

Aurora Energy Limited

Interim Report

For the six months ended

31 December 2017

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 2017.

Review of operations

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

Following a decision by the company's shareholder to separate the Aurora Energy and Delta businesses, from 1 July 2017 Aurora Energy directly employed around 100 staff previously employed by Delta. The result is that Aurora Energy now has capability to perform its own asset management, engineering, network operation and corporate services functions.

From 1 July 2017, Delta was contracted to provide Aurora Energy's core network maintenance and fault response services under the terms of a new commercial contract.

Aurora Energy's role is to maintain the safety and resilience of the network and to ensure reliable electricity supply to its customers. Many of the company's network assets are in the latter stages of their lifecycle and due for upgrade or replacement.

As a consequence of this, Aurora Energy continued to invest in new network assets, operations and maintenance at levels that exceed its current allowances for regulated earnings compensation.

In November 2016, the company initiated the Fast Track pole programme to remove the risk of identified poles on the Aurora Energy network. By the end of the current reporting period, the Fast Track teams had achieved their primary goal of removing the risk of 2,910 priority poles and trebled the rate of pole replacements. In the 12 months to 31 December 2017, Aurora Energy has replaced 2,800 poles across the network, and replaced, repaired or reassessed in the order of 4,500 poles.

Total asset additions of \$38.1 million for the 6 months ended 31 December 2017 were \$22.2 million higher than for the same period last year. Total operating expenses (including network management, operations and maintenance) increased by \$7.3 million to \$52.0 million (HY16: \$44.7 million). The company expects expenditure levels will continue to increase as it makes ongoing investments to improve the risk profile of the network and maintain reliability of customer supply.

As reported previously, the Commerce Commission has initiated an investigation of Aurora Energy's breach of regulated network reliability targets for the 2015 and 2016 regulatory disclosure years (ending 31 March). Aurora Energy also breached its regulated network reliability targets for the 2017 disclosure year, primarily driven by the increased investment on the network. During the period under review, the company responded to detailed and comprehensive information requests from the Commerce Commission in respect of the network reliability target breach. However the outcome of the current investigation is not yet known.

Network performance measures have again exceeded regulated targets throughout the current reporting period. The main contributing factor is an unavoidable increase in planned outages as the company carries out more maintenance and renewal work. Ongoing works programmes are expected to continue to impact reliability measures for at least the 2018 and 2019 disclosure years.

During the current six month reporting period, Aurora Energy continued to fund its higher levels of investment through a combination of operating cash flows and term borrowings from Dunedin City Treasury Ltd. Term borrowings increased by \$30.225 million, from \$191.350 million as at 30 June 2017, to \$221.575 million by 31 December 2017.

Net profit after tax of \$3.151 million (HY16: \$4.031 million) provided a return of 1.64% (HY16: 2.17%) on average Shareholder's equity for the 6 month reporting period, or 3.28% (HY16: 4.34%) on an annualised basis.

Aurora Energy's risk-based asset management approach continues to provide for further significant uplifts in both network maintenance and capital works. The decision has been taken to submit a Customised Price-Quality Path application to the Commerce Commission. The company is presently assessing the timing options and implications for long term consumer benefits, following which more detailed communications with our stakeholders will be undertaken.

The Board was pleased to confirm the appointment of Dr Richard Fletcher as the company's new Chief Executive. Dr Fletcher commenced his new role in January 2018.

The Board thanks all staff for their very significant contributions and continued efforts throughout the first six months of the new Aurora Energy.

Aurora Energy Limited

Directors' report *continued*

Dividends

No dividends were declared and paid during the period.

Changes in Directors

Mrs M P Devlin was appointed a Director with effect from 1 July 2017.

Mr B J Hall was appointed a Director with effect from 1 July 2017

Mr T J Kempton and Mr B J Wood retired as Directors with effect from 30 June 2017.

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 4 to 11, for the six months ended 31 December 2017 and authorises them for issue on 31 January 2018.



Stephen Thompson
Chairman



Margaret Devlin
Director

Aurora Energy Limited

Statement of comprehensive income For the six months ending 31 December 2017

	Unaudited 6 months to 31 Dec 2017 \$'000	Unaudited 6 months to 31 Dec 2016 \$'000	Audited full year to 30 Jun 2017 \$'000
Operating revenue	56,736	54,284	102,854
Interest revenue - Other	3	5	14
Total revenue	56,739	54,289	102,868
Audit fees	68	60	74
Bad debts written off	56	-	19
Directors remuneration	113	65	132
Depreciation	8,195	7,512	15,190
Employee expenses	4,976	-	-
Interest to Dunedin City Treasury Limited	4,801	4,590	8,930
Increase / (decrease) in provision for doubtful debts	131	123	192
Lease expenses	448	38	253
Maintenance Costs	6,821	7,491	15,876
Transmission Costs	19,458	17,991	36,642
Other operating expenses	6,896	6,860	14,282
Total expenses	51,963	44,730	91,590
Profit before tax and Subvention	4,776	9,559	11,278
Subvention payment provided	-	3,644	1,412
Profit before tax	4,776	5,915	9,866
Income tax expense	1,625	1,884	2,572
Net profit after tax	3,151	4,031	7,294
Other comprehensive income:			
Interest rate swap hedges gains (losses) during the year	(97)	1,372	990
Total other comprehensive income	(97)	1,372	990
Total comprehensive income	3,054	5,403	8,284

Aurora Energy Limited

Statement of changes in equity For the six months ending 31 December 2017

	Share capital \$'000	Hedge reserve \$'000	Retained earnings \$'000	Total equity \$'000
Unaudited				
Equity as at 1 July 2017	10,000	(2,279)	182,711	190,432
Profit after income tax	-	-	3,151	3,151
Other comprehensive income for the period	-	(97)	-	(97)
Distribution to owners	-	-	-	-
Equity as at 31 December 2017	10,000	(2,376)	185,862	193,486
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
Audited				
Equity as at 1 July 2016	10,000	(3,269)	176,917	183,648
Profit after income tax	-	-	7,294	7,294
Other comprehensive income for the period	-	990	-	990
Distribution to owners	-	-	(1,500)	(1,500)
Equity as at 30 June 2017	10,000	(2,279)	182,711	190,432

Aurora Energy Limited

Balance sheet

As at 31 December 2017

		Unaudited 6 months to 31 Dec 2017 \$'000	Unaudited 6 months to 31 Dec 2016 \$'000	Audited full year to 30 Jun 2017 \$'000
	<i>Note</i>			
Current assets				
Cash and cash equivalents		282	126	58
Intra group advances	4	1,156	84	-
Trade and other receivables		9,393	8,344	13,176
Taxation receivable		-	-	304
Other current assets		1,588	551	1,583
Inventories		3,415	8	4,045
Total current assets		15,834	9,113	19,166
Non-current assets				
Property, plant and equipment	5	482,347	430,841	452,468
Deferred tax asset		1,299	809	977
Investments		8	8	8
Total non-current assets		483,654	431,658	453,453
Total assets		499,488	440,771	472,619
Current liabilities				
Trade and other payables		15,641	17,736	25,282
Employee entitlements		1,309	-	-
Other current liabilities		-	-	-
Taxation payable		808	1,741	-
Total current liabilities		17,758	19,477	25,282
Non-current liabilities				
Term borrowings	6	221,575	170,750	191,350
Employee entitlements		121	-	-
Deferred tax liability		63,248	60,359	62,389
Derivative financial instruments	7	3,300	2,634	3,166
Total non-current liabilities		288,244	233,743	256,905
Total liabilities		306,002	253,220	282,187
Equity				
Share capital		10,000	10,000	10,000
Cash flow hedge reserves		(2,376)	(1,897)	(2,279)
Retained earnings		185,862	179,448	182,711
Total equity		193,486	187,551	190,432
Total liabilities and equity		499,488	440,771	472,619

Aurora Energy Limited

Statement of cash flows

For the six months ending 31 December 2017

		Unaudited 6 months to 31 Dec 2017 \$'000	Unaudited 6 months to 31 Dec 2016 \$'000	Audited full year to 30 Jun 2017 \$'000
Cash flow from operating activities	<i>Note</i>			
<i>Cash was provided from</i>				
Receipts from customers		59,908	57,210	101,605
Interest received		3	5	14
Income tax refund		62	-	-
Inter company advance paid		-	-	85
Net GST refund		-	325	-
		59,973	57,540	101,704
<i>Cash was disbursed to</i>				
Payments to suppliers and employees		37,113	31,211	67,860
Income tax paid		51	61	62
Intra-group tax/subvention payments		-	-	721
Inter company advance		-	-	-
Net GST paid		151	-	753
Subvention payment		-	1,361	2,041
Interest paid		4,861	4,773	9,286
		42,176	37,406	80,723
Net cash flow from operating activities	3	17,797	20,134	20,981
Cash flow from investing activities				
<i>Cash was provided from</i>				
Sale of investments		-	-	-
Sale of property, plant and equipment		-	-	-
		-	-	-
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		47,798	18,802	40,317
		47,798	18,802	40,317
Net cash flow from investing activities		(47,798)	(18,802)	(40,317)
Cash flow from financing activities				
<i>Cash was provided from</i>				
Receipts from borrowings		37,675	16,960	41,660
		37,675	16,960	41,660
<i>Cash was disbursed to</i>				
Repayment of borrowings		7,450	16,670	20,770
Dividends paid		-	1,500	1,500
		7,450	18,170	22,270
Net cash flow from financing activities		30,225	(1,210)	19,390
Net increase/(decrease) in cash and cash equivalents		224	122	54
Opening cash and cash equivalents		58	4	4
Closing cash and cash equivalents		282	126	58

Aurora Energy Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2017

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 2017 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 2017 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 2017.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2017.

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2017.

Aurora Energy Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2017

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

	6 months to 31 Dec 2017 \$'000	6 months to 31 Dec 2016 \$'000	12 months to 30 Jun 2017 \$'000
Net profit after tax	3,151	4,031	7,294
<i>Items not involving cash flows</i>			
Depreciation	8,195	7,512	15,190
Increase / (decrease) in deferred tax	537	1,282	3,144
Increase / (decrease) in cash flow hedge valuation	134	(1,906)	(1,374)
Other non-cash items	(97)	1,372	990
<i>Impact of changes in working capital items</i>			
(Increase) / decrease in trade and other receivables	4,078	3,459	(1,373)
(Increase) / decrease in intra group advances	(1,156)	-	85
(Increase) / decrease in work in progress	-	-	-
(Increase) / decrease in inventories	630	-	(4,037)
(Increase) / decrease in prepayments	(295)	-	-
Increase / (decrease) in trade and other payables	(9,641)	175	7,721
Increase / (decrease) in provision for tax	1,112	1,075	(970)
Increase / (decrease) in employee entitlements	1,430	-	-
(Increase) / decrease in other current Assets	(5)	178	(854)
<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	9,724	2,956	(4,835)
Net cash inflows from operating activities	17,797	20,134	20,981

4 Intra group advances

	6 months to 31 Dec 2017 \$'000	6 months to 31 Dec 2016 \$'000	12 months to 30 Jun 2017 \$'000
<i>Advances made to:</i>			
Delta Utility Services Limited	1,156	-	-
Dunedin Stadium Property Limited	-	84	-
	1,156	84	-

5 Property, plant and equipment

	6 months to 31 Dec 2017 \$'000	6 months to 31 Dec 2016 \$'000	12 months to 30 Jun 2017 \$'000
Additions	38,074	15,847	45,152
Disposals	-	-	-
Capital commitments	7,952	20,258	10,230

There have been no material changes to the fair value assessment methods for property, plant and equipment asset classes between 30 June 2017 and 31 December 2017.

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 2017 and 31 December 2017.

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Notes to the financial statements (unaudited) For the six months ending 31 December 2017

7 Derivative financial instruments

	6 months to 31 Dec 2017 \$'000	6 months to 31 Dec 2016 \$'000	12 months to 30 Jun 2017 \$'000
Fair value			
Interest rate swaps	3,300	2,634	3,166
Analysed as:			
Current	-	-	-
Non-current	3,300	2,634	3,166
	3,300	2,634	3,166

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 2017 \$'000	6 months to 31 Dec 2016 \$'000	12 months to 30 Jun 2017 \$'000
<i>Sales of Services to DCC Group Entities:</i>			
Rent	13	13	26
Service failure penalties	32	147	206
Contracting services and supplies	615	-	-
Other	116	10	88
Tax compensation payment	-	-	700
	776	170	1,020
<i>Sales of Services to DCC:</i>			
Other	-	5	10

Amounts Receivable by the Company at period end from DCC Entities

Receivable from DCC	25	26	25
Receivable from DCC Group Entities	117	373	790
Intra-group advance to DCC Group entities	1,156	84	-

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Notes to the financial statements (unaudited) For the six months ending 31 December 2017

9 Related Party Transactions *continued*

	6 months to 31 Dec 2017 \$'000	6 months to 31 Dec 2016 \$'000	12 months to 30 Jun 2017 \$'000
<i>Purchases of Goods and Services from DCC Group Entities</i>			
Capital work	12,848	12,465	26,526
Network management & operation	6,821	10,800	22,720
Interest	4,801	4,590	8,926
Tax loss offsets	-	-	721
Contracting services and supplies	963	773	2,257
Management fees	100	160	320
Accounting, administration & secretarial	-	158	400
Sundry and consulting	-	45	77
Lease of meters	42	35	82
Subvention expense purchased	-	3,644	1,412
	25,575	32,670	63,441
<i>Purchases of Goods and Services from DCC</i>			
Rates & Property Leases	271	413	818
Other	-	-	4
	271	413	822
<i>Amounts Payable by the Company at period end to DCC Entities</i>			
Payable to DCC	-	3	-
Payable to Dunedin City Council entities	231,060	185,631	207,487
	231,060	185,634	207,487

Transactions with Companies in Which Directors Have an Interest

	6 months to 31 Dec 2017 \$	6 months to 31 Dec 2016 \$	12 months to 30 Jun 2017 \$
Services Provided to Companies in Which Directors have an Interest during the Financial Period covered by this Report	NIL	NIL	NIL
Amounts Receivable from Companies in Which Directors have an Interest at end of Financial Period covered by this Report	NIL	NIL	NIL
Purchases of Goods and Services from Companies in Which Directors have an Interest during the Financial Period covered by this Report			
Passmore Consulting Services Ltd, of which Mr S R Thompson is a Director	43,289	-	54,029
Infratec Ltd, of which Mr S R Thompson is Chairman	247,323	-	215,952
ETEL Ltd, of which Mr D J Frow and Mr B J Hall are Directors	362,172	-	227,740
Stratview Holdings Ltd, of which MR B J Hall is a Director	24,708	-	-
Unison Contracting Services Ltd, a subsidiary company of Unison Networks Ltd, of which Mr B J Hall is a Director	2,421,400	-	-

Aurora Energy Limited

Notes to the financial statements (unaudited) For the six months ending 31 December 2017

	6 months to 31 Dec 2017 \$	6 months to 31 Dec 2016 \$	12 months to 30 Jun 2017 \$
Amounts Payable to Companies in Which Directors have an Interest at end of Financial Period covered by this Report			
Passmore Consulting Services Ltd, of which Mr S R Thompson is a Director	-	-	5,750
Infratec Ltd, of which Mr S R Thompson is Chairman	-	-	146,337
ETEL Ltd, of which Mr D J Frow and Mr B J Hall are Directors	11,850	-	150,104
Unison Contracting Services Ltd, a subsidiary company of Unison Networks Ltd, of which Mr B J Hall is a Director	289,395	-	-

10 Contingent Liabilities and Assets

The following contingent liabilities existed at balance date:

Breach of Default Price-Quality Path Reliability Standards

Network reliability standards are contained in the Commerce Commission's Default Price-Quality Path for Electricity Distribution Businesses. The regulations provide for pecuniary penalties in the event that a company breaches its standards in 2 of any 3 successive years.

During the 2016/17 financial reporting period, the Commerce Commission initiated an investigation into the Company's breach of regulated network reliability standards in the 2015 and 2016 disclosure years.

The Company also breached its regulated network reliability targets for the 2017 disclosure year, giving rise to a second instance of breaching 2 of any 3 successive years. Performance measures are again tracking above target in 2018 primarily driven by planned outages associated with the Fast Track pole programme.

The maximum fines for each instance of breaching the regulated reliability targets are \$500,000 for an individual and \$5,000,000 in any other case. Any such fine(s) must be sought through the courts and determined by a court ruling.

At reporting date, the Commerce Commission's investigation was continuing, and the financial consequences of this matter (if any) were not known.

Saddle Hill, Dunedin Fire

During the 2016/17 financial reporting period, the Company was informed of a potential claim by landowners for property damage suffered as a result of the Saddle Hill, Dunedin fire in October 2015. An independent investigation found that the cause of the fire was unknown.

The Company holds public liability insurance.

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

Energy Safety Service (WorkSafe) investigation

During the 2016/17 financial reporting period, Energy Safety Service issued the Company with a formal instruction after allegations of public safety concerns on the Aurora Electricity network.

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

Heritage New Zealand/Department of Conservation

In June 2017, the Company was notified of a potential claim for damage caused to an archaeological site in Central Otago. This matter is the subject of continuing discussions with Heritage New Zealand and the Department of Conservation.

Aurora Energy Limited

Directory

Directors

Stephen R Thompson (Chair)
David J Frow
Margaret P Devlin
Brenden J Hall

Registered Office

10 Halsey Street
Dunedin
New Zealand

Bankers

Westpac Banking Corporation

Solicitors

Gallaway Cook Allan
Anderson Lloyd

Tax Advisors

Deloitte

Auditor

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