	(93)	(93)
Employee benefits	1,457	0	(112)	0	1,345	0	1,345
Provisions	(613)	0	563	0	0	(50)	(50)
Revaluations of cash flow hedge instruments	215	(115)	0	0	100	0	100
Balance at the end of the year	1,038	(115)	379	0	1,445	(143)	1,302

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000

20 CONTINGENT LIABILITIES

Performance bonds	2,106	3,748	2,106	3,748
	2,106	3,748	2,106	3,748

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.

21 CAPITAL EXPENDITURE COMMITMENTS

Plant and equipment	656	375	656	375
	656	375	656	375

22 LEASE COMMITMENTS

Non-cancellable operating lease commitments:				
payable within one year	975	954	975	954
payable between one to five years	1,453	1,856	1,453	1,856
payable later than five years	121	202	121	202
	2,549	**3,012**	**2,549**	**3,012**

23 CASH AND CASH EQUIVALENTS

Cash and bank	104	384	104	371

Cash and short-term deposits comprise cash held by the Group 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 year ended 30 June 2014 - continued

24 TRADE AND OTHER RECEIVABLES

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Trade receivables	23,848	22,194	23,848	22,179
Less estimated doubtful debts	(4,837)	(1,932)	(4,837)	(1,932)
	19,011	20,262	19,011	20,247
Due from related parties				
– other related parties	5,823	5,036	5,823	5,103
	24,834	25,298	24,834	25,350
Past due, but not impaired, receivables are:				
Age analysis: 30 - 60 days	116	219	116	219
60 - 90 days	213	127	213	127
90 days plus	45	461	45	461
	374	807	374	807

All past due balances are considered collectable.

A summary of all receivables impaired or otherwise, is included at Note 34. The estimated doubtful debts provision relates entirely to individually impaired Trade receivable balances.

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Opening doubtful debts provision	(1,932)	(26)	(1,932)	(26)
Additional provisions made during the year	(3,292)	(1,932)	(3,292)	(1,932)
Receivables written off during the year	382	2	382	2
Provisions reversed during the year	5	24	5	24
Closing doubtful debts provision	(4,837)	(1,932)	(4,837)	(1,932)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
25 INVENTORIES				
Materials and stores	2,121	2,257	2,121	2,257
Work in progress – construction contracts	(106)	776	(106)	776
Work in progress – other	2,501	2,204	2,501	2,204
	4,516	5,237	4,516	5,237
Work in progress – construction contracts				
Gross construction work in progress plus margin to date	28,630	39,211	28,630	39,211
Progress billings	(28,736)	(38,435)	(28,736)	(38,435)
Total construction work in progress	(106)	776	(106)	776
Retentions held by customers	246	555	246	555
Due from customers under construction contracts	12,986	11,985	12,986	11,985

Included in sales is $12.9 million of construction contract revenue (June 2013: $38.4 million).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

26 PROPERTY, PLANT AND EQUIPMENT

	Land $000	Buildings $000	Meters $000	Plant and Equipment $000	Motor Vehicles $000	Office Equipment $000	Total $000
				GROUP			
YEAR ENDED 30 JUNE 2014:							
Cost							
Balance at the beginning of the year	5,896	5,059	7,757	15,185	36,068	967	70,932
Purchases	0	281	161	554	2,344	24	3,364
Sales/disposals	(500)	(309)	0	(5,498)	(12,939)	(54)	(19,300)
Total cost	5,396	5,031	7,918	10,241	25,473	937	54,996
Accumulated depreciation							
Balance at the beginning of the year	0	1,076	7,237	10,142	21,916	722	41,093
Depreciation	0	163	51	916	2,931	53	4,114
Sales/disposals	0	(85)	0	(3,631)	(9,258)	(41)	(13,015)
Total accumulated depreciation	0	1,154	7,288	7,427	15,589	734	32,192
Balance at the end of the year	5,396	3,877	630	2,814	9,884	203	22,804
YEAR ENDED 30 JUNE 2013:							
Cost							
Balance at the beginning of the year	5,896	5,058	7,475	15,077	40,337	964	74,807
Purchases	0	1	282	600	1,670	6	2,559
Sales/disposals	0	0	0	(492)	(5,939)	(3)	(6,434)
Total cost	5,896	5,059	7,757	15,185	36,068	967	70,932
Accumulated depreciation							
Balance at the beginning of the year	0	934	7,120	9,090	22,999	666	40,809
Depreciation	0	142	117	1,357	3,660	59	5,335
Sales/disposals	0	0	0	(305)	(4,743)	(3)	(5,051)
Total accumulated depreciation	0	1,076	7,237	10,142	21,916	722	41,093
Balance at the end of the year	5,896	3,983	520	5,043	14,152	245	29,839

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

26 PROPERTY, PLANT AND EQUIPMENT – continued

	Land	Buildings	Meters	Plant and Equipment	Motor Vehicles	Office Equipment	Total
	$000	$000	$000	$000	$000	$000	$000
				PARENT			
YEAR ENDED 30 JUNE 2014:							
Cost							
Balance at the beginning of the year	5,896	5,054	7,757	15,185	36,068	967	70,927
Purchases	0	281	161	554	2,344	24	3,364
Sales/disposals	(500)	(304)	0	(5,498)	(12,939)	(54)	(19,295)
Total cost	5,396	5,031	7,918	10,241	25,473	937	54,996
Accumulated depreciation							
Balance at the beginning of the year	0	1,069	7,237	10,142	21,915	722	41,086
Depreciation	0	163	51	916	2,931	53	4,114
Sales/disposals	0	(78)	0	(3,631)	(9,258)	(41)	(13,008)
Total accumulated depreciation	0	1,154	7,288	7,427	15,589	734	32,192
Balance at the end of the year	5,396	3,877	630	2,814	9,884	203	22,804
YEAR ENDED 30 JUNE 2013:							
Cost							
Balance at the beginning of the year	5,896	5,053	7,475	15,077	40,337	964	74,802
Purchases	0	1	282	600	1,670	6	2,559
Sales/disposals	0	0	0	(492)	(5,939)	(3)	(6,434)
Total cost	5,896	5,054	7,757	15,185	36,068	967	70,927
Accumulated depreciation							
Balance at the beginning of the year	0	927	7,120	9,090	22,999	666	40,802
Depreciation	0	142	117	1,357	3,660	59	5,335
Sales/disposals	0	0	0	(305)	(4,743)	(3)	(5,051)
Total accumulated depreciation	0	1,069	7,237	10,142	21,916	723	41,086
Balance at the end of the year	5,896	3,985	520	5,043	14,152	245	29,841

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

27 INTANGIBLES

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
SOFTWARE				
Cost				
Balance at beginning of year	4,128	3,813	4,128	3,813
Purchases	295	315	295	315
Total cost	4,423	4,128	4,423	4,128
ACCUMULATED AMORTISATION				
Balance at beginning of year	3,796	3,749	3,796	3,749
Amortisation	100	47	100	47
Total amortisation	3,896	3,796	3,896	3,796
Balance at end of year	527	332	527	332

28 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES – (continuing and discontinued operations)

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
Net profit/(loss) for the year	4,377	4,606	5,487	3,162
Items not involving cash flows				
Depreciation	4,216	5,384	4,216	5,384
Impairment charges	455	(5,000)	(762)	1,260
Loss on development activities	0	5,288	0	0
Deferred tax	729	(2,001)	(970)	(380)
Bad Debts	386	4	386	4
Doubtful Debts	2,905	1,906	2,905	1,906
Impact of changes in working capital items				
(Increase)/decrease in trade and other receivables	(2,827)	(2,250)	(2,775)	(2,235)
(Increase)/decrease in inventories	720	(105)	720	(105)
(Increase)/decrease in pre-payments	(30)	(20)	(30)	(20)
Increase/(decrease) in trade and other payables	(868)	(26)	(658)	(216)
Increase/(decrease) in provision for tax	240	760	240	512
Increase/(decrease) in employee entitlements	(735)	(258)	(735)	(258)
Increase/(decrease) in GST payable	87	21	87	12
Items classified as investing or financing activities				
Net (gain)/loss on sale of property, plant and equipment	(2,118)	(1,235)	(2,116)	(1,235)
Items related to development property	(1,992)	(252)	992	0
Movement of capital creditors in accounts payable	8	196	3	163
Net cash inflows/(outflows) from operating activities	5,553	7,018	6,990	7,954

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000

29 INVESTMENT IN JOINT VENTURE

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Investment in Joint Venture	0	5,288	0	0
	0	5,288	0	0

This investment represented a 50% share in the land value of the Luggate Park Developments Joint Venture. As at 30 June 2014, the assets and liabilities of the joint venture had been fully liquidated and the joint venture partners had formally dissolved the joint venture.

30 DEVELOPMENT PROPERTY HELD FOR SALE

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Land	762	5,104	762	0
Land development in progress	618	2,480	618	0
Balance at end of year	1,380	7,584	1,380	0

Development property intended for resale is stated at current market value as determined by reference to unconditional sale and purchase agreements.

31 ADVANCE TO SUBSIDIARY

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Advance to Delta Investments Limited	0	0	0	11,571
Impairment of advance	0	0	0	(4,855)
Balance at end of year	0	0	0	6,716

Delta Investments Limited was liquidated as at 31 March 2014 and all advances were settled at that time. Delta Investments Limited was removed from the Company Register on Friday 11 July 2014

The advance to Delta Investments Limited was unsecured and on call. Interest was charged on the loan at the floating rate Delta was charged. During the year ended 30 June 2014, this floating rate was 4.64% (2013: 4.35%).

32 INTEREST IN JOINT VENTURE

Included in the financial statements are the following items that represented the Group's interest in the assets and liabilities of the Luggate Park Developments Joint Venture.

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
CURRENT ASSETS				
Cash balances	0	2	0	0
Development property	0	680	0	0
Total current assets	0	682	0	0
Total assets	0	682	0	0
CURRENT LIABILITIES				
Westpac loan	0	857	0	0
Payable to Luggate Properties Ltd	0	347	0	0
Other current liabilities	0	23	0	0
Total current liabilities	0	1,227	0	0
Total liabilities	0	1,227	0	0
EQUITY				
Retained earnings	0	(545)	0	0
Total equity and liabilities	0	682	0	0

In addition to this interest the Group had an investment over land, which was to be developed by Luggate Park Developments Joint Venture, which is disclosed in note 29. The investment of $5.288 million which existed at 30 June 2013 was fully repaid in August 2013.

Included in the financial statements are the following revenues and expenses that relate to the activities of the Luggate Park Developments Joint Venture:

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Revenues	501	107	0	0
Expenses	381	272	0	0
Net profit/(loss) before income tax	120	(165)	0	0

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

33 RELATED PARTY TRANSACTIONS

The Parent in the consolidated group is Delta Utility Services Limited which 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 Group 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 year, the Group provided services and traded with the Dunedin City Council Group in respect of the following transactions:

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
SALES OF SERVICES TO DUNEDIN CITY COUNCIL GROUP ENTITIES:				
Capital works constructed	15,661	14,247	15,661	14,247
Network management and operations	17,501	15,567	17,501	15,567
Contracting services provided	1,740	1,857	1,740	1,864
Administration and accounting	363	357	363	402
Rent	16	20	16	20
Interest	0	0	0	675
	35,281	32,048	35,281	32,775
SALES OF SERVICES TO DUNEDIN CITY COUNCIL:				
Other contracting	7,973	10,394	7,973	10,394

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
33 RELATED PARTY TRANSACTIONS - continued				
AT YEAR END THE AMOUNTS RECEIVABLE BY THE COMPANY FROM DUNEDIN CITY COUNCIL ENTITIES:				
Receivable from Dunedin City Council	790	1,336	790	1,336
Receivable from Dunedin City Council Group entities	5,033	3,700	5,033	3,752
Work in Progress for Dunedin City Council Group entities	709	1,040	709	1,040
Interest	2,083	2,737	2,083	2,737
Contracting services and supplies	120	114	120	114
Rent	26	23	26	23
	2,229	2,874	2,229	2,874
PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY HOLDINGS LIMITED:				
Management fee	50	50	50	50
PURCHASES OF GOODS AND SERVICES FROM DUNEDIN CITY COUNCIL:				
Contracting services and supplies	185	252	185	252
Rates	75	194	75	194
	260	446	260	446

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
33 RELATED PARTY TRANSACTIONS - continued				
AT YEAR END THE AMOUNTS PAYABLE TO DUNEDIN CITY COUNCIL ENTITIES EXCLUSIVE OF DEBT SHOWN IN NOTE 14 ARE:				
Payable to Dunedin City Council	9	43	9	43
Payable to Dunedin City Holdings Limited	0	14	0	14
Payable to Dunedin City Council Group entities	171	246	171	246

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

TRANSACTIONS WITH COMPANIES IN WHICH DIRECTORS HAVE AN INTEREST:

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

Mr S J McLauchlan is the Pro Chancellor of the University of Otago. During the financial period covered by this report, contracting services to the value of $27,650 were provided to the University of Otago (2013: $22,659). Monies receivable as at 30 June 2014 totalled $6,869 (2013: nil). During the financial period covered by this report, services valued at $17,935 were purchased from the University of Otago (2013: $26,299). No monies were payable as at 30 June 2014 (2013: $4,370).

Mr McLauchlan is the Chairman of Scott Technology Limited. During the financial period covered by this report, contracting services to the value of $109 were provided to Scott Technology Limited (2013: $80). No monies were outstanding at 30 June 2014 (2013: nil).

Mr McLauchlan is a Director of Otago & Southland Employers Association. During the financial period covered by this report, training services valued at $14,107 were purchased from Otago & Southland Employers Association (2013: $6,516). No monies were outstanding at 30 June 2014 (2013: nil).

Mr McLauchlan is a Director of Lund South Limited. During the financial period covered by this report, contracting services valued at $2,925 were provided to Lund South Limited (2013: $25,335). Monies outstanding as at 30 June 2014 totalled $782 (2013: nil).

Mr McLauchlan is a Director of Cargill Hotel 2002 Limited. During the financial period covered by this report, services of $1,113 were purchased from Cargill Hotel 2002 Limited (2013: $3,361). No monies were outstanding at 30 June 2014 (2013: nil).

Mr McLauchlan is a Director of Scenic Circle Hotels Limited. During the financial period covered by this report, no services were provided to Scenic Circle Hotels Limited (2013: $74). No monies were outstanding as at 30 June 2014 (2013: nil).

Mr McLauchlan is a Director of Rosebery Holdings Limited. During the financial period covered by this report, services of $24,375 were purchased from Rosebery Holdings Limited (2013: $25,783). No monies were outstanding at 30 June 2014 (2013: nil).

33 RELATED PARTY TRANSACTIONS - continued

Mr D Frow is a Director of ETEL Limited. During the financial period covered by this report, materials and services to the value of $1,543,993 were purchased from ETEL (2013: $1,030,569). No monies were outstanding as at 30 June 2014 (2013: $31,464).

Mr Trevor Kempton is a Councillor on the Otago Regional Council. During the financial period covered by this report services to the value of $330,237 were provided to the Otago Regional Council. Monies receivable as at 30 June 2014 totalled $4,934. During the financial period covered by this report, services to the value of $4,220 were purchased from the Otago Regional Council. No monies were payable as at 30 June 2014.

Mr Kempton is a Director of Long Beach Consulting Limited. During the financial period covered by this report, services of $13,667 were purchased from Long Beach Consulting Limited. No monies were outstanding at 30 June 2014.

Mr R S Polson was the Chairman of Mactodd during his tenure as Chairman of Delta Utility Services Limited. During the financial period covered by this report no services were purchased from Mactodd (2013: $456). No monies were outstanding as at 30 June 2014 (2013: nil).

TRANSACTIONS WITH EXECUTIVE STAFF

Mr G Cameron is the Chief Executive of Delta Utility Services Limited. During the period covered by this report, contracting services valued at $728 were provided to Mr Cameron (2013: nil). No monies were outstanding as at 30 June 2014 (2013: nil).

KEY MANAGEMENT PERSONNEL REMUNERATION

	2014 $000	2013 $000
Short-term employment benefits	1,812	1,593
Termination benefits	84	0
Other payments or benefits	0	0

34 FINANCIAL INSTRUMENTS 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 Group. These risks include market risk, credit risk and liquidity risk.

INTEREST RATE RISK

The Group 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:

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
Maturing in less than one year	2,500	2,500	2,500	2,500
Maturing between one and five years	5,000	5,000	5,000	5,000
Maturing after five years	0	2,500	0	2,500
	7,500	10,000	7,500	10,000

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 Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for impairments.

The Group exposure to credit risk is generally spread over a large number of counterparties and customers. As at 30 June 2014 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 Group's maximum exposure to credit risk.

The maximum credit risk for each class of financial instrument is:				
Cash and cash equivalents	104	384	104	371
Trade and other receivables	24,834	25,298	24,834	25,349
Prepayments	173	141	173	141
Short term investments	2,396	2,979	2,396	2,979
Advance to subsidiaries	0	0	0	6,716
	27,507	28,802	27,507	35,556

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

34 FINANCIAL INSTRUMENTS RISKS – continued

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.

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
COUNTERPARTIES WITH CREDIT RATINGS				
Cash and cash equivalents				
AA-	104	384	104	371
Trade and other receivables				
AA-	790	1,336	790	1,336
COUNTERPARTIES WITHOUT CREDIT RATINGS				
Trade and other receivables				
Existing counterparties with no defaults in the past	11,307	24,394	11,307	24,445
Existing counterparties with defaults in the past[1]	17,574	0	17,574	0
Investment in joint venture				
Existing counterparties with no defaults in the past	0	5,288	0	0

[1] This receivable is secured by a mix of mortgage securities and general security agreements. The counterparty to the debt recently defaulted on its obligations to pay a principal sum of $6.350 million by 30 April 2014 and is now also in breach of other 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 at year end. As is generally the case with valuations, there are inherent assumptions and uncertainties that were built in to the methodologies that were applied. The secured debts receivable have been classified as current as at 30 June 2014, on the basis that Delta expects to have enforced its security interests within 12 months of balance date.

LIQUIDITY RISK

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from financial liabilities and has credit lines in place to cover potential shortfalls. The Group 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 18.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2014 - continued

34 FINANCIAL INSTRUMENTS RISKS – continued

The following tables detail the exposure to liquidity risk:

	GROUP						
	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	Contractual Value $000	Carrying Value $000
AS AT 30 JUNE 2014:							
Financial assets							
Cash and cash equivalents	104	0	0	0	0	104	104
Trade and other receivables	12,097	0	17,574	0	0	29,671	24,834
	12,201	0	17,574	0	0	29,775	24,938
Financial liabilities							
Trade and other payables	7,297	0	0	0	0	7,297	7,297
GST payable	863	0	0	0	0	863	863
Cash flow hedge instruments	0	0	0	70	0	70	70
Term borrowings	0	0	0	29,775	0	29,775	29,775
	8,160	0	0	29,845	0	38,005	38,005
AS AT 30 JUNE 2013:							
Financial assets							
Cash and cash equivalents	384	0	0	0	0	384	384
Trade and other receivables	19,586	0	7,644	0	0	27,230	25,298
	19,970	0	7,644	0	0	27,614	25,682
Financial liabilities							
Trade and other payables	8,165	0	0	0	0	8,165	8,165
Westpac loan (secured)	857	0	0	0	0	857	857
Payable to Luggate Properties Ltd	347	0	0	0	0	347	347
Payable to Luggate Park Developments Joint Venture	5,288	0	0	0	0	5,288	5,288
GST payable	779	0	0	0	0	779	779
Cash flow hedge instruments	0	0	356	0	0	356	356
Term borrowings	0	0	0	44,375	0	44,375	44,375
	15,436	0	356	44,375	0	60,167	60,167

34 FINANCIAL INSTRUMENTS RISKS – continued

	PARENT						
	Maturity Dates Less than 1 Month	1 - 3 Months	3 Months to 1 Year	1 - 5 Years	More than 5 Years	Contractual Value	Carrying Value
	$000	$000	$000	$000	$000	$000	$000
AS AT 30 JUNE 2014:							
Financial assets							
Cash and cash equivalents	104	0	0	0	0	104	104
Trade and other receivables	12,097	0	17,574	0	0	29,671	24,834
	12,201	0	17,574	0	0	29,775	24,938
Financial liabilities							
Trade and other payables	7,297	0	0	0	0	7,297	7,297
GST payable	863	0	0	0	0	863	863
Cash flow hedge instruments	0	0	0	70	0	70	70
Term borrowings	0	0	0	29,775	0	29,775	29,775
	8,160	0	0	29,845	0	38,005	38,005
AS AT 30 JUNE 2013:							
Financial assets							
Cash and cash equivalents	371	0	0	0	0	371	371
Trade and other receivables	19,638	0	7,644	0	0	27,282	25,350
Advance to subsidiaries	0	0	0	0	6,716	6,716	6,716
	20,009	0	7,644	0	6,716	34,369	32,437
Financial liabilities							
Trade and other payables	7,955	0	0	0	0	7,955	7,955
Other current liabilities	777	0	0	0	0	777	777
Term borrowings	0	0	0	44,375	0	44,375	44,375
Cash flow hedge instruments	0	0	356	0	0	356	356
	8,732	0	356	44,375	0	53,463	53,463

34 FINANCIAL INSTRUMENTS RISKS – continued

SENSITIVITY ANALYSIS

The table below illustrates the potential profit and loss and equity (excluding retained earnings) impact for the reasonably possible market movements, with all other variables held constant, based on the Group's financial instrument exposures at the balance date.

Based on historic movements and volatilities, market interest rate movements of plus or minus 1% (100bps) have been used in this analysis.

		+100bps		-100bps	
	Fair Value at Balance Date	Profit	Equity	Profit	Equity
	$000	$000	$000	$000	$000
	GROUP				
AS AT 30 JUNE 2014:					
Financial liabilities					
Cash flow hedge instruments	70	0	193	0	(201)
Term borrowings (hedged)	7,500	0	(193)	0	201
Term borrowings (unhedged)	22,275	(223)	0	223	0
	29,845	(223)	0	223	0
	PARENT				
AS AT 30 JUNE 2014:					
Financial liabilities					
Cash flow hedge instruments	70	0	193	0	(201)
Term borrowings (hedged)	7,500	0	(193)	0	201
Term borrowings (unhedged)	22,275	(223)	0	223	0
	29,845	(223)	0	223	0

34 FINANCIAL INSTRUMENTS RISKS – continued

	Fair Value at Balance Date $000	+100bps Profit $000	+100bps Equity $000	-100bps Profit $000	-100bps Equity $000
	GROUP				
AS AT 30 JUNE 2013:					
Financial liabilities					
Cash flow hedge instruments	356	0	278	0	(290)
Term borrowings (hedged)	10,000	0	(278)	0	290
Term borrowings (unhedged)	34,375	(343)	0	343	0
	44,731	(343)	0	343	0
	PARENT				
AS AT 30 JUNE 2013:					
Financial liabilities					
Cash flow hedge instruments	356	0	278	0	(290)
Term borrowings (hedged)	10,000	0	(278)	0	290
Term borrowings (unhedged)	34,375	(343)	0	343	0
	44,731	(343)	0	343	0

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).

34 FINANCIAL INSTRUMENTS RISKS – continued

	2014			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial liabilities				
Derivative financial liabilities	0	70	0	70
	0	70	0	70

	2013			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial liabilities				
Derivative financial liabilities	0	356	0	356
	0	356	0	356

35 CAPITAL MANAGEMENT STRATEGY

The capital of the Group is its equity, which is comprised of subscribed capital, retained earnings and cashflow hedge reserves. Equity is represented by net assets. The Group 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.

The Directors perform continual reviews of operating strategies and financial performance, and include in those reviews, any strategies required to protect the capital of each entity. The Parent Board seeks to maximise overall returns to the Shareholder of the Group and to maintain the Group's financial strength.

The Group 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.

36 EVENTS AFTER BALANCE DATE

Delta Investments Limited was removed from the Companies Register on 11 July 2014.

There were no other significant post balance sheet date events.

INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of
Delta Utility Services Limited and group's
financial statements and statement of service performance
for the year ended 30 June 2014

The Auditor-General is the auditor of Delta Utility Services Limited (the company) and group. The Auditor-General has appointed me, Ian Lothian, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the company and group on her behalf.

We have audited:

- the financial statements of the company and group on pages 20 to 64, that comprise the balance sheet as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information]and
- the statement of service performance of the company and group on pages 14 and 15.

Opinion

Financial statements and statement of service performance

In our opinion:

- the financial statements of the company and group on pages 20 to 64:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the company and group's:
    - financial position as at 30 June 2014; and
    - financial performance and cash flows for the year ended on that date; and
- the statement of service performance of the company and group on pages 14 and 15:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company and group's service performance achievements measured against the performance targets adopted for the year ended 30 June 2014.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 2 September 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. Also we did not evaluate the security and controls over the electronic publication of the financial statements and statement of service performance.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

Audit New Zealand
Mana Arotake Aotearoa

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company and group's financial position, financial performance and cash flows; and
- give a true and fair view of the company and group's service performance.

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and statement of service performance, whether in printed or electronic form. The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the company or any of its subsidiaries.

Ian Lothian

Ian Lothian
Audit New Zealand
On behalf of the Auditor General
Christchurch, New Zealand


NIEL
ELT

COMPANY DIRECTORY

DIRECTORS

Dr Ian M Parton (Chair) – BE (Hons), PhD, Dist.F.IPENZ, F.Inst.D.

David J Frow – B.Sc.Eng, F.Inst.D.

Stuart J McLauchlan – BCom, FCA (PP), AF.Inst.D.

Trevor J Kempton – BE (Hons), MIPENZ, FNZIM, M.Inst.D.

MANAGEMENT

Chief Executive – Grady Cameron – BE, MEM, F. IPENZ, M.Inst.D.

Chief Financial Officer/General Manager Finance and Systems – Gary Dixon – BCom, CA

General Manager Asset Management – Derek Todd – BE (Hons), BBS, DipBusAdmin (Mgmt)

General Manager Capability and Risk – Matt Ballard – MBA, MIndRel

General Manager Energy and Communication – Kewal Bagal – BEE

REGISTERED OFFICE

10 Halsey Street
Dunedin
New Zealand

BANKER

Westpac Banking Corporation

SOLICITORS

Gallaway Cook Allan

Anderson Lloyd

Chapman Tripp

AUDITOR

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

TAXATION ADVISOR

Deloitte

DELTA

THINK.INFRASTRUCTURE