

Aurora Energy Limited

Interim Report

For the Six months ended

31 December 2020

Aurora Energy Limited

Contents

Page

Directors' Report	2
Statement of Comprehensive Income	5
Statement of Changes in Equity	6
Balance Sheet	7
Statement of Cash Flows	8
Notes to the Financial Statements	9
Directory	16

Aurora Energy Limited

Directors' report

The Directors of Aurora Energy Limited are pleased to present their report for the six months ended 31 December 2020.

Review of operations

Aurora Energy's principal activities are the ownership and operation of the electricity distribution network in Dunedin, Central Otago and Queenstown Lakes.

Highlights for Six Months ended December 2020

- Innovative new technologies partnership with solarZero to meet future growth of energy demand in Wanaka and Upper Clutha
- Selection of preferred new asset management system vendor
- Aurora Energy approved contractors' health & safety forum
- Improved network reliability performance
- Submission of CPP application
- Commencement of several major projects – Otago Harbour Crossing submarine cable, Anderson Bay substation upgrade and Cromwell zone substation
- Continued progress on staff development supported by health, safety and wellbeing frameworks
- Distributed community update to over 70,000 households

Safety and Risk

Safety is the number one priority at Aurora Energy. We have maintained our critical focus on improving the safety management of our network and the people working on it during the period under review.

A health and safety forum was attended by all approved contractors on the Aurora Energy network to address highlights and learnings from 2020 and to set goals for each contractor for 2021.

Our regular programme of independent safety audits across the network was maintained. The audits are carried out by experienced external assessors in the field and provide valuable information on where improvements can be made to ensure that the required standards of safe work practice and asset construction are achieved.

We continued our significant focus on staff health and safety and wellbeing. The Health and Safety team worked closely with the Wellbeing Committee to run lunch and learn sessions, host White Ribbon Day and run a series of wellbeing events and initiatives.

As an essential service provider, it is important we are well-prepared to respond in emergency situations such as major storms or earthquakes that can disrupt electricity supply.

We further strengthened the capability of our staff to manage an emergency response. Coordinated Incident Management System (CIMS4) training was provided to an additional 58 staff during 2020

We continued to review and update our Business Continuity and Emergency Response Plans to ensure we are well prepared to manage a major event.

Network Reliability

As regulated electricity distribution business, Aurora Energy is subject to network reliability standards approved by the Commerce Commission.

It is pleasing to report that our planned and unplanned SAIDI and SAIFI measures for the 9 months ended December 2020 are tracking favourably against reliability limits approved for the 2021 regulatory year.

Network investment

We are continuing to upgrade the most critical assets on our network, whilst also planning for the future of the network and for regional growth.

A robust RFP process for the selection of new asset management system vendor was completed in December marking a further significant milestone on our asset management maturity journey.

Review of operations *continued*

After calling for registrations of interest in August 2019, we were pleased to establish a new technologies partnership with solarZero, which is intended to help meet energy demand growth in the Wanaka and Upper Clutha regions. This innovative solution is about finding reliable, lower cost alternatives to building new network infrastructure and ensuring Aurora Energy is well positioned to meet both current and future levels of demand.

A landmark project for Aurora Energy, the Otago Harbour Crossing project, began in November. This project will see two new submarine cables between Port Chalmers and Portobello replace the existing overhead line, lattice towers and submarine cable installed more than 60 years ago. Major construction is due to commence in April 2021.

In Dunedin, the St Kilda substation project saw 50 electrotechnical relays replaced with 16 new state-of-the-art micro-processor relays. The new relays provide greater functionality and have fewer maintenance requirements.

We also made significant progress on the Anderson's Bay substation upgrade and early enabling works for both the Waipori line and Outram substation upgrades commenced. Major construction and community meetings are planned for early 2021.

We are continuing to work closely with all approved contractors as they carry out maintenance, renewal, and customer connection work on the Aurora Energy electricity network.

Customised Price-Quality Path Application (CPP)

Aurora Energy's CPP application and proposed price increases continued to attract the close scrutiny of stakeholders, regulators and media agencies throughout the period under review.

Our CPP project team experienced a heavy workload as it first responded to large numbers of information requests and then to the draft decision released by the Commerce Commission in November.

In response to the draft decision, we prepared and filed a comprehensive submission addressing each of the key components of the draft decision in December.

Our detailed submission and the subsequent cross submissions filed by Aurora Energy and other interested parties will now be considered by the Commission before its final decision is released in March 2021.

Customers

Our continued focus on improving customer experiences and our engagement with customers and stakeholders remains a key priority for the business.

During the reporting period we held several community and stakeholder meetings in Clyde, Bannockburn, Omakau and Queenstown to better understand our customers and their concerns around unplanned outages and upcoming work. We heard that there needs to be better communication around our outages, particularly unplanned outages, and we have taken this feedback on board.

In November, we distributed our first community update in three years. The update was distributed to more than 70,000 homes and stakeholders across our network, as well as shared on our digital channels and with our contractors.

The process of reviewing customer experiences in relation to our planned outages is continuing. The objective of this review is to find better ways to communicate and carry out our work with minimum customer disruption.

Feedback from the first stage of our Customer Initiated Works (CIW) process improvement project has been positive. Indications are that it has resulted in a more streamlined process for 'simple' straight forward customer connections.

Financial results

Our financial performance continues to reflect that we are investing in our network at levels that exceed the expenditure allowances for which we are presently compensated under regulation. Notwithstanding that this is the case, our financial results exceeded performance targets for the reporting period.

Review of operations *continued*

The company recorded a net profit after tax of \$0.5 mil for the six months to 31 December 2020, compared with a budgeted loss of \$4.4 million.

Total revenue of \$58.2 million (HY19: \$58.9 million) was \$0.7 million lower than for the same period last year, after a \$2.1 mil reduction in pass-through transmission charges. HY20 use of system revenue (excluding pass-through costs) was \$0.9 mil higher and other income (including customer contributions) was \$0.5 mil higher than for the same six months last year.

Operating expenses (including network management, operations and maintenance) decreased by \$1.3 million to \$57.5 million (HY19: \$58.8 million).

Asset additions were \$30.3 million (HY19: \$26.3 million) for the six-month reporting period.

Aurora Energy continues to fund its investment programmes through a combination of operating cash flows and term borrowings from Dunedin City Treasury Ltd. Term borrowings increased by \$15.5 million, from \$339.7 million as at 30 June 2020, to \$355.2 million at 31 December 2020.

Leadership

There have been no changes to the Aurora Energy Board in the reporting period.

The Board thanks all staff for their commitment to progressive change during the past six months as the company tackles a major network renewal programme and ongoing business improvement.

Dividends

No dividends were declared and paid during the period.

Events after balance sheet date

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

Statement of responsibility

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

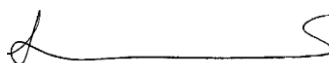
The Directors accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and

In the opinion of the Directors, the interim unaudited 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 unaudited financial statements, set out on pages 6 to 16, for the six months ended 31 December 2020 and authorises them for issue on 28 January 2021.



Stephen Thompson
Chairman



Margaret Devlin
Director

Aurora Energy Limited

Statement of Comprehensive Income For the Six months ending 31 December 2020

	Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited full year to 30 Jun 2020 \$'000
Operating revenue	58,216	58,915	110,947
Interest revenue	-	5	6
Total revenue	58,216	58,920	110,953
Audit fees	78	54	501
Bad debts written off	75	94	354
Directors remuneration	158	150	316
Depreciation	10,858	10,288	20,681
Employee expenses	7,897	7,206	14,774
Interest	5,494	5,714	11,178
Increase (decrease) in provision for doubtful debts	-	134	(91)
Lease expenses-short term	13	199	214
Loss (gain) on sale / disposal of fixed assets	311	302	890
Network operations and maintenance	9,337	8,840	17,686
Transmission charges	15,609	17,512	33,961
Other operating expenses	7,642	8,313	17,074
Total expenses	57,471	58,806	117,538
Profit before tax	745	114	(6,585)
Income tax expense	284	48	(2,388)
Net profit after tax	461	66	(4,197)
Other comprehensive income:			
Interest rate swap hedges gains (losses) during the year	757	564	586
Total other comprehensive income	757	564	586
Total comprehensive income	1,218	630	(3,611)

Aurora Energy Limited

Statement of Changes in Equity For the Six months ending 31 December 2020

	Share capital \$'000	Hedge reserve \$'000	Retained earnings \$'000	Total equity \$'000
Unaudited				
Equity as at 1 July 2020	10,000	(2,031)	167,996	175,965
Total comprehensive income	-	757	461	1,218
Equity as at 31 December 2020	10,000	(1,274)	168,457	177,183
Unaudited				
Equity as at 1 July 2019	10,000	(2,617)	172,193	179,576
Total comprehensive income	-	564	66	630
Equity as at 31 December 2019	10,000	(2,053)	172,259	180,206
Audited				
Equity as at 1 July 2019	10,000	(2,617)	172,193	179,576
Total comprehensive income	-	586	(4,197)	(3,611)
Equity as at 30 June 2020	10,000	(2,031)	167,996	175,965

Aurora Energy Limited

Balance Sheet As at 31 December 2020

	Note	Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited full year to 30 Jun 2020 \$'000
Current assets				
Cash and cash equivalents		51	329	53
Intra group advances	4	-	-	-
Trade and other receivables		9,546	9,236	13,704
Taxation receivable		5,337	5,045	5,098
Other current assets		1,155	2,100	517
Inventories		1,166	1,375	1,547
Total current assets		17,255	18,085	20,919
Non-current assets				
Property, plant and equipment	5	609,298	571,750	589,007
Intangible assets		2,117	1,706	2,166
Deferred tax asset		1,285	1,504	1,909
Right of use assets (ROU)	6	3,106	4,354	3,637
Investments		8	8	8
Total non-current assets		615,814	579,322	596,727
Total assets		633,069	597,407	617,646
Current liabilities				
Trade and other payables		15,859	17,296	18,079
Borrowings		1,203	1,273	812
Contract liabilities		5,040	4,755	3,984
Employee entitlements		2,063	1,428	1,609
Other current liabilities		-	5,096	-
Lease liabilities	6	988	1,084	993
Total current liabilities		25,153	30,932	25,477
Non-current liabilities				
Borrowings	7	355,165	310,850	339,725
Contract liabilities		-	-	131
Employee entitlements		192	175	378
Deferred tax liability		71,403	69,084	70,466
Lease liabilities	6	2,204	3,306	2,683
Derivative financial instruments	8	1,769	2,854	2,821
Total non-current liabilities		430,733	386,269	416,204
Total liabilities		455,886	417,201	441,681
Equity				
Share capital		10,000	10,000	10,000
Cash flow hedge reserves		(1,274)	(2,053)	(2,031)
Retained earnings		168,457	172,259	167,996
Total equity		177,183	180,206	175,965
Total liabilities and equity		633,069	597,407	617,646

Aurora Energy Limited

Statement of Cash Flows For the Six months ending 31 December 2020

		Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited full year to 30 Jun 2020 \$'000
Cash flow from operating activities				
<i>Cash was provided from</i>				
Receipts from customers		61,628	62,964	111,158
Interest received		-	5	6
Income tax refund		-	1,302	-
Intra group transition payment		-	-	4,653
		61,628	64,271	115,817
<i>Cash was disbursed to</i>				
Payments to suppliers and employees		40,150	42,056	90,257
Income tax paid		-	-	-
Intra-group tax/subvention payments		-	-	-
Intra group transition payment		-	-	-
Net GST paid		256	965	(15)
Interest paid		5,193	4,974	11,087
		45,599	47,995	101,329
Net cash flow from operating activities	3	16,029	16,276	14,488
Cash flow from investing activities				
<i>Cash was provided from</i>				
Sale of property, plant and equipment		-	-	-
		-	-	-
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		30,856	24,831	51,563
		30,856	24,831	51,563
Net cash flow from investing activities		(30,856)	(24,831)	(51,563)
Cash flow from financing activities				
<i>Cash was provided from</i>				
Receipts from borrowings		52,315	40,950	90,125
		52,315	40,950	90,125
<i>Cash was disbursed to</i>				
Repayment of borrowings		36,875	31,450	51,750
Lease liability repayment		615	617	1,248
		37,490	32,067	52,998
Net cash flow from financing activities		14,825	8,883	37,127
Net increase/(decrease) in cash and cash equivalents		(2)	328	52
Opening cash and cash equivalents		53	1	1
Closing cash and cash equivalents		51	329	53

Aurora Energy Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2020

1 Reporting entity

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

Aurora Energy Limited ("the Company") is an Energy Company as defined in the Energy Companies Act 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 2020 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 2020 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 2020.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2020.

The judgements, estimates and assumptions used to prepare these interim financial statements are generally consistent with those used at 30 June 2020.

Aurora Energy Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2020

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

	6 months to 31 Dec 2020 \$'000	6 months to 31 Dec 2019 \$'000	full year to 30 Jun 2020 \$'000
Net profit after tax	461	66	(4,197)
<i>Items not involving cash flows</i>			
Depreciation	10,858	10,288	20,681
Increase / (decrease) in deferred tax	1,561	1,306	2,283
Non-cash component of finance costs	(90)	(68)	(258)
Other non-cash items	757	563	585
Increase / (decrease) in cash flow hedge valuation	(1,052)	(783)	(816)
<i>Impact of changes in working capital items</i>			
(Increase) / decrease in trade and other receivables	4,158	4,594	126
Increase / (decrease) in trade and other payables	(1,829)	336	804
Increase / (decrease) in provision for tax	(239)	264	211
Increase / (decrease) in contract liabilities	925	1,637	559
(Increase) / decrease in other current assets	(638)	(1,526)	56
(Increase) / decrease in inventories	381	413	241
Increase / (decrease) in employee entitlements	268	182	(4,238)
<i>Items classified as investing or financing activities</i>			
Net (gain) / loss on sale of property, plant and equipment	311	302	1,509
Movement in capital creditors in accounts payable	197	(1,298)	(3,058)
Net cash inflows from operating activities	16,029	16,276	14,488

4 Intra group advances

	6 months to 31 Dec 2020 \$'000	6 months to 31 Dec 2019 \$'000	full year to 30 Jun 2020 \$'000
	-	-	-
	-	-	-

5 Property, plant and equipment

	6 months to 31 Dec 2020 \$'000	6 months to 31 Dec 2019 \$'000	full year to 30 Jun 2020 \$'000
Additions	30,307	26,281	53,648
Disposals	311	302	938
Capital commitments	31,821	39,821	20,535

There have been no material changes to the fair value assessment methods for property, plant and equipment asset classes between 30 June 2020 and 31 December 2020.

Aurora Energy Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2020

6 Right of use assets & Lease liabilities

The company adopted the new IFRS 16 reporting standard to recognise Right of Use Assets with effect from 1 July 2019.

Leases have been entered by the Company in regards to land and buildings, motor vehicles & plant and radio communication licences and equipment. Land & building leases have been negotiated for terms of one to five years, with rights of renewal applicable to most leases. Radio communication licence and equipment leases range from five to 33 years, with rights of renewal applicable to most leases. Vehicle leases have been negotiated for terms of three / four to five years.

Short-term leases and leases related to low-value items are accounted for applying paragraph 6 of NZ IFRS 16. The costs related to these leases are recognised as expenses in the Statement of Comprehensive Income.

Judgement has been used in determining whether it is reasonably certain that an extension or termination option will be exercised. Where it is reasonably certain that an extension option will be fulfilled, this has been included in the calculation of Right-of-use assets and liabilities.

Non-lease components of leases have been separated from lease components for all classes of assets except vehicles and office buildings.

7 Borrowings

There has been no material change to the accounting treatment of the term loan from Dunedin City Treasury Limited between 30 June 2020 and 31 December 2020.

8 Derivative financial instruments

	6 months to 31 Dec 2020 \$'000	6 months to 31 Dec 2019 \$'000	full year to 30 Jun 2020 \$'000
Fair value			
Interest rate swaps	1,769	2,854	2,821
Analysed as:			
Current	-	-	-
Non-current	1,769	2,854	2,821
	1,769	2,854	2,821

9 Financial instruments

Financial assets such as Cash, Trade and other receivables, Tax receivables and Other current assets are measured at amortised cost. Long term investments are measured at fair value through the profit and loss. Financial liabilities such as Trade and other payables and Borrowings are recognised at amortised cost except derivative financial instruments which are recognised at fair value through the profit and loss.

Aurora Energy Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2020

10 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 2020 \$'000	6 months to 31 Dec 2019 \$'000	full year to 30 Jun 2020 \$'000
<i>Sales of services to DCC group entities:</i>			
Rent	83	55	77
Subvention/tax loss offset receipt	-	-	3,351
Corporate shared services	242	212	327
Sales of stock and other	545	320	583
Consulting & sundry services	-	-	113
Tax compensation payment	744	-	24
	1,614	587	4,475
<i>Sales of services to DCC:</i>			
Other	3	24	-
Amounts receivable by the Company at period end from DCC group entities			
Receivable from DCC	-	2	-
Receivable from DCC group entities	1,063	103	911
Intra-group advance to DCC group entities	-	-	-
	1,063	105	911

Aurora Energy Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2020

10 Related party transactions *continued*

	6 months to 31 Dec 2020 \$'000	6 months to 31 Dec 2019 \$'000	full year to 30 Jun 2020 \$'000
<i>Purchases of goods and services from DCC group entities</i>			
Capital work	14,448	11,267	25,697
Network operations and maintenance	9,228	8,890	16,380
Interest	5,567	5,782	11,426
Contracting services and supplies	465	3	862
Management fees	-	100	200
Rent	238	212	434
Lease of meters	40	41	82
	29,986	26,295	55,081
<i>Purchases of goods and services from DCC</i>			
Rates & property leases	405	305	605
Capital work	-	1	7
	405	306	612
<i>Amounts payable by the Company at period end to DCC Entities</i>			
Payable to Dunedin City Council entities	362,155	322,150	349,944
	362,155	322,150	349,944

Transactions with companies in which directors have an interest during the period of this report

	6 months to \$	6 months to \$	full year to \$
<i>Services provided to companies in which directors have an interest</i>			
Sale of inventory to Unison Contracting Services Ltd, a subsidiary company of Unison Networks Ltd, of which Mr B J Hall is a Director	8,887	15,392	72,161
Amounts receivable from Unison Contracting Services Ltd	8,810	435	6,497

Aurora Energy Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2020

10 Related party transactions *continued*

Purchases of goods and services from companies in which directors have an interest during the period of this report

	6 months to 31 Dec 2020	6 months to 31 Dec 2019	full year to 30 Jun 2020
	\$	\$	\$
Passmore Consulting Services Ltd, of which Mr S R Thompson is a Director	55,546	55,546	111,091
Deloitte Ltd, of which Mr S R Thompson is a consultant	86,251	159,166	288,757
NetCon Ltd, of which Mr S R Thompson was a Director	-	-	2,554
Infrastructure New Zealand Ltd, of which Mrs Devlin is a Director	3,990	3,990	3,990
ETEL Ltd, of which Mr B J Hall is a Director	122,330	222,883	252,207
Stratview Holdings Ltd, of which Mr B J Hall is a Director	31,445	31,445	62,890
Unison Networks Ltd, of which Mr B J Hall is a Director	-	-	10,000
Unison Contracting Services Ltd, a subsidiary company of Unison Networks Ltd, of which Mr B J Hall is a Director	4,311,700	3,046,672	4,594,625
Excellence in Business Solutions Limited of which Mrs Harvey is a Director and Shareholder	31,445	31,445	62,890

	6 months to 31 Dec 2020	6 months to 31 Dec 2019	full year to 30 Jun 2020
	\$	\$	\$
<i>Amounts payable to companies in which directors have an interest at end of financial period covered by this report</i>			
Deloitte Ltd, of which Mr S R Thompson is a consultant	6,325	30,403	18,035
ETEL Ltd, of which Mr B J Hall is a Director	31,878	27,478	8,137
Unison Contracting Services Ltd, a subsidiary company of Unison Networks Ltd, of which Mr B J Hall is a Director	836,802	222,883	614,432

Aurora Energy Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2020

11 Contingent liabilities

Network Reliability Quality Limits

Network reliability standards are contained in the Commerce Commission's Default Price-Quality Path for Electricity Distribution Businesses.

The Company breached its regulated quality limits for the 2020 disclosure year.

At reporting date, the financial consequences of the above matter (if any) were not known.

Aurora Energy Limited

Directory

Directors

Stephen R Thompson (Chair)
Margaret P Devlin
Brenden J Hall
Wendie N Harvey

Registered Office

10 Halsey Street
Dunedin
New Zealand

Bankers

Westpac Banking Corporation

Solicitors

Gallaway Cook Allan
Chapman Tripp
Anderson Lloyd

Tax Advisors

Deloitte

Auditor

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