
AURORA ENERGY LIMITED

Six Monthly Report
for the Period Ended
31 December 2014

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COMPANY PARTICULARS **as at 31 December 2014**

DIRECTORS

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

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

David J Frow – B.Sc.Eng, CF.Inst.D.

Trevor J Kempton – BE (Hons), M.IPENZ, F.NZIM, CM.Inst.D.

CHIEF EXECUTIVE

Grady W Cameron - BE, MEM, F.IPENZ, CM.Inst.D.

COMPANY SECRETARY

Gary G Dixon - BCom, CA

REGISTERED OFFICE

10 Halsey Street
Dunedin
New Zealand

BANKER

Westpac Banking Corporation

SOLICITOR

Gallaway Cook Allan

AUDITOR

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

TAXATION ADVISOR

Deloitte

DIRECTORS' REPORT **for the six months ended 31 December 2014**

The Directors of Aurora Energy Limited are pleased to report on the financial results and associated matters for the six months ended 31 December 2014.

Principal Activities of the Company

The principal activities of the Company are the ownership and strategic management of its electricity distribution network assets.

<i>Results for the Six Months Ended 31 December 2014</i>	\$000
Trading profit before tax	13,757
less subvention payment (pre-tax equivalent dividend)	3,644
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Operating profit before income tax	10,113
less income tax expense	2,812
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Net profit for six months	7,301
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State of Affairs

The Directors believe that the state of affairs of the Company is satisfactory.

Dividends

An interim dividend of \$2.5 million was declared and paid for the six months ended 31 December 2014.

Reserves

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

	\$000
Cash flow hedge reserve - to (from)	(1,223)
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Retained earnings - to (from)	4,801
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DIRECTORS' REPORT

for the six months ended 31 December 2014 - continued

Review of Operations

The operating surplus before tax and subvention is \$13.757 million (2013: \$11.040 million). A subvention payment of \$3.644 million has been provided to a member of the Dunedin City Council group of companies (2013: \$3.644).

The unaudited net surplus after tax for the six months ended 31 December 2014 was \$7.301 million (2013: \$5.791 million).

The Company has continued to focus on operating a reliable and cost effective electricity distribution system.

Financial Statements

The unaudited financial statements for the six months ended 31 December 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 six months ended 31 December 2014 or existed at that date are disclosed in the related parties section of this report.

Directors' Insurance

In accordance with the Constitution, the Company has arranged policies of Directors' Liability Insurance that ensure that generally 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 six months ended 31 December 2014 – continued

Directors' Benefits and Remuneration

No Director has, since the end of the previous financial period, received or become entitled to receive a benefit other than a benefit included in the total remuneration received or due and receivable by the Directors 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.

Events Subsequent to Balance Date

As an electricity distributor, the Company operates in a highly regulated environment. The Commerce Commission's review and final determination of the price limits and quality targets to apply for the next five-year period from 1 April 2015, was released in November 2014. The final determination is such that there will be a reduction in the Company's future allowable income and resultant earnings.

The Directors are not aware of any other matter or circumstance since the end of the financial period, not otherwise dealt with in this report or the Company's financial statements, which has significantly or may significantly affect the operation of the Company, the results of those operations or the state of affairs of the Company.

On behalf of the Directors



.....
I M Parton
CHAIRMAN



.....
S J McLauchlan
DIRECTOR

23 February 2015

AURORA ENERGY LIMITED

INFORMATION ON THE DIRECTORS

Director	Qualifications	Date Appointed	Declarations of Interests
Dr Ian M Parton Non-Executive Chairman	BE (Hons), PhD, Dist.F.IPENZ, CF.Inst.D.	October 2012	Chairman – Delta Utility Services 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., CF.Inst.D.	October 2012	Chairman and shareholder – Major Consulting Group Limited Director – Delta Utility Services Limited Director – ETEL Limited Director – ETEL Transformers Pty Ltd (Aus) Director – Holmes Fire LP Senior Consultant – Strata Energy Consulting Chairman – Bathurst Resources (New Zealand) Limited (resigned 13 November 2014)
Trevor J Kempton Non-Executive Director	BE (Hons), M.IPENZ, F.NZIM, CM.Inst.D.	November 2013	Director – Constructing Excellence (NZ) Limited Director – Delta Utility Services 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
Stuart J McLauchlan Non-Executive Director	BCom, FCA (PP), CF.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 – Cargill Hotel 2002 Limited Director – Delta Utility Services Limited Director – Dunedin Casinos Limited Director – Energy Link Limited Director – HTS 110 Limited Director – Otago & Southland Employers Association Director – Rosebery Holdings Limited 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 – Lund South Limited (resigned 28 July 2014)

AURORA ENERGY LIMITED

TREND STATEMENT

	Note	Six months ended 31 Dec:		Years ended 30 June:		
		2014	2013	2014	2013	2012
Energy received for delivery	GWh	705	672	1,313	1,331	1,350
Energy delivery reliability (average time without supply per customer for period ended)	minutes	50.5	69.6	123.6	77.5	123.9
Total Revenue	\$000	53,161	48,174	92,895	90,560	85,922
Trading profit before tax (before subvention payments)	\$000	13,757	11,040	18,024	19,077	18,432
EBIT/ average funds employed (annualised)		9.5%	8.1%	7.1%	7.4%	7.4%
Tax – current period provision		2,812	1,605	3,037	3,325	3,169
– prior period (over)/under provision		0	0	45	(164)	43
Net profit for the period (before after-tax value of subvention payments)	\$000	9,925	8,415	12,900	13,874	13,178
Net profit for the period (after subvention payments)	(1) \$000	7,301	5,791	7,650	8,624	7,928
Cashflow from operating activities	\$000	22,286	21,381	24,278	20,228	21,825
Dividends paid	\$000	2,500	3,000	4,750	8,750	7,104
Equivalent dividends (actual dividends plus after tax value of subvention payments)	\$000	5,124	5,624	10,000	14,000	12,354
Shareholder's equity	\$000	184,561	181,863	180,983	178,005	177,345
Total assets	\$000	396,815	385,364	390,814	383,272	373,653
Return on average equity (annualised)		10.86%	9.35%	7.19%	7.81%	7.45%
Equity to total assets		47%	47%	46%	46%	47%

Notes:

- (1) Aurora Energy Limited is part of the Dunedin City Holdings group of companies. Aurora Energy Limited makes pre-tax subvention payments to companies within the Dunedin City Council group of companies which has the effect of reducing the net profit for the period.

AURORA ENERGY LIMITED

STATEMENT OF COMPREHENSIVE INCOME for the six months ended 31 December 2014

	Note	Six months ended 31 Dec 14 \$000	Year ended 30 Jun 14 \$000	Six months ended 31 Dec 13 \$000
Operating revenue	3	53,157	92,889	48,171
Financial revenue	4	4	6	3
Total revenue		<u>53,161</u>	<u>92,895</u>	<u>48,174</u>
Less expenses				
Operating expenses	5	34,537	65,547	32,544
Financial expenses	6	4,867	9,324	4,590
Total expenditure		<u>39,404</u>	<u>74,871</u>	<u>37,134</u>
Profit before tax and subvention		13,757	18,024	11,040
Subvention payment provided		3,644	7,292	3,644
Profit before tax		10,113	10,732	7,396
Income tax expense	9	2,812	3,082	1,605
Net profit/(loss) after tax for the period		7,301	7,650	5,791
Other comprehensive income				
Gain/ (loss) on cashflow hedges		(1,226)	70	1,063
Gain/ (loss) on terminated cashflow hedges		3	8	4
Total other comprehensive income		<u>(1,223)</u>	<u>78</u>	<u>1,067</u>
Total comprehensive income		<u>6,078</u>	<u>7,728</u>	<u>6,858</u>

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

AURORA ENERGY LIMITED

STATEMENT OF CHANGES IN EQUITY for the six months ended 31 December 2014

	Note	Six months ended 31 Dec 14 \$000	Year ended 30 Jun 14 \$000	Six months ended 31 Dec 13 \$000
Equity at beginning of the period		<u>180,983</u>	<u>178,005</u>	<u>178,005</u>
Recognised income and expense				
Total comprehensive income		6,078	7,728	6,858
Less distribution to owner	8	<u>2,500</u>	<u>4,750</u>	<u>3,000</u>
Equity at the end of the period		<u><u>184,561</u></u>	<u><u>180,983</u></u>	<u><u>181,863</u></u>

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

AURORA ENERGY LIMITED

BALANCE SHEET as at 31 December 2014

	Note	31 Dec 14 \$000	30 Jun 14 \$000	31 Dec 13 \$000
Equity				
Share capital	11	10,000	10,000	10,000
Cash flow hedge reserve	12	(268)	955	1,944
Retained earnings	13	174,829	170,028	169,919
Total equity		184,561	180,983	181,863
Current liabilities				
Trade and other payables	14	18,521	12,481	14,878
Other current liabilities	15	(18)	(68)	282
Cash flow hedge instrument	21	380	0	0
Taxation payable		3,106	1,570	2,693
Total current liabilities		21,989	13,983	17,853
Non-current liabilities				
Term borrowings	16	132,850	138,800	129,050
Deferred tax liability	17	57,415	57,048	56,598
Total non-current liabilities		190,265	195,848	185,648
Total liabilities		212,254	209,831	203,501
TOTAL EQUITY AND LIABILITIES		396,815	390,814	385,364

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

AURORA ENERGY LIMITED

BALANCE SHEET

as at 31 December 2014 - continued

	Note	31 Dec 14 \$000	30 Jun 14 \$000	31 Dec 13 \$000
Current assets				
Cash and cash equivalents	18	93	57	26
Trade and other receivables	19	8,299	11,558	7,148
Prepayment		760	0	0
Inter-company advances		357	56	2,239
Cash flow hedge instruments	21	0	1,323	2,704
Inventories	22	8	8	8
Total current assets		9,517	13,002	12,125
Non-current assets				
Deferred tax asset	17	143	27	40
Investments	20	10	10	10
Property, plant and equipment	23	387,145	377,775	373,189
Total non-current assets		387,298	377,812	373,239
TOTAL ASSETS		396,815	390,814	385,364

For and on behalf of the Board of Directors



I M Parton
CHAIRMAN



S J McLauchlan
DIRECTOR

23 February 2015

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

AURORA ENERGY LIMITED

STATEMENT OF CASH FLOWS for the six months ended 31 December 2014

	Note	Six months ended 31 Dec 14 \$000	Year ended 30 Jun 14 \$000	Six months ended 31 Dec 13 \$000
Cash flows from operating activities				
<i>Cash was provided from</i>				
Receipts from customers		55,172	92,130	51,288
Interest and dividends received		4	6	3
Interest tax refund		0	114	0
		<u>55,176</u>	<u>92,250</u>	<u>51,291</u>
<i>Cash was disbursed to</i>				
Payments to suppliers		26,008	50,812	23,343
Interest paid		4,877	9,296	4,581
Intra group tax loss/subvention payments made		0	0	0
Income tax paid		550	188	188
Net GST paid/(received)		(207)	(304)	(568)
Subvention payment		1,361	7,292	1,361
Inter Company advance		301	688	1,005
		<u>32,890</u>	<u>67,972</u>	<u>29,910</u>
Net cash inflows/(outflows) from operating activities	25	22,286	24,278	21,381
Cash flows from investing activities				
<i>Cash was provided from</i>				
Sale of property, plant and equipment		0	26	0
		<u>0</u>	<u>26</u>	<u>0</u>
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		13,800	20,765	9,873
		<u>13,800</u>	<u>20,765</u>	<u>9,873</u>
Net cash inflows/(outflows) from investing activities		(13,800)	(20,739)	(9,873)

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

AURORA ENERGY LIMITED

STATEMENT OF CASH FLOWS for the six months ended 31 December 2014 - continued

	Note	Six months ended 31 Dec 14 \$000	Year ended 30 Jun 14 \$000	Six months ended 31 Dec 13 \$000
Cash flows from financing activities				
<i>Cash was provided from</i>				
Proceeds from borrowings		21,975	28,300	11,950
		<u>21,975</u>	<u>28,300</u>	<u>11,950</u>
<i>Cash was disbursed to</i>				
Repayment of borrowings		27,925	27,100	20,500
Dividends paid		2,500	4,750	3,000
		<u>30,425</u>	<u>31,850</u>	<u>23,500</u>
Net cash inflows/(outflows) from financing activities	25	(8,450)	(3,550)	(11,550)
Net increase/(decrease) in cash, cash equivalents and bank overdraft		36	(11)	(42)
Cash and cash equivalents at the beginning of the period		57	68	68
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	18	93	57	26

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

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 31 December 2014

1 REPORTING ENTITY

The financial statements are for the reporting entity Aurora Energy Limited (the Company).

The financial statements have been prepared in accordance with the requirements of the Energy Companies Act, 1992, the Companies Act 1993 and the Financial Reporting Act 1993.

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.

These financial statements represent the activities of the Company and its only subsidiary, Otago Power Limited (non-trading).

These financial statements are presented in New Zealand dollars, and have been rounded to the nearest thousand.

2 SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These condensed interim financial statements are general purpose financial reports which have been prepared in accordance with NZIAS34 and NZ GAAP, with additional information that the Directors consider should be disclosed. 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 23 February 2015.

The interim financial statements are to be read in conjunction with the most recent annual financial statements.

Basis of Accounting

The financial statements have been prepared on the historic cost basis, except for the revaluation of certain assets including cash flow hedge instruments.

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

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 - continued**2 SIGNIFICANT ACCOUNTING POLICIES** - continued**Critical Accounting Judgements, Estimates and Assumptions**

In preparing these financial statements the Company 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.

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 GST.

Revenue from services rendered is recognised when it is probable that the economic benefits associated with the transaction will flow to the Company.

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.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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 also 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 them 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.

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 - continued**2 SIGNIFICANT ACCOUNTING POLICIES** - continued**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 cash flows is inclusive of GST.

Taxation

The tax expense comprises both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current 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 calculation of taxable profit, and is accounted for using the balance sheet liability method.

Current tax and deferred tax is charged or credited to the income statement except when deferred tax relates to items charged directly to equity. The Company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax assets and liabilities are generally recognised for all taxable temporary differences. 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 taxable 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. Movements in deferred tax assets and liabilities are charged or credited in the income statement in the financial year that the movement occurs, except when it relates to items charged or credited directly to equity.

NOTES TO THE FINANCIAL STATEMENTS
for the six months 31 December 2014 - continued**2 SIGNIFICANT ACCOUNTING POLICIES - continued****Property, Plant and Equipment**

Property plant and equipment are those assets held by the Company for the purpose of carrying on its business activities on an ongoing basis.

All property, plant and equipment are stated at cost less any subsequent accumulated depreciation and any accumulated impairment losses.

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, and capital work in progress, on the 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 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:

	<i>Rate</i>	<i>Method</i>
Land	no depreciation charged	
Buildings	1% to 5%	straight line
Electricity network assets	1% to 20%	straight line
Plant and equipment	5% to 50%	straight line
Motor vehicles	5% to 25%	straight line
Office equipment and fittings	5% to 25%	straight line
Optical fibre network assets	2% to 10%	straight line
Capital work in progress	no depreciation charged	

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 2014 - continued**2 SIGNIFICANT ACCOUNTING POLICIES - continued****Impairment of Assets**

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

The 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 immediately recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and 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.

Cash and Cash Equivalents

Cash and cash equivalents is comprised of cash in 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.

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 - continued**2 SIGNIFICANT ACCOUNTING POLICIES** - continued**Financial Instruments**

Financial instruments are contracts that give rise to financial assets and financial liabilities that are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade and Other Receivables

Trade and other receivables are classified as financial assets at cost less any allowances for estimated irrecoverable amounts.

Investments

Investments are comprised of long-term equity instrument holdings which are available for sale. These are initially measured at cost, including transaction costs and are assessed annually for impairment. Any resultant losses on impairment are recognised in the income statement for the period in which they occur.

Trade and Other Payables

Trade and other payables are stated at cost.

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

The Company 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/losses recognised directly in the income statement.

The use of cash flow hedge instruments is governed by policy approved by the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Changes in the fair value of cash flow hedge 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, is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast 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 period.

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 Company 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.

Changes in Accounting Policies

There have been no changes in accounting policies during the financial year.

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Standards Amended or Issued During the Period

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

Standard	Brief Outline
Amendments to IAS 32 <i>Offsetting Financial Assets and Liabilities</i>	These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group have any off-setting arrangements.
Amendments to NZ IFRS 10, NZ IFRS 12 and NZ IAS 27	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. These amendments have no impact on the Group, since none of the Group qualifies to be an investment entity under IFRS 10.
Amendments to NZ IFRSs arising from the Annual Improvements Project (2010-2012)	<p>The following standards have been amended:</p> <p>NZ IFRS 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to NZ IAS 37. This change has no impact on the group in the current period as the Group has no business combinations.</p> <p>NZ IFRS 13 - Amendments to clarify the measurement requirements for short-term receivables and payables. This change has no impact on the Group.</p> <p>NZ IAS 16 and 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. This change has no impact on the Group.</p> <p>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. This change had had no impact on the Group, as this information was already disclosed.</p>

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 - continued**2 SIGNIFICANT ACCOUNTING POLICIES - continued**

Standard	Brief Outline
Amendments to NZ IFRSs arising from the Annual Improvements Project (2011-2013)	<p>NZ IFRS 1 - Application changes for First-time adoption of International Reporting Standards. This change has no impact on the Group given it is already an NZ IFRS preparer.</p> <p>NZ IFRS 3 - Amends the scope paragraph for the formation of a joint arrangement. This is not applicable to the group as the group currently has no investment in a Joint Venture.</p> <p>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. This change has no impact on the Group as it holds no group of financial assets and financial liabilities.</p> <p>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. There were no Investment property purchases during the period and therefore this had no impact on the Group.</p>
Novation of Derivatives and Continuation of Hedge Accounting	<p>These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as Dunedin City Treasury Limited manages the Groups derivatives and has not novated any derivatives during the current or prior periods.</p>

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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
NZ IFRS 9 <i>Financial Instruments</i> Adoption date: Year ended 30 June 2016	NZ IFRS 9 <i>Financial Instruments</i> will eventually replace NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i> . 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 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. 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 new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. 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.
NZ IFRS 15 <i>Revenue Contracts</i> Adoption date: Year ended 30 June 18	IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 - continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Standard	Brief Outline
<p>NZ IFRS 11 <i>Joint Arrangements</i></p> <p>Adoption date: Year ended 30 June 17</p>	<p>The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.</p>
<p>NZ IAS 16 and IAS 38</p> <p>Adoption date: Year ended 30 June 17</p>	<p>The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.</p>
<p>NZ IAS 27</p> <p>Adoption date: Year ended 30 June 17</p>	<p>The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements as going forward there will be no consolidation.</p>

AURORA ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 31 December 2014 - continued

	Six months ended 31 Dec 14 \$000	Year ended 30 Jun 14 \$000	Six months ended 31 Dec 13 \$000
3 OPERATING REVENUE			
Sales revenue	52,732	91,878	46,918
Avoided transmission constraint and loss revenue	425	1,011	1,253
	<u>53,157</u>	<u>92,889</u>	<u>48,171</u>
4 FINANCIAL INCOME			
Interest and dividends received	<u>4</u>	<u>6</u>	<u>3</u>
5 OTHER EXPENSES			
Included in the operating expenses of the Company are the following items:			
Audit fees			
- for audit of financial statements	38	38	37
- for audit services in relation to regulatory (information disclosure) reporting:			
- current year	0	18	20
- prior year	0	20	0
- for audit services in relation to price and quality thresholds and other regulatory reporting	<u>0</u>	<u>14</u>	<u>3</u>
Total audit fees	38	90	60
Transmission costs	16,468	29,671	14,209
Depreciation	6,683	13,039	6,455
Maintenance costs	5,863	11,384	6,066
Other contractor costs	220	842	689
Directors' fees	51	107	56
Bad debts written off	0	59	0
Lease expense	34	88	52
Loss on disposal of plant and equipment	0	361	0
Donations	0	0	0
Increase/(decrease) in provision for doubtful, trade and other receivables	29	(49)	(1)

AURORA ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 31 December 2014 - continued

	Six months ended 31 Dec 14 \$000	Year ended 30 Jun 14 \$000	Six months ended 31 Dec 13 \$000
6 FINANCIAL EXPENSES			
Interest – other	0	1	0
Interest - related parties	4,862	9,311	4,596
Interest amortised from cash flow hedge close out	5	12	(6)
	<u>4,867</u>	<u>9,324</u>	<u>4,590</u>
Total financial expenses	<u>4,867</u>	<u>9,324</u>	<u>4,590</u>
7 LEASE COMMITMENTS			
<i>Non-cancellable operating lease commitments</i>			
Payable within one year	48	57	57
Payable between one to five years	33	51	81
Payable later than five years	85	87	93
	<u>166</u>	<u>195</u>	<u>231</u>
8 DIVIDENDS			
Interim dividend			
December 14 \$0.250 per share	2,500	0	0
December 13 \$0.300 per share	0	3,000	3,000
Final dividend			
June 14 \$0.125 per share	0	1,750	0
	<u>2,500</u>	<u>4,750</u>	<u>3,000</u>
Dividend per share (in dollars)	0.250	0.475	0.300

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 – continued

	Six months ended 31 Dec 14 \$000	Year ended 30 Jun 14 \$000	Six months ended 31 Dec 13 \$000
9 INCOME TAX			
Operating profit before income tax	10,113	10,732	7,396
Tax thereon at 28% (2013: 28%)	2,832	3,005	2,071
<i>Plus/(less) the tax effect of differences</i>			
Revenue not liable for taxation	0	(40)	0
Expenditure (deductible)non-deductible for taxation purposes	(20)	72	(466)
Under/(over) tax provision in prior periods	0	45	0
Tax effect of differences	(20)	77	(466)
Tax expense	2,812	3,082	1,605
<i>Represented by</i>			
Current tax provision	2,086	1,570	999
Deferred tax provision	726	1,467	606
Under/(over) tax provision in prior periods	0	45	0
Income tax	2,812	3,082	1,605
Effective tax rate	27.8%	28.7%	21.7%

Imputation Credit Account

Aurora Energy Limited is a member of an income tax consolidated group and has access to the income tax consolidated group's imputation credit account.

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 – continued

	Six months ended 31 Dec 14	Year ended 30 Jun 14	Six months ended 31 Dec 13
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10 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit/(loss) attributable to the Shareholder of the Company by the weighted average number of ordinary shares on issue during the period.

Number of shares

Weighted average number of ordinary shares	10,000,000	10,000,000	10,000,000
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Basic earnings per share in dollars	0.73	0.77	0.58
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	Six months ended 31 Dec 14 \$000	Year ended 30 Jun 14 \$000	Six months ended 31 Dec 13 \$000
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11 EQUITY - Share Capital

Issued capital - 10,000,000 ordinary shares	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
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12 CASH FLOW HEDGE RESERVE

Balance at the beginning of the period	955	877	877
Net revaluations	(1,701)	97	1,478
Cash flow hedge closed out	5	10	0
Deferred tax arising on hedges (note 17)	<u>473</u>	<u>(29)</u>	<u>(411)</u>
Balance at the end of the period	<u>(268)</u>	<u>955</u>	<u>1,944</u>

The cash flow hedge reserve is comprised of the cumulative net change in the fair value of effective cash flow hedging instruments relating to interest payments that have not yet occurred, and the value received from cash flow hedges that have been closed out and which relate to future periods.

AURORA ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 31 December 2014 – continued

	Six months ended 31 Dec 14 \$000	Year ended 30 Jun 14 \$000	Six months ended 31 Dec 13 \$000
13 RETAINED EARNINGS			
Balance at the beginning of the period	170,028	167,128	167,128
Net profit for the period	7,301	7,650	5,791
Dividend distributions	(2,500)	(4,750)	(3,000)
Balance at the end of the period	174,829	170,028	169,919

14 TRADE AND OTHER PAYABLES

Trade payables	6,252	4,808	5,979
Due to related parties – other	12,219	7,673	8,841
– Dunedin City Holdings Ltd	50	0	58
	18,521	12,481	14,878

The Directors consider 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.

15 OTHER CURRENT LIABILITIES/ASSETS

GST payable/(receivable)	(18)	(68)	282
	(18)	(68)	282

16 TERM BORROWINGS (secured)

Dunedin City Treasury Ltd - related party	132,850	138,800	129,050
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The term borrowings are secured by a General Security Agreement over all the assets of the Company. Currently, the Company has a facility available of \$150.0 million.

The repayment periods on the term borrowings are:

Repayable between one to two years	0	0	0
Repayable between two to five years	132,850	138,800	0
Repayable later than five years	0	0	129,050

The weighted average interest rate for the loan inclusive of any current portion, was 6.60% (2013: 6.57%).

AURORA ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 31 December 2014 – continued

17 DEFERRED TAX

	Opening Balance Sheet	Charged to Equity	Charged to Income	Closing Balance Sheet Assets	Closing Balance Sheet Liabilities	Closing Balance Sheet Net
	\$000	\$000	\$000	\$000	\$000	\$000
Six months ended 31 December 2014:						
Property, plant and equipment	(53,301)	0	(258)	0	(53,559)	(53,559)
Provisions	(3,350)	0	(468)	36	(3,854)	(3,818)
Revaluations of interest rate swaps	(370)	474	0	104	0	104
Close out of interest rate swaps	0	(1)	2	3	(2)	1
Balance at end of the period	<u>(57,021)</u>	<u>473</u>	<u>(724)</u>	<u>143</u>	<u>(57,415)</u>	<u>(57,272)</u>
Year ended 30 June 2014:						
Property, plant and equipment	(52,742)	0	(559)	0	(53,301)	(53,301)
Provisions	(2,450)	0	(900)	26	(3,376)	(3,350)
Revaluations of interest rate swaps	(344)	(26)	0	0	(370)	(370)
Close out of interest rate swaps	0	(3)	3	1	(1)	0
Balance at end of the year	<u>(55,536)</u>	<u>(29)</u>	<u>(1,456)</u>	<u>27</u>	<u>(57,048)</u>	<u>(57,021)</u>
Six months ended 31 December 2013:						
Property, plant and equipment	(52,742)	0	(273)	0	(53,015)	(53,015)
Provisions	(2,450)	0	(337)	39	(2,826)	(2,787)
Revaluations of interest rate swaps	(344)	(412)	0	0	(756)	(756)
Close out of interest rate swaps	0	1	(1)	1	(1)	0
Balance at end of the period	<u>(55,536)</u>	<u>(411)</u>	<u>(611)</u>	<u>40</u>	<u>(56,598)</u>	<u>(56,558)</u>

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014- continued

	Six months ended 31 Dec 14 \$000	Year ended 30 Jun 14 \$000	Six months ended 31 Dec 13 \$000
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18 CASH AND CASH EQUIVALENTS

Cash and bank	93	57	26
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Cash and short-term deposits comprise cash held by the Company 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.

19 TRADE AND OTHER RECEIVABLES

Trade receivables	8,412	11,643	7,274
Less estimated impairments	(123)	(94)	(141)
	<u>8,289</u>	<u>11,549</u>	<u>7,133</u>
Due from related parties			
- Dunedin City Council and Group entities	8	7	13
- other related parties	2	2	2
	<u>8,299</u>	<u>11,558</u>	<u>7,148</u>

The Directors consider that the carrying amount of the trade and other receivables approximates their fair value. The estimated doubtful debts provision relates entirely to individually impaired trade receivable balances.

Past due, but not impaired, receivables are:

Age analysis	30-60 days	14	21	42
	60-90 days	12	39	28
	90 days plus	204	204	179
		<u>230</u>	<u>264</u>	<u>249</u>

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 - continued

	Six months ended 31 Dec 14 \$000	Year ended 30 Jun 14 \$000	Six months ended 31 Dec 13 \$000
20 INVESTMENTS			
Investments – listed companies	10	10	10
	<u>10</u>	<u>10</u>	<u>10</u>
Investments – listed companies			
The Company has acquired small shareholdings in several electricity-sector companies. These holdings are considered long-term.			
21 CASH FLOW HEDGE INSTRUMENTS			
Interest rate swaps revaluations - (payable)/receivable	(380)	1,323	2,704
	<u>(380)</u>	<u>1,323</u>	<u>2,704</u>
22 INVENTORIES			
Network spare parts	8	8	8
	<u>8</u>	<u>8</u>	<u>8</u>

AURORA ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 31 December 2014 - continued

23 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Network	Plant Equipment	Motor Vehicles	Office Equipment	Optical Fibre Network	Construction in Progress	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Six months ended 31 December 2014:									
Cost									
Balance at beginning of period	5,282	11,530	450,530	2,224	191	16	4,948	9,195	483,916
Purchases	0	0	7,764	12	0	0	14	8,263	16,053
Total cost	5,282	11,530	458,294	2,236	191	16	4,962	17,458	499,969
Accumulated depreciation									
Balance at beginning of period	0	1,488	102,401	1,623	64	16	549	0	106,141
Depreciation	0	65	6,468	69	5	0	76	0	6,683
Disposal	0	0	0	0	0	0	0	0	0
Total accumulated depreciation	0	1,553	108,869	1,692	69	16	625	0	112,824
Balance at end of period	5,282	9,977	349,425	544	122	0	4,337	17,458	387,145
Year ended 30 June 2014:									
Cost									
Balance at beginning of year	4,929	11,530	428,443	2,195	191	16	4,960	10,899	463,163
Purchases	353	0	20,868	29	0	0	11	0	21,261
Disposal	0	0	(485)	0	0	0	(23)	0	(508)
Transfer	0	0	1,704	0	0	0	0	(1,704)	0
Total cost	5,282	11,530	450,530	2,224	191	16	4,948	9,195	483,916
Accumulated depreciation									
Balance at beginning of year	0	1,358	89,907	1,487	53	16	400	0	93,221
Depreciation	0	130	12,612	136	11	0	151	0	13,040
Disposal	0	0	(118)	0	0	0	(2)	0	(120)
Total accumulated depreciation	0	1,488	102,401	1,623	64	16	549	0	106,141
Balance at end of year	5,282	10,042	348,129	601	127	0	4,399	9,195	377,775
Six months ended 31 December 2013:									
Cost									
Balance at beginning of period	4,929	11,530	428,443	2,195	191	16	4,960	10,899	463,163
Purchases	0	0	8,363	15	0	0	0	1,325	9,703
Total cost	4,929	11,530	436,806	2,210	191	16	4,960	12,224	472,866
Accumulated depreciation									
Balance at beginning of period	0	1,358	89,907	1,487	53	16	400	0	93,221
Depreciation	0	65	6,241	68	5	0	76	0	6,456
Total accumulated depreciation	0	1,423	96,148	1,555	58	16	476	0	99,676
Balance at end of period	4,929	10,107	340,658	655	133	0	4,484	12,224	373,189

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

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 – continued

	Six months ended 31 Dec 14 \$000	Year ended 30 Jun 14 \$000	Six months ended 31 Dec 13 \$000
24 CAPITAL EXPENDITURE COMMITMENTS			
Capital expenditure contracted for at balance date but not provided for in the financial statements.	24,210	13,513	6,156
25 RECONCILIATION OF NET PROFIT FOR THE PERIOD TO CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit/(loss) for the period	7,301	7,650	5,791
<i>Items not involving cash flows</i>			
Depreciation	6,683	13,039	6,455
Increase/(decrease) in deferred tax	251	1,485	1,022
Other non-cash items	(1,223)	78	1,067
(Increase)/decrease in cash flow hedge valuation	1,703	(97)	(1,478)
<i>Impact of changes in working capital items</i>			
(Increase)/decrease in trade and other receivables	2,499	(816)	3,594
Increase/(decrease) in trade and other payables	6,040	2,512	4,909
Increase/(decrease) in provision for tax	1,536	(312)	811
Increase/(decrease) in other current liabilities	50	(306)	44
(Increase)/decrease in inter Company advance	(301)	1,178	(1,005)
<i>Items classified as investing or financing activities</i>			
Capital creditors in accounts payable	(2,253)	(494)	171
Loss/(gain) on disposal of property, plant and equipment	0	361	0
Net cash inflows/(outflows) from operating activities	22,286	24,278	21,381

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 - continued

26 RELATED PARTY TRANSACTIONS

The Company 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 Company undertakes transactions with Dunedin City Council and other Dunedin City Council controlled entities. These transactions are made on commercial terms and conditions at market rates.

During the period, the Company provided services and traded with Dunedin City Council Group in respect of the following transactions:

	Six months ended 31 Dec 14 \$000	Year ended 30 Jun 14 \$000	Six months ended 31 Dec 13 \$000
Purchases of goods and services from Dunedin City Holdings Limited:			
Management fees	100	200	100
	<u>100</u>	<u>200</u>	<u>100</u>
Purchases of goods and services from Dunedin City Council:			
Rates and property leases	395	453	233
	<u>395</u>	<u>453</u>	<u>233</u>
Purchases of goods and services from other Dunedin City Council Group entities:			
Capital work	9,203	15,661	6,472
Network management and operation	9,156	17,502	8,000
Interest/facility fees	4,862	9,311	4,585
Subvention/tax loss offset payments	0	1,866	0
Contracting services	545	1,279	1,357
Management fees	58	100	50
Accounting, administration and secretarial	122	263	133
Sundry and consulting	28	77	29
Lease of meters/rentals	22	45	30
Subvention expense purchased	3,644	7,292	3,644
	<u>27,640</u>	<u>53,396</u>	<u>24,300</u>

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 – continued

	Six months ended 31 Dec 14 \$000	Year ended 30 Jun 14 \$000	Six months ended 31 Dec 13 \$000
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26 RELATED PARTY TRANSACTIONS - continued

The subvention expense of \$3.644 million will be paid to another company within the Dunedin City Council group of companies for the purchase of tax losses of \$3.644 million (2013: \$3.644 million).

At period end, the amounts payable by the Company to Group entities:

Dunedin City Holdings Limited	50	0	58
Other Dunedin City Council Group entities	145,449	146,473	137,891
	<u>145,499</u>	<u>146,473</u>	<u>137,949</u>

Sales of services to Dunedin City Council:

Other	<u>20</u>	<u>40</u>	<u>20</u>
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Sales of services to Dunedin City Council Group entities:

Rent	13	26	13
Service failure penalties	30	54	35
Other	14	20	6
Interest received	<u>0</u>	<u>0</u>	<u>0</u>
	<u>57</u>	<u>100</u>	<u>54</u>

At period end, the amounts receivable by Aurora Energy Limited from Dunedin City Council Group entities:

Dunedin City Council	4	4	4
Other Dunedin City Council Group entities:	<u>1,121</u>	<u>1,382</u>	<u>4,954</u>

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

Aurora Energy Limited undertakes transactions with other related parties in the normal course of business and on an arm's-length commercial basis.

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 - continued**26 RELATED PARTY TRANSACTIONS** - continued**Transactions with companies in which Directors have an interest:**

Mr S J McLauchlan is Pro Chancellor of the University of Otago. In the ordinary course of business during the financial period covered by this report, services valued at \$11,682 were provided to the University of Otago (2013: \$11,682). \$2,239 was outstanding at 31 December 2014 (2013: \$2,239).

Mr McLauchlan is a Director of Rosebery Holdings Limited. During the financial period covered by this report, services of \$11,750 were purchased from Rosebery Holdings Limited (2013: \$12,625). No monies were outstanding at 31 December 2014 (2013: \$6,756).

Mr Trevor Kempton is a Councillor on Otago Regional Council. During the financial period covered by this report, services to the value of \$26,433 were provided to Otago Regional Council. No monies were outstanding at 31 December 2014 (2013: \$0).

Mr Kempton is a Director of Long Beach Consulting Limited. During the financial period covered by this report, services of \$10,250 were purchased from Long Beach Consulting Limited (2013: \$3,417). No monies were outstanding at 31 December 2014 (2013: \$3,929).

Mr Frow is a Director of ETEL Limited. During the financial period covered by this report, services of \$17,356 were purchased from ETEL Limited (2013: \$0). No monies were outstanding at 31 December 2014 (2013: \$0).

27 FINANCIAL INSTRUMENT RISK

Dunedin City Treasury Limited, which is part of the Dunedin City Holdings Group, co-ordinates access to domestic financial markets for all Group members, and provides advice on the management of financial instrument risks to the Company. These risks include interest rate risk, credit risk and liquidity risk.

Interest Rate Risk

The Company uses interest rate swap agreements to manage its exposure to interest rate movements on its short-term borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. The treasury policy requires that the amount of the interest hedged is within a series of ranges in set future time periods.

A large part of the Company's debt is borrowed on a long-term fixed interest rate basis.

The notional principal outstanding with regard to the interest rate swaps is:

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 - continued

	Six months ended 31 Dec 14 \$000	Year ended 30 Jun 14 \$000	Six months ended 31 Dec 13 \$000
27 FINANCIAL INSTRUMENT RISK - continued			
Maturing in less than one year	0	0	0
Maturing between one and five years	0	0	0
Maturing after five years	50,000	50,000	50,000
	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>

Credit Risk

Credit risk on liquid funds and cash flow hedge instruments is limited through the counter-parties being banks with high credit ratings assigned by international credit-rating agencies.

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

The Company has no significant concentration of credit risk. The exposure is spread over a large number of counterparties.

The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk.

The Company's maximum credit risk for each class of financial instrument is:

Cash and cash equivalents	93	57	26
Trade and other receivables	8,299	11,558	7,148
Prepayments	760	0	0
Short term investments	10	10	10
Inter Company advances	357	56	2,239
	<u>9,519</u>	<u>11,681</u>	<u>9,423</u>

Liquidity Risk

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

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 - continued

27 FINANCIAL INSTRUMENT RISK - continued

The following tables analyse the exposure of the Company's financial liabilities to liquidity risk.

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 16.

The Company's assets and liabilities are shown at their contractual and carrying values.

	Maturity Dates Less than 1 Month \$000	1 to 3 Months \$000	3 Months to 1 Year \$000	1 to 5 Years \$000	More than 5 Years \$000	No Maturity \$000	Total \$000
As at 31 December 2014:							
Financial assets							
Cash and cash equivalents	93	0	0	0	0	0	93
Trade and other receivables	8,299	0	0	0	0	0	8,299
Prepayments	0	0	760	0	0	0	760
Inter Company advance	0	0	357	0	0	0	367
Long term investments	0	0	0	0	0	10	10
	<u>8,392</u>	<u>0</u>	<u>1,117</u>	<u>0</u>	<u>0</u>	<u>10</u>	<u>9,519</u>
Financial liabilities							
Trade and other payables	18,521	0	0	0	0	0	18,521
Other current liabilities	(18)	0	0	0	0	0	(18)
Taxation payable	0	0	3,106	0	0	0	3,106
Cash flow hedge instruments	0	0	380	0	0	0	380
Term borrowings	0	0	0	0	0	132,850	132,850
	<u>18,503</u>	<u>0</u>	<u>3,486</u>	<u>0</u>	<u>0</u>	<u>132,850</u>	<u>154,839</u>

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 - continued

27 FINANCIAL INSTRUMENT RISK - continued

	Maturity Dates Less than 1 Month \$000	1 to 3 Months \$000	3 Months to 1 Year \$000	1 to 5 Years \$000	More than 5 Years \$000	No Maturity \$000	Total \$000
As at 30 June 2014:							
Financial assets							
Cash and cash equivalents	57	0	0	0	0	0	57
Trade and other receivables	11,558	0	0	0	0	0	11,558
Long term investments	0	0	0	0	0	10	10
Inter Company advance	0	0	56	0	0	0	56
Cash flow hedge	0	0	1,323	0	0	0	1,323
	<u>11,615</u>	<u>0</u>	<u>1,379</u>	<u>0</u>	<u>0</u>	<u>10</u>	<u>13,004</u>
Financial liabilities							
Trade and other payables	12,481	0	0	0	0	0	12,481
Other current liabilities	(68)	0	0	0	0	0	(68)
Taxation payable	0	0	1,570	0	0	0	1,570
Term borrowings	0	0	0	0	0	138,800	138,800
	<u>12,413</u>	<u>0</u>	<u>1,570</u>	<u>0</u>	<u>0</u>	<u>138,800</u>	<u>152,783</u>
As at 31 December 2013:							
Financial assets							
Cash and cash equivalents	26	0	0	0	0	0	26
Trade and other receivables	7,148	0	0	0	0	0	7,148
Inter Company advance	0	0	2,239	0	0	0	2,239
Long term investments	0	0	0	0	0	10	10
Cash flow hedge	0	0	2,704	0	0	0	2,704
	<u>7,174</u>	<u>0</u>	<u>4,943</u>	<u>0</u>	<u>0</u>	<u>10</u>	<u>12,127</u>
Financial liabilities							
Trade and other payables	11,915	0	2,963	0	0	0	14,878
Other current liabilities	282	0	0	0	0	0	282
Taxation payable	0	0	2,693	0	0	0	2,693
Term borrowings	0	0	0	0	129,050	0	129,050
	<u>12,197</u>	<u>0</u>	<u>5,656</u>	<u>0</u>	<u>129,050</u>	<u>0</u>	<u>146,903</u>

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 – continued

27 FINANCIAL INSTRUMENT RISK - continued

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).

	2014			
	Level 1	Level 2	Level 3	Total
	\$000	\$000	\$000	\$000
Financial liabilities				
Derivative financial liability	0	380	0	0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

28 SEGMENT REPORTING

Aurora Energy Limited operates in the electricity distribution sector in the Otago geographical area of New Zealand.

29 CAPITAL MANAGEMENT STRATEGY

The capital of the Company is its equity, which is comprised of subscribed capital and retained earnings and cash flow hedge reserves. Equity is represented by net assets. The Company 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 of the Company perform continual reviews of its operating strategies, and financial performance and include in these reviews any strategies required to protect the capital of the Company. The Directors seek to maximise overall returns to the Shareholder of the Company in the medium term, and to maintain the Company's financial strength.

The Company 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.

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2014 – continued

30 EVENTS AFTER BALANCE DATE

There were no significant events after balance date.