

Aurora Energy Limited

Interim Report

For the six months ended

31 December 2016

Aurora Energy Limited

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Aurora Energy Limited

Directors' report

The Directors of Aurora Energy Limited are pleased to present their report for the six months ended 31 December 2016.

Review of operations

The principal activities of the Company are the ownership and strategic management of electricity distribution network assets in Dunedin and in Central Otago. Many of these assets are in the latter stages of original lifetime plans.

During the period under review, the company's shareholder Dunedin City Holdings Ltd commissioned an independent review of Aurora Energy Ltd and Delta Utility Services Ltd following public allegations of safety risks on the Aurora electricity network. The Deloitte report was released in December 2016. The Board has accepted the findings in the report and is presently working through the implications of recommendations with its shareholder.

Aurora Energy continued to invest in new network assets and maintenance at levels that exceed its current allowances for regulated earnings compensation. Total asset additions were \$15.8 million for the 6 months ended 31 December 2016.

The Company's risk based asset management planning has also led to provisions for further significant uplifts in both operating and capital expenditure programmes. For instance, Aurora Energy recently announced its fast track pole renewal plan which is intended to mitigate the risk of all condition 0 and 1 poles on the network within 12 months. Detailed safety and communication plans have been prepared to support the fast track plan, in anticipation of external contractor engagements commencing January or February 2017. Funding arrangements are in place with Dunedin City Treasury Ltd to support the programme.

Aurora breached its network reliability targets for the regulatory period ended 31 March 2016 and it is anticipated that the fast track pole plan will also impact network performance throughout the remainder of the financial year. A communications plan is being developed for the purpose of communicating and liaising with the community, electricity consumers and regulators in regards to potential safety and performance matters.

Operating revenues of \$54.3 million were \$0.2 million lower, whilst operating expenses (includes network maintenance) were \$3.1 million higher than for the same period last year.

The Company's net profit before income tax and subvention of \$9.559 million (30 June 2016: \$16.262 million and 31 December 2015: \$12.962 million) provided a return on average Shareholder's equity of 10.3% (30 June 2016: 5.9% and 31 December 2015: 14.0%). Profit after tax of \$4.0 million was \$2.6 million lower than last year.

A subvention payment of \$3.644 million has been provided to a member of the the Dunedin City Council group of companies (30 June 2016: \$7.292 million, 31 December 2015: \$3.644 million).

Result

\$'000

Operating profit before income tax	5,915
Less income tax expense	1,884
	<hr/>
	4,031

Aurora Energy Limited

Directors' report *continued*

Dividends

A dividend of \$1.500 million was declared and paid during the period.

Changes in Directors

Dr I M Parton and Mr S J McLauchlan retired as Directors on 12 December 2016.
Mr S R Thompson was appointed Chairman on 12 December 2016
Mr B J Wood was appointed a Director on 12 December 2016.

Events after balance sheet date

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

Statement of responsibility


The Directors accept responsibility for the preparation of the interim financial statements and the judgements used in them.

The Directors accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and

In the opinion of the Directors, the interim financial statements fairly reflect the financial position and operations of Aurora Energy Limited.

The Board of Directors of Aurora Energy Limited have pleasure in presenting the interim financial statements, set out on pages 3 to 11, for the six months ended 31 December 2016 and authorises them for issue on 26 February 2017.



Director

Director

Aurora Energy Limited

Statement of comprehensive income For the six months ending 31 December 2016

	Unaudited 6 months to 31 Dec 2016 \$'000	Unaudited 6 months to 31 Dec 2015 \$'000	Audited full year to 30 Jun 2016 \$'000
Operating revenue	54,284	54,534	100,019
Interest revenue - Other	5	8	13
Total revenue	54,289	54,542	100,032
Audit fees	60	46	73
Bad debts written off	-	-	1
Directors remuneration	65	50	109
Depreciation	7,512	6,983	14,321
Interest to Dunedin City Treasury Limited	4,590	5,146	9,323
Increase / (decrease) in provision for doubtful debts	123	1	19
Lease expenses	38	52	89
Maintenance Costs	7,491	6,783	14,028
Transmission Costs	17,991	16,594	33,800
Other operating expenses	6,860	5,925	12,007
Total expenses	44,730	41,580	83,770
Profit before tax and Subvention	9,559	12,962	16,262
Subvention Payment Provided	3,644	3,644	7,292
Profit before tax	5,915	9,318	8,970
Income tax expense	1,884	2,685	2,507
Net profit after tax	4,031	6,633	6,463
Other comprehensive income:			
Interest rate swap hedges gains (losses) during the year	1,372	(421)	(2,365)
Total other comprehensive income	1,372	(421)	(2,365)
Total comprehensive income	5,403	6,212	4,098

Aurora Energy Limited

Statement of changes in equity For the six months ending 31 December 2016

	Share capital \$'000	Hedge reserve \$'000	Retained earnings \$'000	Total equity \$'000
Unaudited				
Equity as at 1 July 2016	10,000	(3,269)	176,917	183,648
Profit after income tax	-	-	4,031	4,031
Other comprehensive income for the period	-	1,372	-	1,372
Distribution to owners	-	-	(1,500)	(1,500)
Equity as at 31 December 2016	10,000	(1,897)	179,448	187,551
Unaudited				
Equity as at 1 July 2015	10,000	(904)	173,454	182,550
Profit after income tax	-	-	6,633	6,633
Other comprehensive income for the period	-	(421)	-	(421)
Distribution to owners	-	-	(1,500)	(1,500)
Equity as at 31 December 2015	10,000	(1,325)	178,587	187,262
Audited				
Equity as at 1 July 2015	10,000	(904)	173,454	182,550
Profit after income tax	-	-	6,463	6,463
Other comprehensive income for the period	-	(2,365)	-	(2,365)
Distribution to owners	-	-	(3,000)	(3,000)
Equity as at 30 June 2016	10,000	(3,269)	176,917	183,648

Aurora Energy Limited

Balance sheet As at 31 December 2016

		Unaudited 6 months to 31 Dec 2016 \$'000	Unaudited 6 months to 31 Dec 2015 \$'000	Audited full year to 30 Jun 2016 \$'000
	<i>Note</i>			
Current assets				
Cash and cash equivalents		126	76	4
Intra group advances	4	84	511	85
Trade and other receivables		8,344	9,344	11,803
Other Current Assets		551	863	729
Inventories		8	8	8
Total current assets		9,113	10,802	12,629
Non-current assets				
Property, plant and equipment	5	430,841	410,194	422,506
Deferred tax asset		809	560	1,309
Investments		8	8	8
Total non-current assets		431,658	410,762	423,823
Total assets		440,771	421,564	436,452
Current liabilities				
Trade and other payables		17,736	18,399	17,561
Other Current Liabilities		-	-	-
Taxation payable		1,741	2,179	666
Total current liabilities		19,477	20,578	18,227
Non-current liabilities				
Term Borrowings	6	170,750	152,950	170,460
Deferred tax Liability		60,359	58,932	59,577
Derivative financial instruments	7	2,634	1,842	4,540
Total non-current liabilities		233,743	213,724	234,577
Total liabilities		253,220	234,302	252,804
Equity				
Share capital		10,000	10,000	10,000
Cash flow hedge reserves		(1,897)	(1,325)	(3,269)
Retained earnings		179,448	178,587	176,917
Total equity		187,551	187,262	183,648
Total liabilities and equity		440,771	421,564	436,452

The accompanying notes form part of these financial statements

Aurora Energy Limited

Statement of cash flows For the six months ending 31 December 2016

		unaudited 6 months to 31 Dec 2016 \$'000	unaudited 6 months to 31 Dec 2015 \$'000	audited full year to 30 Jun 2016 \$'000
	<i>Note</i>			
Cash flow from operating activities				
<i>Cash was provided from</i>				
Receipts from customers		57,210	57,382	100,974
Interest received		5	8	13
Income tax refund		-	-	50
Net GST refund		325	-	125
		57,540	57,390	101,162
<i>Cash was disbursed to</i>				
Payments to suppliers		31,211	29,156	60,223
Income tax paid		61	895	896
Intra-group tax payments		-	-	276
Inter Company Advance		-	112	143
Net GST Paid		-	219	-
Subvention Payment		1,361	1,361	7,292
Interest paid		4,773	4,748	9,046
		37,406	36,491	77,876
Net cash flow from operating activities	3	20,134	20,899	23,286
Cash flow from investing activities				
<i>Cash was provided from</i>				
Sale of investments		-	2	2
Sale of property, plant and equipment		-	-	-
		-	2	2
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		18,802	16,809	35,278
		18,802	16,809	35,278
Net cash flow from investing activities		(18,802)	(16,807)	(35,276)
Cash flow from financing activities				
<i>Cash was provided from</i>				
Receipts from borrowings		16,960	16,750	44,860
		16,960	16,750	44,860
<i>Cash was disbursed to</i>				
Repayment of borrowings		16,670	19,300	29,900
Dividends paid		1,500	1,500	3,000
		18,170	20,800	32,900
Net cash flow from financing activities		(1,210)	(4,050)	11,960
Net increase/(decrease) in cash and cash equivalents		122	42	(30)
Opening cash and cash equivalents		4	34	34
Closing cash and cash equivalents		126	76	4

The accompanying notes form part of these financial statements

Aurora Energy Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2016

1 Reporting entity

The financial statements presented here are for the reporting entity Aurora Energy Limited.

1992. The Company, incorporated in New Zealand under the Companies Act 1993, is a wholly owned subsidiary of Dunedin City Holdings Limited. Dunedin City Holdings Limited is wholly owned by Dunedin City Council.

The financial statements of Aurora Energy Limited are for the six months ended 31 December 2016 and comply with the Financial Reporting Act 1993.

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

The Company is a Tier 1 for-profit entity as defined by the External Reporting Board (expenses over \$30 million).

2 Basis of preparation

The financial statements for the period ended 31 December 2016 are unaudited.

The financial statements have been prepared in accordance with and comply with NZ IAS 34, Interim Financial Reporting, and should be read in conjunction with the audited financial statements for the year ended 30 June 2016.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2016.

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2016.

Aurora Energy Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2016

3 Reconciliation of operating surplus to net cash flows from operating activities

	6 months to 31 Dec 2016 \$'000	6 months to 31 Dec 2015 \$'000	12 months to 30 Jun 2016 \$'000
Net profit after tax	4,031	6,633	6,463
<i>Items not involving cash flows</i>			
Depreciation	7,512	6,983	14,321
Increase / (decrease) in deferred tax	1,282	822	718
Increase / (decrease) in cash flow hedge valuation	(1,906)	580	3,279
Other non-cash items	1,372	(421)	(2,365)
<i>Impact of changes in working capital items</i>			
(Increase) / decrease in trade and other receivables	3,459	3,408	948
(Increase) / decrease in intra group advances	-	(112)	315
(Increase) / decrease in work in progress	-	-	-
(Increase) / decrease in inventories	-	-	-
(Increase) / decrease in prepayments	-	-	-
Increase / (decrease) in trade and other payables	175	3,178	2,340
Increase / (decrease) in provision for tax	1,075	803	(710)
Increase / (decrease) in employee entitlements	-	-	-
(Increase) / decrease in other current Assets	178	(239)	(105)
<i>Items classified as investing or financing activities</i>			
Net (gain) / loss on sale of property, plant and equipment	-	-	-
Movement in capital creditors in accounts payable	2,956	(736)	(1,918)
Net cash inflows from operating activities	20,134	20,899	23,286

4 Intra group advances

	6 months to 31 Dec 2016 \$'000	6 months to 31 Dec 2015 \$'000	12 months to 30 Jun 2016 \$'000
<i>Advances made to:</i>			
Dunedin Stadium Property Limited	84	511	85
	84	511	85

5 Property, plant and equipment

	6 months to 31 Dec 2016 \$'000	6 months to 31 Dec 2015 \$'000	12 months to 30 Jun 2016 \$'000
Additions	15,847	17,545	37,196
Disposals	-	-	-
Capital commitments	20,258	13,028	10,888

There have been no material changes to the fair value assessment methods for property, plant and equipment asset classes between 30 June 2016 and 31 December 2016.

6 Term borrowings

There has been no material changes to the accounting treatment of the term loan from Dunedin City Treasury Limited between 30 June 2016 and 31 December 2016.

Aurora Energy Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2016

7 Derivative financial instruments

	6 months to 31 Dec 2016 \$'000	6 months to 31 Dec 2015 \$'000	12 months to 30 Jun 2016 \$'000
Fair Value			
Interest rate swaps	2,634	1,842	4,540
Analysed as:			
Current	-	-	-
Non-current	2,634	1,842	4,540
	2,634	1,842	4,540

8 Financial Instruments

All financial assets are recognised at cost/face value while financial liabilities are recognised at amortised cost except derivative financial instruments which are recognised at fair value.

9 Related Party Transactions

Transactions with Dunedin City Council

The Company undertakes transactions with Dunedin City Council (DCC) and other DCC controlled entities.

During the year, the Company provided services and traded with the DCC Group in respect of the following transactions:

	6 months to 31 Dec 2016 \$'000	6 months to 31 Dec 2015 \$'000	12 months to 30 Jun 2016 \$'000
<i>Sales of Services to DCC Group Entities:</i>			
Rent	13	13	26
Service failure penalties	147	34	113
Other	10	8	14
	170	55	153
<i>Sales of Services to DCC:</i>			
Other	5	18	54
Amounts Receivable by the Company at period end from DCC Entities			
Receivable from DCC	26	4	25
Receivable from DCC Group Entities	373	177	19
Intra-group advance to DCC Group entities	84	511	85

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Notes to the financial statements (unaudited) For the six months ending 31 December 2016

9 Related Party Transactions *continued*

	6 months to 31 Dec 2016 \$'000	6 months to 31 Dec 2015 \$'000	12 months to 30 Jun 2016 \$'000
<i>Purchases of Goods and Services from DCC Group Entities</i>			
Capital Work	12,465	12,210	27,554
Network Management & Operation	10,800	10,171	20,721
Interest	4,590	5,146	9,323
Tax loss offsets	-	-	733
Contracting services and supplies	773	408	1,159
Management fees	160	160	320
Accounting, administration & secretarial	158	160	343
Sundry and consulting	45	41	95
Lease of Meters	35	27	75
Subvention expense purchased	3,644	3,644	7,292
	32,670	31,967	67,615
<i>Purchases of Goods and Services from DCC</i>			
Rates & Property Leases	413	408	813
Other	-	-	3
	413	408	816
<i>Amounts Payable by the Company at period end to DCC Entities</i>			
Payable to DCC	3	-	-
Payable to Dunedin City Council entities	185,631	167,003	186,783
	185,634	167,003	186,783

Transactions with Companies in Which Directors Have an Interest

	6 months to 31 Dec 2016 \$	6 months to 31 Dec 2015 \$	12 months to 30 Jun 2016 \$
Services Provided to Companies in Which Directors have an Interest During the Financial Period Covered by this Report			
Mr S J MacLauchlan as Pro Chancellor University Of Otago	4,542	3,894	7,139
Mr S J MacLauchlan as Trustee/shareholder - Three Hills	-	20,480	68,265
Amounts Receivable from Companies in Which Directors have an Interest at End of Period			
Mr S J MacLauchlan as Pro Chancellor University Of Otago	746	746	-
Mr S J MacLauchlan as Trustee/shareholder - Three Hills	-	-	54,953
Purchases of Goods and Services from Companies in Which Directors have an Interest During the Financial Period Covered by this Report			
Mr S J MacLauchlan as Director - Rosebery Holdings Ltd	12,354	12,180	23,756
Mr T J Kempton as Councillor on Otago Regional Council	30,165	26,995	27,689
Mr T J Kempton as Director of Long Beach Consulting Ltd	10,811	10,659	21,470
Amounts Payable to Companies in Which Directors have an Interest at End of Period			
Mr T J Kempton as Councillor on Otago Regional Council	-	-	300

10 Contingency Liabilities and Assets

There were no known contingent liabilities or assets as at balance date.

Aurora Energy Limited

Directory

Directors

Stephen Thompson (Chair)
David Frow
Trevor Kempton
Brian Wood

Registered Office

10 Halsey Street

New Zealand

Bankers

Westpac Banking Corporation

Solicitors

Anderson Lloyd
Gallaway Cook Allan

Tax Advisors

Deloitte

Auditor

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