Aurora Energy

Annual Report 2013-14

Aurora ENERGY

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1. About this report

This is the 16th Annual Report for Aurora Energy and encompasses the 2013-14 financial year.

It includes the activities of the Aurora Energy Group, which up until 1 July 2014 comprised parent company Aurora Energy Pty Ltd and two operating subsidiary companies, EziKey Group Pty Ltd, trading as WireAlert, and Auroracom Pty Ltd, the holder of Aurora Energy's telecommunications licence.

This report and past reports can be accessed from www.auroraenergy.com.au.

2. Highlights and challenges at a glance

During 2013-14, Aurora Energy was a State-owned company with two Shareholders, the Minister for Energy and the Treasurer. Aurora Energy retailed and distributed electricity to more than 250,000 customers throughout Tasmania.

In 2013-14, Aurora Energy directly employed 873[1] people, controlled assets worth $1.885 billion and sold $1.135 billion of electricity. It also:

- achieved an underlying profit before tax of $83.1 million, compared to $75.7 million in the previous year, with a headline profit before tax of $65.1 million, down from $73.6 million in 2012-13;
- delivered a record $70.7 million in returns to its Shareholders up from $37.9 million in 2012-13;
- achieved seven months without a lost-time safety incident, for the first time in its 16 year history, and recorded an overall lost time injury frequency rate of 2.4;
- experienced three significant public safety incidents, although none resulted in personal injury;
- continued to provide quality service to its telecommunications customers, opening a new $8 million data centre in the Hobart area in February 2014;
- showed a marked improvement in Call Centre performance, with a Grade of Service performance of 76 per cent surpassing its target rate by 6 per cent;
- failed to meet its network reliability targets, due to an increase in outages caused by bad weather, vegetation coming into contact with overhead powerlines and asset failures;
- delivered several major construction projects that will boost energy security and reliability into the future;
- prepared the Distribution Business for the merger with Transend Networks Pty Ltd, forming a new State-owned company, Tasmanian Networks Pty Ltd (TasNetworks), from 1 July 2014;
- readied the business for its new role as a competitive, stand-alone energy retailer on mainland Tasmania in a fully contestable market environment from 1 July 2014; and
- undertook significant restructuring activities as a result of the reforms, including transferring 697 Aurora Energy personnel to TasNetworks while 89 positions were made redundant.

From 1 July 2014, Aurora Energy continues as an energy retailer only, operating in Tasmania with all the company's electricity distribution and telecommunications activities having been transferred to a new State-owned company, TasNetworks.

[1] This number includes all employees (including directors and nine apprentices) directly employed by Aurora Energy on 30 June 2014. It excludes contractors. The full-time-equivalent number is 853.4

3. Strategic Performance Statement for 2013-14

Key result area	Strategic objective	Key Performance Measures	Target	Result	Achieved?
Financial Performance	Deliver sustainable customer price outcomes and appropriate returns to shareholders	Aurora Energy Group:			
		- Profit Before Tax	$47.8m	$65.1m	Yes
		- Operating cash flow	$58.8m	$32.1m	No
		- Return on equity	5.8%	12.5%	Yes
		- FFO interest cover	3.5x	4.1x	Yes
		- Debt to total capital	55.8%	56.8%	Yes
Customer	To maximise the value of the Energy Business in preparation for sale and/or ownership transfer	Call centre Grade of Service (% of calls answered within 30 seconds for the month)	70%	76%	Yes
	Deliver a safe and reliable network while ensuring no increase to customer prices as a result of our efforts	Service Target Performance Incentive Scheme (network reliability)	>$0	<$0	No[2]
Environment and Safety	Zero Harm:	- LTIFR (12 month rolling average)	2.9	2.4	Yes
	No harm to our people	- Leader safety interactions complete	100%	175%	Yes
	Minimise impact on the environment	- Significant incidents (public safety and environment)	0	3	No
People	Ensure we have the culture, capability and capacity to achieve business strategy	Employee-initiated turnover (12 month rolling average)	5%	6.9%	No

[2] Aurora Energy did not meet its network reliability targets this year however, the resulting penalty will be offset by the incentive that Aurora Energy earned last year when reliability targets were exceeded.

4. Chairman's review

On behalf of the Board of Aurora Energy it is my pleasure to present the 2013-2014 Annual Report.

Underlying profit before tax amounted to $83.1 million, an improvement on last year's $75.7 million, which has enabled a record return to Government of $70.7 million.

It is pleasing to report that this record level of profitability was achieved during a period when the company was both preparing itself for a new future and continuing to perform strongly in its 'business as usual' role of distributing and retailing electricity to Tasmanian customers.

Aurora Energy's improved profitability also had a positive impact on the company's net debt position, with net debt (borrowings less cash and cash equivalents) reduced to $717 million by year end.

An increase in costs relating to reform and restructuring was a major factor behind the lower headline profit before tax result of $65.1 million. However, the increased efficiency and productivity that was achieved as a result of the reforms, combined with the divestment of the Tamar Valley Power Station in the previous year, contributed to a pleasing reduction in operating costs.

Electricity demand in Tasmania fell for the third consecutive year with the State experiencing mild weather conditions, modest economic growth and the continuing strong take-up of solar generation. Aurora Energy responded to falling customer demand by containing costs and lowering capital expenditure. It is estimated that one in 20 households in Tasmania now has a solar connection and we are continuing to receive new applications. Aurora Energy effectively managed the 'grandfathering' of the Government's amended feed-in-tariff scheme and our engineers are developing network solutions to accommodate a more sophisticated electricity grid.

Transformation completed

Early in 2014, Aurora Energy's Distribution Business achieved a major milestone by becoming accredited to support Full Retail Contestability (FRC) in Tasmania, including systems that facilitate customer churn and the billing of multiple retailers. From 1 July 2014 all Tasmanian customers, including small businesses and households, are participants in a fully competitive market.

> **"The business quickly and decisively transformed and repositioned itself into a small scale stand-alone retailer."**

Throughout the year, the Distribution Business worked very effectively with the newly formed TasNetworks to bring about the merger with Transend for the ongoing benefit of Tasmanian customers.

Early in the financial year Aurora Energy's Retail Business was systematically organised and prepared for sale in two tranches. However, in September 2013 this sale process was suspended.

From then on the business quickly and decisively transformed and re-positioned itself into a small scale stand-alone retailer fully prepared to operate in the FRC environment from 1 July 2014. This transformation involved a business re-structure and re-engineering a wide range of business practices, policies and processes to ensure it will compete effectively and deliver value for its customers.

A change of this magnitude does not come without costs or disruption. Aurora Energy's financial statements show reform operating costs of $25.3 million, and capital expenditure incurred during the year to prepare for FRC was $28.5 million. As a result, the industry structure is more specialised, more efficient and will proceed with a lower cost structure. Aurora Energy played a central role in this reform and established a stronger platform for the electricity sector to continue to underpin and support economic development in Tasmania. To this extent we are very pleased to have played our part.

Thank you

The challenges of the past year brought to the fore a very strong endorsement of Aurora Energy's values. Senior management and staff applied themselves with professionalism to the broad range of activities created by the parallel workstreams of reform and 'business as usual', often when their own futures were uncertain. A well deserved "congratulations" is in order.

I would also like to acknowledge the contribution of my fellow Board members for their exceptional contribution during the year. Thank you to Directors Mervyn Davies and Peter Lowe, who left the Board on 30 June 2014 and thank you to the remaining Directors who will provide continuity for, and stewardship of, Aurora Energy.

On behalf of the Board, I would like to acknowledge CEO and Managing Director Peter Davis for his 10 years at

the most senior executive level.

The company prospered under his direction and control.

Thank you to all those employees who retired or left Aurora Energy on 30 June 2014. Your contribution to the business over your career is in no way diminished by these major changes bringing an end to your service and we extend our best wishes to you in your future endeavours. Thank you also to those who have continued at either TasNetworks or Aurora Energy, where, we have no doubt, you will have the opportunity to adapt and develop your careers.

Moving forward

Aurora Energy entered the new financial year as a stand-alone, small-scale retailer. It has a new strategic vision and a reinvigorated focus on serving its Shareholders and its customer base, the Tasmanian community.

"Thank you to all those employees who retired or left Aurora Energy on 30 June 2014. Your contribution to the business is no way diminished by these major changes."

We have laid a solid foundation for our participation in a competitive retail market under the leadership of Rebecca Kardos as CEO-designate and we welcome Rebecca's appointment as the new CEO of Aurora Energy from 1 July 2014.

While there are important challenges ahead, as electricity demand continues to fall and we face the prospect of new entrant retailers, Aurora Energy employees have demonstrated that they have the knowledge, the skills and the commitment needed for the business to thrive in the new marketplace, for the benefit of all Tasmanians.

We look forward to the journey.

Geoff Willis

Chairman

5. CEO's report

The year in review, Aurora Energy's last as an integrated distribution and retail company, saw some significant activities and achievements in 'business as usual' areas, and in response to the Government's reform program.

Throughout this period, Aurora Energy's workforce faced change and uncertainty with professionalism and resilience. The underlying business performance went from strength to strength over the past year, with a record level of dividend and profit, and a substantial reduction in debt.

'Business as usual' performance snapshot

Safety performance during 2013-14 was an outstanding highlight, when for the first time in Aurora Energy's 16-year history, the company recorded a full seven months without a lost-time injury. Four lost-time injuries were recorded for the year as a whole, compared to 11 in 2012-13. Aurora Energy uses the Lost Time Injury Frequency Rate (LTIFR) as its headline measure. The LTIFR of 2.4 bettered the target of 2.9 and compared very favourably to the previous year's result of 5.1.

This significant turnaround is in no small part due to the effectiveness of the Zero Harm approach to employee and community safety. Initiatives developed in previous years under the Zero Harm banner, including workshops and programs covering health and wellbeing topics, the LifeSafe safety observation program, and the Job Risk Analysis model, certainly contributed to this result. After more than 800 'leadership safety interactions' recorded, more than 550 individual safety audits of employees and contractors, and more than 500 random tests of employees for alcohol and other drugs under our Fit for Work policy, there were zero significant findings and zero positive tests, respectively.

Unfortunately, we recorded three significant public safety incidents during the year. In December 2013, a steel fence near a public walkway was energised for a brief time (due to equipment failure) until automatic protection systems isolated supply to the area. In February 2014 an installation associated with an NBN tower was left in a potentially dangerous situation by an incomplete supply connection, and in June 2014, the roofing and windows of a residence were energised when a wrap-on termination pulled through the insulation on the service conductors due to a pole leaning and tightening the service conductor.

While no one was injured, these incidents were investigated and processes were put in place to minimise the chances of theses types of incidences occurring again.

There were no significant environmental incidents recorded during the year.

Aurora Energy's Call Centre performance was another area that showed a marked improvement over the previous year. Using the industry-standard Grade of Service measure, Aurora Energy aimed to answer 70 per cent of calls within 30 seconds. This year it achieved this 76 per cent of the time, outperforming its target and improving on the previous year's result of 50.3 per cent that was reported to the Australian Energy Regulator (AER). This improvement is attributed to proactive recruitment and increased resourcing levels.

Considerable energy was directed towards responding to various regulatory requirements this year. The Distribution Business team prepared three comprehensive Regulatory Information Notice responses for the AER. The AER uses this information to benchmark companies on performance and efficiency and also feeds this data into the process that determines network prices for customers.

"Aurora Energy's Call Centre performance was another area that showed a marked improvement over the previous year."

Aurora Energy also submitted three pricing proposals to the respective regulators (two to the Office of the Tasmanian Economic Regulator covering retail activities and one to the AER covering distribution). Consistent with the strategic focus of meeting customer needs at the lowest sustainable cost, we welcomed the Tasmanian Regulator's decision to reduce retail tariffs for customers by 5.22 per cent on 1 January 2014 and a further 7.8 per cent reduction from 1 July 2014.

The opening of an $8 million Data Centre, in the outer Hobart suburb of Derwent Park in February 2014, highlighted the technical skills and commercial acumen of Aurora Energy's Telecommunications Team. Built to service both Aurora Energy's data needs and to host space for external content providers and carriers on a

commercial basis, the Centre is the only purpose-built data centre facility of its type in Tasmania. It plays an important complementary role to the ongoing roll-out of the National Broadband Network and improved broadband access for all Tasmanians.

Aurora Energy's main measure of reliability performance is the AER's Service Target Performance Incentive Scheme (STIPS). This Scheme gives electricity distributors financial incentives in the form of potential revenue for good performance, and penalises them for poor performance. Aurora Energy did not meet its network reliability targets this year, and as a consequence a revenue penalty will be applied. However, this penalty is largely offset by the incentive that Aurora Energy earned last year when reliability targets were exceeded.

The deterioration in reliability performance was largely due to an increase in outages caused by bad weather, vegetation coming into contact with overhead powerlines and asset failures. Although major storm events are excluded from the data, there was a 75 per cent increase in the impact of weather-related outages when compared to the five year average, alongside a 45 per cent increase in asset-related outages and 24 per cent increase in events caused by vegetation contact. Overall, these increases were most noticeable in urban, high density rural and low density rural reliability categories.

Notably, Aurora Energy delivered several major construction projects that will boost energy security and reliability for customers into the future. These included the commissioning of a new substation at Kingston, the construction of a second feeder line featuring fire-retardant concrete poles into the Tasman Peninsula following the January 2013 bushfires, and new standby generators at Strahan.

Preparing for workforce change

The Aurora Energy workforce was managed with a view to minimise employee stress in a testing environment.

The in-house development of an optional program known as *GetSet* played a vital role in preparing employees for change. This program offered employees both group and one-on-one sessions on topics that included personal resilience, resume writing, interview skills and financial management. It was useful for employees intending to seek opportunities outside the industry and also for those planning to move forward with either TasNetworks or Aurora Energy.

While workforce movements were significant on 30 June 2014, there were minimal movements in the lead-up to this milestone date. This reflected Aurora Energy's commitment to retaining employees, in order to maintain 'business as usual' commitments while also delivering extensive government reforms. The annualised employee-initiated turnover rate of 6.9 per cent was just above the target of 5 per cent.

I would like to thank all Aurora Energy employees for the way in which they approached 'business as usual' work for customers while concurrently managing a large additional workload associated with reform – particularly given the uncertainty surrounding their own employment outcomes. I sincerely wish everyone well in their future endeavours.

Finally, I would like to thank the Directors for providing the company with their diligence and expertise and affording me the benefit of their wisdom and guidance.

Peter Davis

Chief Executive Officer

Looking ahead: the next chapter

Aurora Energy is committed to delivering a cost-effective, efficient, customer-focused business that is ready to compete with potential new market entrants, and providing value to its Shareholders and the Tasmanian community.

Our challenge from 1 July 2014 will be to retain market share as Tasmania opens up to full retail contestability for the first time.

The vision for the new business, outlined in the Statement of Corporate Intent that is published on page 11 of this Report, embraces the themes of customer excellence, building relationships and trust within the Tasmanian community, the continuous improvement of systems and processes and ensuring employees are flexible, multi-skilled and valued.

Aurora Energy will continue to engage with the broader Tasmanian community through its interaction with a range of community and volunteer groups and other not-for-profit organisations. This will include continuing sponsorship activities within Tasmania targeted at a local, grassroots level.

"Our challenge from 1 July 2014 will be to retain market share as Tasmania opens up to full retail contestability for the first time."

Aurora Energy is looking forward to working with these groups to assist them in their community pursuits across Tasmania.

I am confident that by delivering a framework and workforce dedicated to customer excellence we will be able to bring benefit to customers and to the broader community. I have been very impressed by the commitment, passion and enthusiasm of the team and have no doubt that we will meet the expectations of our Shareholders and the Tasmanian community as a whole.

Rebecca Kardos

Chief Executive Officer (Designate)

6. Statement of Corporate Intent

Company Overview

Aurora Energy is a State-owned Company established in 1998 under the *Electricity Companies Act 1997.* Aurora Energy's two Shareholders are the Minister for Energy and the Treasurer.

From 1 July 2014, Aurora Energy became a stand-alone retailer in Tasmania competing in a fully contestable electricity market. The change in scale of operations and business activities resulting from the preparations for full retail competition and disaggregation of Aurora Energy's distribution activities to Tasmania Networks Pty Ltd (TasNetworks) has resulted in significant structural changes and associated challenges to the business for 2014-15.

Aurora Energy's primary focus during 2014-15 will be the retailing of electricity to Tasmanian customers.

The principal objectives of the company as outlined in the *Electricity Companies Act 1997* and the Company's Memorandum of Association are:

- to operate its activities in accordance with sound commercial practice; and
- to maximise its sustainable return to its shareholders.

Aurora Energy pays dividends to the Shareholders which are used by the Government for the benefit of the Tasmanian community.

Shareholders' Statement of Expectations

Aurora Energy's strategic direction for the 2014-15 year and beyond was developed on the basis of a set of underlying business imperatives.

These are:

a) focus the business on the delivery of core electricity retail services on mainland Tasmania;

b) position the ongoing business for full retail competition and ensure that it is market compliant;

c) maintain maximum flexibility for a future divestment of the business in the medium term;

d) operate the business in accordance with sound commercial practice;

e) optimise business efficiency by purchasing support services from TasNetworks or other providers as appropriate;

f) manage the wholesale and other risks of operating in an open and competitive retail market in Tasmania; and

g) maintain a customer-centric focus and efficiently deliver the State's electricity concessions on behalf of the Government.

Aurora Energy's Activities and Operating Environment

Following the commencement of TasNetworks on 1 July 2014, Aurora Energy now functions as a stand-alone retailer in competition with other authorised retailers in Tasmania. The transformation of the retail arm of Aurora Energy into a fully functioning, standalone, State-Owned Company providing electricity retail services for more than 250,000 customers presents a challenging new environment for Aurora Energy.

Since 1 July 2014, all customers have been able to choose their electricity retailer, and a new wholesale contract regulatory framework is in place. A key unknown for Aurora Energy is the level of competition that will enter the Tasmanian market and compete for Aurora Energy's current market share.

To meet this challenge Aurora Energy has undertaken significant work including:

- implementing a new operating model to promote a competitive and sustainable business;
- developing products and services to provide customers with choice in tariffs, contracts and payment methods as well as the manner in which customers choose to engage with Aurora Energy; and
- establishing a co-ordinated transformation program to deliver major change to Aurora Energy's systems, processes and people.

Strategic Direction

The transformation of Aurora Energy into a competitive energy retail business from 1 July 2014 necessitated a new strategic vision to reflect these changes. Aurora Energy's new Vision, ***'Aurora Energy is valued by its customers and provides sustainable returns to the Tasmanian community'***, captures the critical characteristics and elements of success for Aurora Energy, and provides a principal objective for the organisation.

The statement implicitly reflects a targeted state whereby Aurora Energy is efficient, customer orientated, cost-effective, and recognises the value Aurora Energy can provide as a Tasmanian entity to its shareholders and customers. The statement will guide the business through its transformation and future decision making.

Underpinning the Vision Statement are four strategic themes that will enable Aurora Energy to deliver its Vision:

- provide consistent, proactive, strong customer service linked to customer value;
- give due consideration to meeting stakeholder and Tasmanian community expectations;
- application of efficient systems, processes and practices; and
- delivered by committed, capable, valued and passionate people who care about what they do and the important role they play in the community.

Key performance measures

To monitor progress against the strategic focus and objectives outlined above, Aurora Energy has developed a new set of key financial and non-financial performance measures and associated targets for 2014-15.

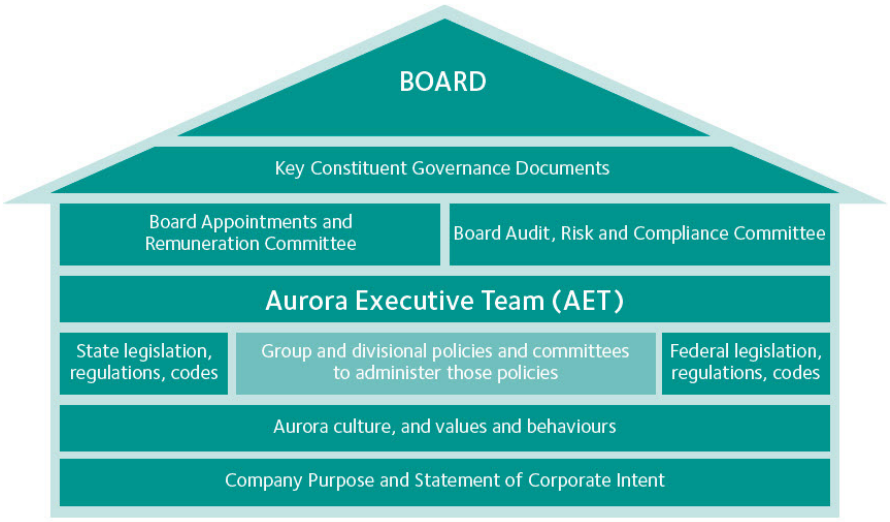
Strategic Theme	Key Performance Indicator	Performance Measure	2014-15 Target
Provide consistent, proactive, strong customer service linked to customer value	Grade of Service	Percentage of calls answered within 30 seconds	70%
	Complaint Frequency Rate	Number of complaints per 100 residential customer complaints	0.5 - 1.0
	Customer retention	Total number of customers	>238,000
Give due consideration to meeting stakeholder and Tasmanian community expectations	Annual profitability	Profit Before Tax	$11.1M
	Returns to Government	Returns to Government (cash)	$23.3M
Application of efficient systems, processes and practices	Improvement in non compliance events related to NECF	% of reduced type 1 NECF compared to prior year result	50%
	Regulated Cost to Serve (CTS) per customer	Cost to Serve within the regulated Cost to Serve allowance	Within the CTS allowance
	Retail Transformation Program Delivery (RTP)	Initiatives underpinning the core business capabilities are delivered on time and on budget	95%
Delivered by committed, capable, valued and passionate people who care about what they do and the important role they play in the community	Rolling 12 month Medical Treated Injury Frequency Rate (MTIFR)	Number of medical treated injuries per 1,000,000 hours worked	<2.8
	Employee initiated turnover	Employee initiated turnover (FTE) as a percentage of total FTE	5%

7. Corporate Governance

Aurora Energy is owned by the Minister for Energy for the State of Tasmania and the Treasurer for the State of Tasmania, who hold their shares in trust for the State Crown. It has a robust corporate governance framework in place.

This corporate governance report is written to reflect the period to 30 June 2014.

Aurora Energy's corporate governance structure:



Board responsibilities

The Board is responsible for the overall corporate governance of the company. It is responsible for setting the company's strategic direction and for monitoring the achievement of its objectives.

The Board approves and monitors the business plan and operating budgets submitted by management. It is responsible for the approval and review of major expenditure items and reviews operating performance on a monthly basis. The Board operates in accordance with its Charter and the Delegations Manual, which sets out its roles and responsibilities.

The Board receives and monitors reports from management on financial and business performance, matters of strategic significance, workplace health and safety, environmental performance, risk, regulatory and policy compliance and human resource management.

Board composition

The company Constitution provides that the number of Directors is to be not less than three and no more than eight unless otherwise resolved. In February 2006 the Shareholders resolved to increase the maximum to nine. As at 30 June 2014 the Board consisted of six Directors.

The Chair is appointed each year by the Shareholders. Directors are appointed for terms of three years by the Shareholders and are eligible for re-appointment. Dr Peter Davis held office as a Director during his position as Chief Executive Officer. Following are the names of the Directors and Company Secretary who have held office during the year along with details of their qualifications, experience and special responsibilities:

Mr Geoffrey Willis (Chairman) was appointed a Director on 29 November 2007 and has been Chairman since 24 November 2011. He was formerly CEO of Hydro Tasmania from March 1999 until his retirement in 2006. Prior to his appointment to Hydro he was Managing Director of the Amcor Paper Group.

Formerly, Geoff was a Director of Aurora Energy subsidiary Aurora Energy (Tamar Valley) Pty Ltd during the construction of the Tamar Valley Power Station and until that company was transferred to Hydro Tasmania.

During the past year Geoff was a member of the Network Integration Transition Board and, subsequently, a Director of TasNetworks from its incorporation until 30 June 2014. In this capacity he provided oversight of the merger of Aurora Energy's Distribution Business with Transend Networks as part of the State Government's reform of the Tasmanian energy sector.

Geoff is presently the Chairman of Colorpak Ltd and a trustee of the Tasmanian Museum and Art Gallery. He previously chaired Tasmania's water and sewerage corporations and the Tasmanian Symphony Orchestra.

He holds a Bachelor of Commerce degree and a Master of Business Administration.

Mr Mervyn Davies was appointed a Director on 25 November 2010. He has been principal and Managing Director of Girna Engineering Management Services since 2003, specialising in the engineering and economics of the electricity distribution industry, and has held senior management roles with Energy Australia.

Mervyn is also a Board member of Electricity Networks Corporation (Western Power), New World Energy Ltd and Energex. Previously, he was a Director of Power and Water Corporation and has recently resumed this role.

Mervyn holds Honours and Masters Degrees in engineering and a Bachelor of Commerce (economics).

During the past year Mervyn was a member of the Network Integration Transition Board and, subsequently, a Director of TasNetworks from its incorporation. In this capacity he provided oversight of the merger of Aurora Energy's Distribution Business with Transend Networks as part of the State Government's reform of the Tasmanian energy sector. Mervyn retired from the Board of Aurora Energy effective midnight on 1 July 2014 to continue his role with TasNetworks.

Ms Caryle Demarte PSM was appointed a Director on 1 April 2006 and is the Chair of Aurora Energy's Board Appointments & Remuneration Committee. Caryle has a strong background in the energy sector, having held roles as General Manager of Victorian Government-owned gas retailer Kinetik Energy and General Manager Corporate Relations, Public and Government Affairs and Retail with TXU.

Caryle is presently the Chair of the Infrastructure Assistance Fund for the Victorian Government and Director of Power Retail Corporation in the Northern Territory.

Formerly, Caryle was a Director of Yarra Valley Water, Synergy, Australia Customer Services Pty Ltd, Victorian Energy and Water Industry Ombudsman and VENCorp. She was the inaugural Deputy Chair and a Director of the Energy Retailers Association of Australia. She has also been a Director of a number of not-for-profit financial sector Boards.

Caryle has a Bachelor of Business and, in 2002, was awarded a Public Service Medal for services to the Victorian community. She is a Fellow of the Australian Institute of Company Directors.

Mr Peter Lowe was appointed a Director on 13 February 2006 and is Chair of Aurora Energy's Board Audit, Risk & Compliance Committee. He is currently on the Boards of Citywide Services Pty Ltd, United Energy Distribution Holdings Pty Ltd, Multinet Group Holdings and Snowy Hydro Limited.

Formerly, Peter held Board roles with Southern Hydro Pty Ltd, GasNet Limited, Meridian Energy Australia Pty Ltd, Norfolk Group Limited and Clever Communications Australia Limited.

Peter has a Bachelor of Commerce and a Master of Business Administration from the University of Melbourne. He is a member of the Australian Institute of Company Directors and a Fellow of CPA Australia.

Peter retired from the Board of Aurora Energy effective midnight on 1 July 2014.

Dr Michael Vertigan AC was appointed a Director on 25 November 2010.

Michael chairs the Australian Maritime College and is Chair of the Expert Panel undertaking a cost-benefit analysis and review of regulation of the National Broadband Network. He is also a Board member of the Commonwealth Superannuation Corporation and the Australian Treasury Advisory Council.

Previously he has been a Director of Eraring Energy and Chair of both the Australian Government Solar Flagship Council and the Australian Government Energy Security Council.

Michael holds an honours degree in economics from the University of Tasmania and a PhD from the University of California (Berkeley). He was awarded an Honorary Doctorate of Laws by the University of Tasmania.

He is a Fellow of the Australian Institute of Company Directors and of the Institute of Public Administration (Australia).

Mr Martin Wallace was appointed a Director on 19 November 2013. He was formerly Secretary of the Tasmanian Department of Treasury and Finance from October 2010 until his retirement in July 2013. Martin has previously held a number of senior executive roles in the Tasmanian public sector. He was a General Manager and member of Aurora Energy's Executive Team from 2004 until 2010. Prior to this he was Deputy Secretary of the Tasmanian Department of Health and Human Services.

Martin has been a Director of the Tasmanian Public Finance Corporation and a member of the State Grants Commission, among a number of Board appointments held during his working career. Martin holds an honours degree in economics and is a member of the Australian Institute of Company Directors.

Dr Peter Davis became a Director following his appointment as CEO on 19 March 2004. Peter is the Chair of EziKey Group Pty Ltd and a Director of the Energy Supply Association of Australia. He is a member of the Council of the University of Tasmania, and chairs its Built Environment Committee. He was previously a Director of Aurora Energy (Tamar Valley) Pty Ltd.

Peter holds a PhD in energy engineering from the University of Queensland and a Master of Business Administration from Deakin University. He is a Fellow of the Institution of Engineers, Australia and of the Australian Institute of Company Directors.

Peter was required to resign from the Boards of Aurora Energy Group and Ezikey Group effective midnight on 1 July 2014. Peter left Aurora Energy on 30 June 2014.

Company Secretary Ms Janelle O'Reilly was appointed on 19 February 2010. Janelle's role is to assist and facilitate the Board, advise on corporate governance, oversee systems to ensure compliance with statutory and regulatory requirements and provide legal advice. Janelle holds an honours degree in economics and law from the University of Tasmania, is a graduate member of the Australian Institute of Company Directors, a Fellow of the Governance Institute of Australia /Chartered Secretaries Australia and has previously acted in similar roles for ASX-listed companies in the building products and agribusiness sectors. She was a Director and Company Secretary of Auroracom Pty Ltd until 30 June 2014 and is Deputy Chair and public officer of Australian Script Centre. Janelle left Aurora Energy on 30 June 2014 and upon her departure, Carolyn Pillans was appointed Company Secretary of Aurora Energy.

Key governance documents

There are a number of key governance documents that provide the backbone for corporate governance at Aurora Energy. These are the:

- Constitution – which sets out the purpose and objectives of the company, what decisions are made by the Shareholders and Directors, and how they are made, among other things;
- Treasurer's Instructions/directions – which direct Aurora Energy in relation to certain acts or omissions from time to time; and
- Shareholders' Statement of Expectations – which on an annual basis gives Aurora Energy a guideline for the contents of its Corporate Plan.

The key governance documents are supplemented by Board-approved documents as follows:

- Board Charter – specifies the Board's purpose and role, powers, guidelines for independence, how Board Committees may be used, the responsibilities of the Chairman, each Director, the CEO and the Company Secretary;
- Board Procedures Manual – specifies how the Board process will be administered;

- Shareholder Communications Policy – sets out the various obligations the company has to communicate with its Shareholders and how these obligations will practically be met by the company;

- Protocols for Subsidiary Governance and Subsidiary Charters – the company's operating subsidiaries have charters that specify their purpose, objectives, operations and financial targets, reporting, dividend and cash flow expectations. Subsidiaries are also bound by protocols that specify the role of their Boards, their reporting obligations, how parent company policies apply to them and how governance is managed for their audit, risk, remuneration and compliance decisions; and

- Delegations Manual – specifies limits of delegated authority to management and reserved functions for the Board.

Board Committees

The Board has two permanent committees, the Appointments and Remuneration Committee and the Board Audit, Risk and Compliance Committee. These committees enable Directors to spend more time considering the detail of matters than Board meetings allow. Each committee comprises:

- non-executive Directors;

- a majority of independent Directors;

- an independent Chairperson, who is not Chairperson of the Board; and

- at least three members.

Membership of each committee is reviewed annually at the December Board meeting. The terms of appointment are at the discretion of the Board, but it is desirable to arrange these to maintain continuity while bringing a fresh perspective to the work of the committee.

At its 28 November 2013 meeting, the Board formed a temporary committee, the Board Retail Transformation Committee to oversee delivery of Aurora Energy's full competition readiness.

Appointments and Remuneration Committee

The Appointments and Remuneration Committee (A&RC) assists the Board to fulfil its corporate governance responsibilities in relation to:

- executive and senior management remuneration strategies and policies for fixed and variable remuneration;

- the adequacy and effectiveness of remuneration strategies and policies and performance pay in general;

- succession planning for the Aurora Energy Executive Team;

- general human resources policies and practices; and

- the performance and remuneration of the Chief Executive Officer.

In addition, the Committee has a role in preparing Director selection criteria.

The A&RC is governed by a charter. It makes decisions with respect to:

- fixed and variable remuneration, key terms of employment and remuneration structure of direct reports to the CEO, the Manager of Business Risk & Internal Audit and the Company Secretary;

- the development, determination and implementation of policies for executive and senior management remuneration and conditions of service;

- the budget for the annual review of executive and senior management remuneration;

- the structure, design and implementation of 'at risk' remuneration and other performance incentive schemes; and

- the total annual payment for 'at risk' remuneration.

The A&RC approves matters such as changes to organisational structure, remuneration practices generally and the company's performance management system. For the remaining matters it considers, it reviews and makes recommendations for Board approval.

In November 2011, Mr Ian Cordiner, a non-Board member, became a member of the Committee. Mr Cordiner has a background in consulting to the construction, mining and banking industries. He is a former General Manager of Henry Jones (IXL) Group, Managing Director of Riverland Fruit Products in South Australia and General Manager Administration of ANL. Ian was a co-founder of the executive search firm Amrop Cordiner King with a particular focus on Board governance and Director search. He is now a coach and mentor to several senior executives and is also a Board member of the National Trust in Tasmania. Ian holds a civil engineering degree and was a Fellow of the Institution of Engineers, Australia and of the Australian Institute of Company Directors.

Board Audit, Risk and Compliance Committee

The Board Audit, Risk and Compliance Committee's (BARCC) primary objective is to assist the Board to discharge its responsibilities to exercise due care, diligence and skill in relation to the integrity of Aurora Energy's:

- internal control system;

- monitoring and controlling business risk;

- financial management;

- regulatory compliance systems;

- improving the credibility and objectivity of the accounting process; and

- improving the effectiveness and independence of the internal and external audit functions, and the communications to the Board.

All matters requiring the approval of the Board are forwarded to the Board as recommendations from BARCC.

The BARCC is governed by a charter that sets out its key responsibilities and objectives.

The financial reports of the Group are reviewed by the Committee and independently audited. The Auditor-General of Tasmania audited the 2013-14 accounts and provided the Directors with an Independence Declaration as required under section 307C of the *Corporations Act 2001*.

Internal audit is managed via a co-sourced model. Company staff undertake and supervise some audits and an external party is contracted to undertake other audits where their specialty resources are beneficial to the audit. KPMG has acted under contract as the external party for the past six years. The contract was put out to competitive tender in 2010 and this resulted in the appointment of KPMG as internal auditor until 30 June 2014. The internal audit plan is set by BARCC each year and focuses on applying checks and balances around the company's key business risks.

The co-sourced arrangement is managed by the Manager Business Risk and Internal Audit in accordance with the internal audit protocols document. The Committee reviews reports on compliance and risk management on a quarterly basis. It considers each reported non-compliance and monitors how key business risks and their controls change and new risks emerge. Further detail on risk management processes of the company are provided later in this Report.

Board Retail Transformation Committee

The Board Retail Transformation Committee (BRTC) was responsible for overseeing delivery of Aurora Energy's full competition readiness. The outcomes of the Committee informed the Tasmanian Electricity Supply Industry (TESI) Reform Program of the requirements for retail success as a stand-alone retail business.

The Committee provided due diligence and oversight on behalf of the Aurora Energy Board by:

- monitoring progress against key deliverables and milestones as defined in the Statement of Expectations;
- providing oversight of the Aurora Energy Retail Strategic Plan and corporate planning process;
- providing oversight on a new policy approach including in relation to culture, cost structures and delegated authorities;
- reviewing the governance arrangements for Aurora Energy retail reform periodically and providing advice to the Aurora Energy Chief Executive Officer and Chief Executive Officer (Designate) on any matters that need to be reconsidered as the TESI Reforms progress including:
    - considering linkages and synergies with other aspects of the Board approved TESI reform program (including financial structure);
    - providing guidance to the Aurora Energy Executive Team and the Aurora Energy Retail Management Team on Group relevant material issues; and
    - considering implications of the transition to the merged network for the Retail Transformation Program as the relationship with TasNetworks is defined.

The Committee was also responsible for approving any material scope and budget change presented by the CEO Designate or requested by the Government. It concluded its work in June 2014.

In June 2013, Aurora Energy appointed a Board Observer for 12 months. The Board Observer role was offered as a training and development opportunity for a Tasmanian who was an aspiring future Director. The Board Observer is not a Director or member of management, but attends Board and Committee meetings with a view to experiencing 12 months of corporate governance at Aurora Energy. An advertisement was placed in conjunction with the Australian Institute of Company Directors and Ms Gina Butler was appointed to this role. Ms Butler was at the time Nursing Director – Safety & Quality in the Tasmanian Department of Health and Human Services. She served in this role from July 2013 until May 2014 when she left to take up an employment opportunity overseas.

Board meetings

The Board meets monthly. The BARCC and A&RC each meet approximately five times a year and as otherwise required. The BRTC met approximately fortnightly over a six month period from January 2014.

The members of the BARCC for 2012-13 were P.S. Lowe (Chair), M.J. Vertigan AC, G.L. Willis and from 19 November M. Wallace. The members of the A&RC for 2012-13 were C. Demarte PSM (Chair), I. Cordiner (a non Board Committee member), M.J. Davies and G.L. Willis. The members of the BRTC were G.L.Willis (Chair), C. Demarte PSM and M. Wallace.

The number of meetings (including Committee meetings) attended by each Director while in office during the financial year appear in the table below.

Board meetings and permanent committees attended by Directors for the period 1 July 2013 to 30 June 2014

Name	Board meetings held while eligible to attend	Attended	Audit, Risk & Compliance meetings held while eligible to attend	Attended	Appointments & Remuneration Committee meetings held while eligible to attend	Attended	Retail Transformation Committee meetings held while eligible to attend	Attended
G.L. Willis	13	13	6	6	10	10	8	8
M.J. Davies	13	13	-	2	10	10	-	-
C. Demarte PSM	13	11	-	2	10	10	8	5
P.S. Lowe	13	13	6	6	-	-	-	-
M.J. Vertigan AC	13	12	6	6	-	-	-	-
M.J. Wallace#	7	7	3	3	-	-	8	8
P.L. Davis*	13	13	6	6	10	9	8	6
I. Cordiner+ (non-Board member)	-	-	-	-	10	9	-	-

* Director Davis is not a member of any Committees but attends meetings by standing invitation

\- This Director is not a member of this Committee

\+ Non-Board member Ian Cordiner is a member of the Appointments and Remuneration Committee.

\# Director Wallace commenced his directorship on 19 November 2013.

No overseas travel was undertaken by the Directors or the CEO during the 2013-14 financial year, with one overseas trip undertaken by an employee. The total cost of this trip was $11,062.

Aurora Executive Team

The Aurora Executive Team provides leadership to the Aurora Energy Group. It was responsible for implementing the corporate and operational objectives and business plans of the company and making key decisions about how Aurora Energy operates. With the exception of CEO (Designate), each of these roles became redundant on 30 June 2014 and the incumbents left the company.

Dr Peter Davis

Chief Executive Officer

Appointed in March 2004, Peter has more than 30 years of experience in the energy industry and is also a member of Aurora Energy's Board. Peter's biography appears on page 14 as part of the Board composition. Peter left Aurora Energy on 30 June 2014.

Mrs Rebecca Kardos

CEO Aurora Energy Pty Ltd (Designate until 30 June)

Rebecca joined Aurora Energy in February 2014 as CEO-Designate from Synergy, where she was General Manager Retail with overall responsibility for approximately one million residential and non-contestable small to medium business customers.

Prior to this, Rebecca held senior positions within the utilities sector in Australia and New Zealand, including General Manager Retail with the Power and Water Corporation in the Northern Territory.

Rebecca is responsible for 'business as usual' activities in the Energy Business, including sales, billing, complaints handling and call centre services, and leading Aurora Energy through the preparation for and introduction of full retail contestability from 1 July 2014.

Rebecca became CEO of Aurora Energy Pty Ltd on 1 July 2014.

Mr Darren Smith

Chief Financial Officer and Head of Commercial Services Division

Appointed in November 2008, Darren was previously Company Secretary and Chief Financial Officer in the energy, mining and infrastructure-related industries. He has broad experience in a number of countries working within business as usual and transformation environments. He holds a Bachelor of Science (Accounting) and is a graduate member of the Australian Institute of Company Directors, an affiliate member of the Australian Institute of Chartered Secretaries and the Institute of Chartered Accountants in England and Wales.

Darren oversees a range of corporate services including accounting, taxation and finance, treasury management, supply chain services, fleet and facilities, energy risk and information technology (operations and projects). He is a former Director of Aurora Energy (Tamar Valley) Pty Ltd and was a Director of Auroracom Pty Ltd until 30 June 2014. Darren left Aurora Energy on 30 June 2014.

Mr André Botha

Former Chief Operations Officer– Distribution Business

Appointed as COO Distribution Business on 1 September 2011, André had been General Manager Network Distribution Business since February 2010. Prior to joining Aurora Energy, he was General Manager Networks & Operations at Unison Networks, Network Development Manager at Vector Ltd (New Zealand) and Chief Engineer with Eskom (South Africa). He holds a Bachelor of Electrical Engineering, Master of Electronic Engineering and Postgraduate Diploma in Business. Andre left Aurora Energy in December 2013.

Mr Warren Batchelor

Chief Operations Officer – Distribution Business

Warren was appointed Chief Operations Officer - Distribution Business in December 2013. He previously held the positions of Program Manager - Retail Reform, Stream Lead - Network Integration and General Manager Asset Investment and Performance with Aurora Energy, after joining the business in 2011. Prior to that, Warren held senior roles at Alto Packaging and Unison Networks in New Zealand. He holds both a Bachelor and Masters degree in electrical engineering.

Warren has responsibility for the management, development and operation of the distribution system, regulatory, commercial and customer services, and field services delivery. He also hosted the safety, health and environment function that is provided to the wider business, and was the CEO and Director of subsidiary EziKey Group Pty Ltd from December 2013 until 30 June 2014. Warren left Aurora Energy on 30 June 2014.

Mr Rick Inglis

General Manager Strategy and Corporate Affairs Division and General Manager Reform Transition

Appointed in October 2010, Rick was previously Group Manager Strategy & Development and Manager Forecasting & Analytical Services at Aurora Energy and before that, Director of Procurement & Property Branch and Assistant Director, Office of the Secretary at the Department of Treasury & Finance in Tasmania. He holds a Bachelor of Economics with Honours and is a graduate member of the Australian Institute of Company Directors.

As General Manager Reform Transition to lead Aurora Energy's role in reform of the Tasmanian electricity industry; Rick is responsible for leading Aurora Energy's strategic direction. His division also has responsibility for managing Aurora Energy's relationship with its shareholders, public and stakeholder relations, internal communications, market monitoring and policy coordination and major strategic projects. Rick left Aurora Energy on 30 June 2014.

Ms Janelle O'Reilly

General Manager Governance Division, Company Secretary and General Counsel

Janelle has been Aurora Energy's Company Secretary and General Counsel since February 2010 and became General Manager of Governance on 1 January 2011. She is responsible for legal services, compliance, information management and business risk, and she was also the co-ordinator for crisis and emergency management planning for Aurora Energy. See page 14 for further details as part of the Board composition. Janelle left Aurora Energy on 30 June 2014.

Ms Janelle Whittle

General Manager People and Culture Division

Janelle was appointed to this role in December 2012, after acting in it since July 2012. She previously held the positions of People Manager in Aurora Energy's Distribution Business and Employee Relations Manager for the wider business. Prior to working at Aurora Energy, Janelle was Manager Personnel Services at Tassal Pty Ltd. She holds a Bachelor of Commerce degree.

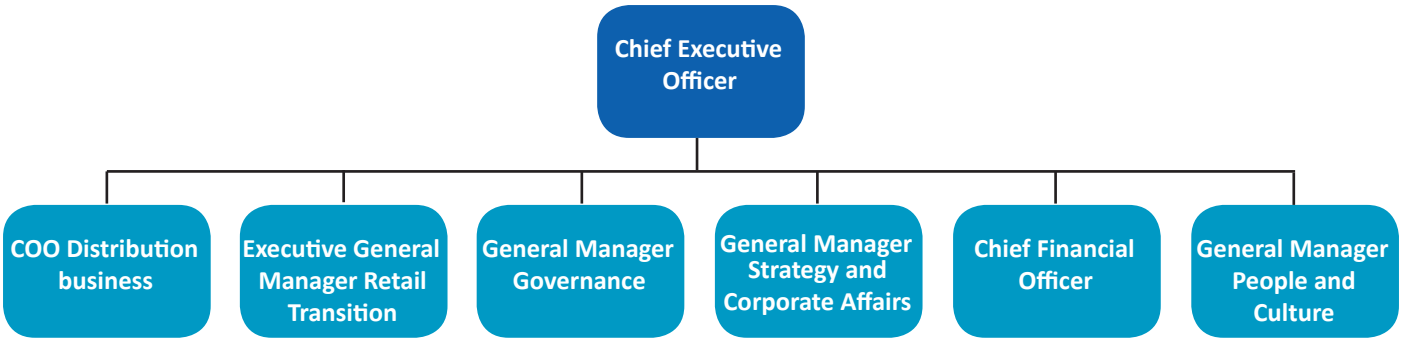
Janelle is responsible for human resource strategy, culture and change management, recruitment, employee relations, remuneration and benefits and organisational development across Aurora Energy. Janelle left Aurora Energy on 30 June 2014.

Mr Rod Wilkes

Former Executive General Manager, Retail Transition

Rod was appointed to this role in March 2013. As a member of the former Country Energy/Essential Energy executive team, he played a lead role in preparing the Country Energy retail business for sale as part of the NSW Government's energy reform process. He then led the successful implementation and delivery of retail customer services on behalf of Origin Energy, through a Transition Services Agreement. Rod holds a Bachelor of Business degree. Rod had been preparing the retail customer book for sale and the business for delivery of transitional services arrangements to new retailers when the sale was withdrawn. Having already commenced worked on transforming the Retail Business to prepare for full retail competition, he left this position in February 2014 when the CEO (Designate) took on 'business as usual' and transitional responsibilities.

Aurora Energy organisational chart 2013-2014



Legislative compliance

Aurora Energy is subject to a large amount of legislation at a state and federal level. Key pieces include safety, environmental, electrical industry, corporations and consumer legislation. It also needs to ensure compliance with its internal Group and Divisional policies.

The company manages compliance via an integrated compliance framework. The three components of the model are:

- a policy for managing compliance – the Board and CEO have approved Group policies outlining the company's model corporate citizen objective and its approach to compliance and non-compliance
- a framework for managing compliance – compliance is managed by complementary components of the CEO and the Aurora Energy Executive Team, the Management Compliance Committee, the Group compliance program, compliance plans and complaint management, with regular reporting provided to the Board Audit, Risk and Compliance Committee
- activities for managing compliance – due to the diversity of the business, activities for managing compliance occur at divisional/ functional/ subsidiary and Group levels.

Independent oversight

As part of the existing legislative framework for energy, Tasmania has two independent offices with an oversight role:

- The Office of the Tasmanian Economic Regulator, which acts as an independent economic, technical and safety regulator
- The Office of the Energy Ombudsman, which acts as an independent mediator in disputes between the electricity and gas industries and their customers.

The Australian Energy Regulator oversees the business in relation to the Regulatory Price Submissions from 2012 onwards. The Office of the Ombudsman more generally investigates the administrative actions of public authorities to ensure that their actions are lawful, reasonable and fair, and reviews Aurora Energy's decisions under the *Right to Information Act 2009*, *Public Interest Disclosures Act 2002* and *Personal Information Protection Act 2004*. Each of these Acts and matters raised during the year are discussed further below.

The Integrity Commission and the Legislative Council have general oversight powers in relation to entities including state-owned corporations. These bodies have not raised any issues in relation to Aurora Energy during 2013-14, however, during the year the Integrity Commission undertook an Agency Integrity Mapping Project whereby 27 key agencies were interviewed about public sector integrity, gaps that exist, good practices and areas where the Commission can assist an agency. The Commission was pleased to advise that Aurora Energy appeared to exhibit best practice in many areas. The Commission went on to say that a key feature of public sector accountability is that agencies report how they meet important obligations such as educating on ethics under s 32 of the *Integrity Commission Act 2009.* Please refer below for this information.

Public Interest Disclosures Act

Aurora Energy is subject to the *Public Interest Disclosures Act 2002*. This Act is intended to encourage and facilitate the disclosure of improper conduct by public officers and public bodies. The Act provides protection to persons who make disclosures in accordance with the Act and establishes a system for the matters disclosed to be investigated and for rectifying actions to be taken.

Aurora Energy has developed a policy and procedures establishing a system for reporting disclosures of improper conduct or detrimental action by Aurora Energy, its employees or officers. The procedures are available for viewing at auroraenergy.com.au or by contacting the Protected Disclosure Officer, Aurora Energy Pty Ltd, GPO Box 191, Hobart Tasmania 7001.

No reports were made in 2013-2014 period under this regime.

Right to Information Act

Aurora Energy is committed to complying with the *Right to Information Act 2009* and acts in a fair and objective manner with a view to ensuring that the spirit of the Act is upheld. Details about the Act and the company's obligations under it are available for viewing at auroraenergy.com.au/about/about-aurora/policies/right-to-information

During the 2013-2014 year, widespread training was held across the company to ensure individuals understood Aurora Energy's responsibilities under the Act and how they tie into good information management practices.

During the 2013-2014 financial year, a total of three formal applications for Assessed Disclosure were received. In one of the determinations, the information applied for was provided in full, in the second case the information applied for was provided in part, and in the third the information sought was not in existence at the time that the application was made. Aurora Energy also provided information to another government authority in relation to a Right to Information Application that it had received.

It is the company's intention to promote the objectives of the Act by implementing a policy of routinely publishing information that it considers to be of interest to the public, which is significant, appropriate, accurate and not otherwise exempt. To that end, Aurora Energy has developed a Publications Register that allows the public to access such information. The register provides access to records by listing in summary information about a matter/incident/release and includes the title of the record, date of its release and a description. A search facility is provided in order to access other items contained in the register that may not be visible on screen. The Publications Register can be accessed at http://publications.auroraenergy.com.au/.

Personal Information Protection Act

Aurora Energy is subject to the *Personal Information Protection Act 2004* ("the PIP Act") which prescribes Personal Information Protection Principles for Tasmania. Aurora Energy also has privacy obligations under other legislation (such as the *Electricity Supply Industry (Tariff Customers) Regulations 2008*) in various jurisdictions in which it operates and has adopted the National Privacy Principles under the *Privacy Act 1988* (Cwth).

During the 2013-2014 financial year Aurora Energy received several applications and general enquires pursuant to the Personal Information Protection Act. All have been determined or resolved.

Governance framework guide for Tasmanian Government Businesses

The Tasmanian Government, through the Department of Treasury and Finance, has issued a Governance Framework Guide for Tasmanian Government Businesses.

The guide references the eight core principles underpinning good corporate governance as recommended by the ASX Corporate Governance Council for listed companies (as they were at the time the guide was issued). While noting that the principles were not mandated, the Shareholder ministers expressed an expectation that the core principles, where relevant, would be adopted by government business Boards.

Aurora Energy has adopted, where applicable, practices in compliance with those core principles as described below.

Principle 1 - Lay solid foundations for management and oversight by the Board:

The Board and its delegations

The Board holds monthly meetings and an annual strategy day at which it sets the strategic directions and objectives for the company. In addition, it approves and monitors the Corporate Plan including operating budgets and receives and reviews operating, financial, energy trading risk, safety and environmental performance on a monthly basis. A Board charter sets out the responsibilities of the Board, the CEO and the Board Chair. It also specifies the role of each of the Board committees as discussed earlier in this report.

A Delegations Manual details limits of delegated authority to management and reserved functions for the Board. Management's responsibilities are also well defined in company policies and position descriptions.

The Board has put in place governance protocols and charters for the oversight of its subsidiary companies. These provide protocols in relation to the application of Group policies, delegations and reporting to the parent company and are reviewed as and when required. The Board Chair, Chief Executive Officer and senior management attend and respond to questions at the annual Government Businesses Parliamentary Scrutiny Committee.

Directors' induction

Newly appointed Directors are provided with an introductory letter from the Chair setting out the key terms and conditions of their appointment. The company has a Director induction program in place that involves the provision of a Directors' handbook containing key corporate documents and facilitation of site visits and meetings with the CEO, senior executives and other key personnel. The induction aims to enable the new Director to gain an understanding of the company's financial, strategic, operational and risk management position, their rights, duties and responsibilities, the role of the Board and committees and meeting timetables and processes. Aurora Energy's Board Observer undertook a similar induction process.

Senior management committees

Senior management has established a key committee structure to provide assurance across diverse areas of the business. Committees chaired by members of the Aurora Energy Executive Team include Energy Risk Assurance; Treasury; Safety, Health, Sustainability and Environment; Management Compliance and Regulatory Environment. Senior management also participate in a number of issue or project-specific steering or management committees and attend Board and Board committee meetings as required.

During the year management steering committees have been used to oversee the many aspects of industry reform being implemented by the company including Full Retail Contestability, Retail Reform and Network Integration. A Reform Steering Committee that comprises the Aurora Executive Team also oversees all aspects of reform.

Senior management performance management

In 2011-12 the company incorporated competency assessment into its performance management process for all levels of staff and management.

The core competencies for all employees are Accountable, Customer Centric, Improvement Focus, Decision Making, Teamwork, Communicative, Safety, Health and Environment. This process also involves the assessment of performance against the delivery of key performance indicators, set using 'SMART' methodology, as well as the demonstration of competency. Senior managers are also set targets for whole of company, divisional, personal and safety performance. The company makes use of Lifestyle Inventory tools, which include performance in relation to company values and behaviours.

The Board Chair assesses the performance of the Chief Executive Officer with input from the other Board members, and the Board oversees the assessments of the Aurora Energy Executive Team undertaken by the Chief Executive Officer.

Principle 2 - Structure the Board to add value:

Independence and appointments

The Board of Directors, including the Chair, comprises of independent non-executive Directors (with the exception of the CEO when he was a Director prior to 1 July). Independence criteria are set out in the Board Charter. The composition of and appointments to the Board are prescribed by the company's Constitution and the Guidelines for Tasmanian Government Businesses. Appointments are made directly by the two Shareholders. Their appointment is for a term of up to three years. Non-executive Directors, except in special circumstances, would not normally serve more than three such terms.

Details of Directors' skills, qualifications and experience are set out earlier in this Corporate Governance report, as are their attendances at meetings.

The Board has adopted the processes recommended in the Tasmanian Government Business Guidelines for the selection and appointment of new Directors to the Board and for the reappointment of Directors whose terms expire. This process involves a Director selection panel and a past-performance evaluation for those Directors seeking re-appointment and was used to appoint the company's current Chairman. Given the TESI reforms this process was not used in 2013 when the Shareholders determined that they would maintain the current Board, and augment it with the experience of Director Wallace, until the TESI reforms were complete.

Directors have a responsibility to avoid conflicts of interest where possible. Directors disclose their personal interests including other directorships upon joining the Board and declare any changes at the beginning of each Board meeting. Where a Director has a material personal interest in a matter being considered by the Board, the Director must declare that interest, and must not be present while the matter is being considered, or vote on the

matter unless permitted to do so by the Corporations Act. The Chief Executive Officer of the Group, Dr Davis, was appointed to the position of Director in accordance with the requirements of the Guidelines for Tasmanian Government Businesses on the recommendation of the Board. The CEO resigned from the office of director consequently after his position became redundant on 30 June 2014. The CEO from 1 July 2014 has not been appointed a Director of the company.

Board assessment processes

The Board Chair facilitates a performance review for the Board, the committees and Directors. The Board has established a formal performance assessment process for the evaluation of individual Directors and the performance of the Board as a whole, which it typically uses every third year. These assessments are based on peer review, input from senior management and external evaluation. In other years it has used informal processes to assess skills and Board and committee performance. In 2013 and 2014 it was determined that a formal performance assessment was not warranted given the timeframe for the current Board was limited by the TESI reforms; however, informal processes were used in both years to assess current skills and performance.

Access to education, training and independent advice

Pursuant to the Board Charter, Directors may seek independent professional advice on any aspect of Aurora Energy's business at the company's expense to assist them to carry out their duties as Directors. In addition, the Company Secretary is accessible to all Directors for advice and assistance. All Directors are encouraged to participate in continuing education and training and other professional development activities. The company may contribute to payment for attendance at such development activities.

Principle 3 - Promote ethical, responsible decision-making:

Group policies

Aurora Energy has a number of Group policies applicable to all its people that promote ethical and responsible decision-making including the Code of Conduct, Delegations Manual, Group Compliance Policy, Probity Policy, Public Interest Disclosures (Whistleblower) Policy, Fraud and Corruption Policy, and Risk Management Policy. These Policies are being progressively reviewed to be fit for purpose for the restructured company from 1 July.

The Group Compliance Policy provides that in both its commercial and non-commercial activities, Aurora Energy shall endeavour to act as a model corporate citizen by acting in an ethical manner and in accordance with the spirit, as well as the letter, of the law.

These policies apply to the Board, all staff and contractors and consultants to the extent relevant when carrying out Aurora Energy's work. Breaches of all policies are required to be reported as non-compliances and these non-compliances form reports that are prepared for the Aurora Executive Team, with those that are most serious also being reported to the BARCC. The BARCC also receives an annual report on the company's compliance performance. Special non-compliance reporting arrangements exist for key governance policies to provide those wishing to make reports with confidentiality, support and, if necessary, anonymity.

Code of Conduct and Ethics Training

The Code of Conduct sets the standard of behaviour for working at Aurora Energy. It reflects Aurora Energy's commitment to the highest standards of honesty and integrity in meeting the needs of external and internal customers, stakeholders and the wider community.

During 2013-14, training on ethics, including the Code of Conduct, continued to be carried out across the company for new starters. In addition, mandatory refresher training was carried out in June and July 2014 by Team Leaders with their groups to remind everyone of the nine Code principles and to discuss any lessons or reflections from the past year. The CEO emphasised its importance in his internal communications and reflected on the refresher training the Board had received.

Refreshed copies of the Code of Conduct and an ethics checklist were distributed to all training attendees, who signed off that they had read, understood and would comply with the Code. Attendance at the refresher training each year is a compulsory licence for the continuing employment of all Aurora Energy staff. A new employee starter pack contains a copy of the Code of Conduct and the induction training incorporates an online session on the Code. The Chair of BARCC, Director Lowe made himself available to receive reports on Code of Conduct breaches.

This provides an independent avenue of reporting for staff who may feel they cannot make a report to someone internal at Aurora Energy.

Aurora Energy considers that this ongoing work demonstrates fulfilment of its obligation to educate its staff on ethics as required by s 32 of *the Integrity Commission Act 2009.*

Directors' responsibilities

Directors are required, pursuant to the Board Charter, together and individually, to be aware of and comply with their legal, statutory and equitable duties and obligations when discharging their duties as Directors. The Board Charter expressly requires compliance with Aurora Energy's policies including the Code of Conduct.

The Board Charter further reinforces the duties of Directors in decision-making and conduct, specifying the expectations they must meet when making decisions as part of the Board process, including meeting their Directors' duties and avoiding conflicts of interest.

Oversight

Aurora Energy is subject to many oversight and checking regimes in relation to the decisions it makes, including the *Public Interest Disclosures Act 2002*, the *Right to Information Act 2009*, the Integrity Commission, Parliamentary scrutiny hearings and the Legislative Council as discussed earlier in this Report.

Performance management

Decision-making is a core competency that is assessed for every staff member during their performance review process.

Principle 4 - Safeguard integrity in financial reporting:

Board Audit Risk and Compliance Committee (BARCC)

The BARCC comprises independent Directors with duties and responsibilities to oversee matters of financial integrity. A full report on the BARCC's role and its members is given earlier in this report. The role of the Chair of the Committee is not held by the Chair of the Board.

Audit

The Internal Audit function is provided through a co-sourced function model utilising external as well as internal resources. The Internal Audit Plan is prepared based on Aurora Energy's risk

profile and is approved by the BARCC. The external auditor is the Auditor-General for Tasmania, however, Ernst & Young was contracted to undertake the external audit in 2013-14. The Auditor-General or his representative regularly attends meetings of the BARCC. In addition, during 2013-14 representatives of Ernst & Young attended meetings of the BARCC that were relevant to the financial reports and their audit for that year. Both the Manager of Business Risk and Internal Audit and the outsourced internal audit provider attend all meetings of the BARCC.

Financial statements

The Chief Executive Officer and the Group Manager Finance give detailed written undertakings to the Board providing assurances that the Group's financial reports present a true and fair view and are in accordance with relevant accounting standards.

Consistent with S295A of the Corporations Act, which applies to Listed Companies, the Aurora Energy CEO and Group Manager Finance have provided a written statement to the Board that:

- their view on the company's financial report is founded on a sound system of risk management and internal compliance and control, which implements the financial policies adopted by the Board; and
- the company's risk management and internal compliance and control system is operating effectively in all material respects.

In relation to written statements of the CEO and Group Manager, the Board agrees with ASX on this matter and notes that due to its nature, internal control assurance can only be reasonable rather than absolute. This is due to such facts as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

In response to this, a compliance and internal control questionnaire must be completed by key management personnel and certain senior managers of Aurora Energy's business units, including senior financial personnel, in support of these written representations. With respect to the current year, the outgoing Key Management Personnel of the Group provided representations as at 30 June 2014 to the incoming Chief Executive Officer on 1 July 2014 and the person responsible for the Chief Financial Officer function, the Group Manager Finance.

Financial reporting and comparison to Budgets and latest forecasts is part of the monthly management reporting to the Board.

Principle 5 - Make timely and balanced disclosure:

Aurora Energy is not a listed company and therefore does not have reporting obligations to any stock exchange. However, it reports to its Shareholders in accordance with statutory obligations, shareholder directions and obligations provided in the Company's Constitution, including via its Corporate Plan, a half-yearly report, post-Board briefings and an annual report.

The Aurora Energy Constitution places an obligation on Directors to notify Shareholders where matters arise that may prevent or significantly affect the achievement of strategic or financial objectives or targets. The Board assesses as necessary whether any such notification is required and Shareholders are given regular, less formal briefings on key issues and developments.

The Board-approved Shareholder Communications Policy summarises the company's disclosure obligations to Shareholders and stipulates how they will be met by the company on a day-to-day basis.

Principle 6 - Respect the rights of Shareholders: disclosure

The company has formal reporting obligations under its Constitution and applicable legislation and as noted above, has a Board-approved Shareholder Communications Policy. The relationship with the Shareholders and the wider community is recognised in the company's stated purpose – to see the Tasmanian community prosper from our efforts.

The Shareholders are briefed on the company's strategic plans and the company Chair and CEO regularly participate in less formal briefings with the portfolio Shareholders following meetings of the Board. At the company's AGM, the CEO provides the Shareholders with an update on performance.

Dividend

After finalising the Company's accounts each year, the Board makes a dividend recommendation to the shareholding ministers in accordance with the dividend requirements of the Corporations Act and the Government's dividend policy. The $40 million dividend declared by Aurora Energy for the year ended 30 June 2014 was not paid prior to 30 June 2014. This dividend will be paid by TasNetworks in December 2014 as prescribed in the gazetted Transfer Notice dated 25 June 2014.

Principle 7 - Recognise and manage risk:

Aurora Energy has traditionally been exposed to risks such as supply interruptions as a result of technical failures or water shortages, damage from bushfires or injuries to the public or employees resulting from negligence. Aurora Energy needs to manage the opportunities and challenges arising from operating in a competitive market as well as responding to changes to the external environment as the industry shifts. This includes managing the risks associated with changes from economic and other jurisdictional pressures as well as industry and government reforms.

The business manages these risks in accordance with the Aurora Energy Group Risk Management Policy. This policy is supported by a complementary integrated risk management model that outlines how risk management is to be applied across Aurora Energy to ensure consistency and efficiency.

Aurora Energy is committed to the effective management of its business risks to achieve the organisation's stated vision, purpose and strategic objectives:

- Our purpose – to see the Tasmanian community prosper from our efforts;
- Strategic focus – to meet customer needs at the lowest sustainable cost.

To achieve this, Aurora Energy:

- prepares and delivers a risk management plan, including strategies for managing key business risks;
- integrates effective risk management, in accordance with the company's integrated risk management model and 'risk mastery' culture, into all business and management activities and appropriate policies;

- makes the necessary resources available to assist those accountable and responsible for managing risk;
- mitigates risk exposures to a level that is in accordance with Aurora Energy's risk appetite;
- manages risks in a manner that is commensurate with expectations of its Shareholders and its legal obligations;
- undertakes regular reporting of the corporate risk profile to the BARCC with the respective Board reviewing the associated risk management strategies; and
- undertakes reporting of key business risks and strategies for managing these risks to key stakeholders.

Aurora Energy's fundamental, underlying risk principles are consistent with AS/NZS ISO 31000:2009. Aurora Energy's internal audit group performs regular audits of mitigating actions on internal controls identified. The group is independent of management and reports functionally to the BARCC.

Principle 8 - Remunerate fairly and responsibly:

Appointments and Remuneration Committee

The Board has established an Appointments and Remuneration Committee that is accountable for ensuring that Aurora Energy's remuneration policies and practices are responsible and effective.

Under its charter, the Committee is responsible and accountable to the Board for a range of human resource related matters including executive and senior management remuneration strategies and policies in accordance with Shareholder expectations, endorsing executive management appointments, terminations and succession planning, the company's recruitment, retention, and termination procedures for Senior Executives, significant changes to organisational structures, the enterprise agreement strategy including the wages budget and bargaining arena. The Committee recommends to the Board any annual adjustments to CEO remuneration based on market movement and industry practice, and performance is assessed by the Board Chair with input from the remainder of the Board.

The Committee is responsible for the Board appointments process as established by the Guidelines for Tasmanian Government Businesses – Board Appointments.

Remuneration policy

Aurora Energy has an Enterprise Agreement approved by the Fair Work Australia Commission. The Enterprise Agreement determines the terms and conditions of employment for the majority of the workforce. The company also has an Executive Management Remuneration Policy approved by the Board, which determines the salary and financial benefits applied to the company's executive and senior management.

The Appointments and Remuneration Committee is responsible for endorsing development and succession plans for executive management positions.

A Director and Executive Remuneration Guideline has also been issued and a direction provided by the Shareholders which requires compliance after a period of transition.

Directors are remunerated in accordance with a salary structure advised by the Treasurer, according to a band structure based on the net assets and complexity of each business. There is no scheme for retirement benefits other than superannuation.

Assessing performance

As discussed above, all Aurora Energy employees participate in performance management reviews twice each year. This process includes the assessment of performance against the delivery of key performance indicators, set using 'SMART' methodology, as well as the demonstration of competency in selected core, technical, professional and leadership categories selected for their particular roles.

In addition to the Corporate Governance Principles, a Governance Framework Guide and specific guidelines have been issued by the Tasmanian Government in relation to: Board Appointments; Appointing the CEO as a Member of the Board; Capital Investment, Corporate Planning, Debt Maturity Structure, Director Induction, Education and Training; Assessing Board Performance; Subsidiary Companies and Joint Ventures; Government Business Borrowings; Dividends; Overseas Travel; Reporting Guidelines; Debt Maturity Structure and Guarantee Fee Policy.

Aurora Energy has, where appropriate for its particular circumstances, adopted practices and procedures in compliance with those guidelines.

The Tasmanian Government's Principles for Strengthening the Oversight and Governance of Government Businesses also apply to Aurora Energy.

8. Directors' report and financial statements

Directors' Report

Directors' report on the Operations of the Company and its Controlled Entities and on the Financial Report for the Financial Year Ended 30 June 2014.

The Directors present their report on operations of the Company and its controlled entities together with the financial report for the financial year ended 30 June 2014, and the independent audit report thereon.

Directors and Company Secretary

The Directors of the Company in office between 1 July 2013 and the date of this report were Mr G. Willis, Ms C. Demarte PSM and Dr M. Vertigan AC. Mr M. Wallace joined the Board on 19 November and remained a Director at the date of this report.

Mr P. Lowe, Mr M. Davies and Dr P. Davis were Directors from 1 July 2013 until they resigned effective at midnight on 1 July 2014 to coincide with the effective time at which the Transfer Notice transferred all relevant assets, rights and liabilities of the distribution and telecommunications business to Tasmanian Networks Pty Ltd (TasNetworks).

Ms J. O'Reilly was the Company Secretary between 1 July 2013 and 30 June 2014. Ms C. Pillans was the Company Secretary between 1 July 2014 and the date of this report.

Principal Activities

The principal business activities during the year were the retailing and distribution of electricity within the State of Tasmania.

The Company also operated a telecommunications business and was retailing gas in Tasmania.

As part of the Tasmanian Government's reforms to the electricity supply industry, Aurora Energy's distribution and telecommunications businesses and the State-owned transmission network were integrated to form TasNetworks, a single combined network business, from 1 July 2014. All relevant assets, rights and liabilities were transferred to TasNetworks at this date.

Following the net asset transfers, and with the introduction of full retail contestability from 1 July 2014, Aurora Energy's principal activity in 2014-15 will be the retailing of electricity to Tasmanian customers.

Review and Results of Operations and State of Affairs

The year to 30 June 2014 was one of major change for Aurora Energy, with the business being impacted by a number of significant initiatives and issues, including:

a) preparation for the transfer of Aurora Energy's distribution and telecommunications businesses to a new entity TasNetworks on 1 July 2014. Initiatives in the year included significant workforce planning and redundancy management, preparatory information technology projects and significant business analysis. These transferred businesses constitute the significant majority of Aurora's operations and asset base until 30 June 2014;

b) preparation for, and management of, the sale process of Aurora Energy's retail customers in bundles to new, competing, private sector retailers until this sale process was ultimately abandoned in September 2013;

c) following the abandonment of the sale process, the retail business refocussed to prepare for a full retail contestability environment post 1 July 2014. Initiatives included implementing a new organisational structure and process and systems transformation activities to prepare Aurora Energy to operate on a smaller scale and as a standalone entity following the separation of the distribution and telecommunications businesses on 1 July 2014;

d) delivery of significant information technology systems solutions that were required for the introduction of full retail contestability from 1 July 2014; and

e) lower energy consumption affected business performance, with consumption showing an overall decline of 2.99 per cent compared with 2012-13.

Despite the significant change initiatives and declining energy consumption, Aurora Energy's performance was strong.

The following table outlines key financial information for the consolidated group:

Indicator ($M)	2013-14	2012-13	Var.
Operating Revenue	1,201.5	1,557.9	(356.4)
Profit Before Tax	65.1	73.6	(8.5)
Total Comprehensive Income	65.9	59.0	6.9
Underlying Profit Before Tax*	83.1	75.7	7.4
Property, Plant and Equipment	1,466.6	1,420.9	45.7
Net assets	563.0	554.9	8.1
Gearing (%)	56.8%	57.2%	0%
Capital Expenditure on property, plant and equipment and intangible assets	138.7	113.9	24.8
Net Borrowings being gross borrowings less cash & cash equivalents	717.9	745.0	(27.1)
Shareholder Returns^	70.7	37.9	32.8

**Underlying Profit Before Tax is Profit Before Tax excluding customer contributions, unrealised financial instrument fair value movements, restructuring costs and electricity industry reform operating costs.*

^ Shareholders returns is calculated on a cash basis and includes dividends paid and other distributions.

Operating revenue decreased year on year due to the divestment of the Tamar Valley Power Station, the transition out of retailing activities on mainland Australia and a regulated price reduction of 5.22 per cent on 1 January 2014. Aurora Energy also experienced lower consumption and external contracting activities, driven by a range of external factors.

Profit before tax for the year decreased by $8.5 million to $65.1 million reflecting the impact of electricity reform and restructuring costs, partially offset by benefits realised from prior year restructuring and transformation activities.

The Directors consider that the concept of Underlying Profit Before Tax, as defined on page 26, useful to understand performance which is not impacted by electricity industry reform, restructuring costs and the impact of the valuation of electricity derivatives which can vary significantly year on year, or where the result is influenced by the level of capital contributions received towards customer works. The items have been treated consistently in the 2013-14 and 2012-13 years above. On this basis, underlying Profit Before Tax rose from $75.7 million in 2012-13 to $83.1 million in 2013-14. This information has not been audited or reviewed.

Cash flow for the year was strong and capital expenditure remained constrained on the back of weak customer demand. Distribution asset values increased in line with CPI and intangible assets increased as a result of expenditure incurred on systems to prepare for full retail contestability. Improved operational performance during the year was able to more than cover capital expenditure, leading to a net debt (borrowings less cash and cash equivalents) reduction of $27 million during the year.

Aurora Energy has been able to deliver strong sustainable returns for the Tasmanian community, while at the same time ensuring a lessening of upward pressure on electricity prices. Shareholder returns increased during the 2013-14 year with a $25 million dividend paid compared with $16 million paid in respect of the 2012-13 year. Other distributions paid during the 2013-14 year were also higher compared with the 2012-13 year due to the timing of income tax equivalent payments.

Significant Changes in the State of Affairs during the Year

As a result of the developments set out above, effective 1 July 2014, Aurora's distribution and telecommunication activities, assets, rights and liabilities were transferred to TasNetworks via a gazetted Transfer Notice dated 25 June 2014.

Following the transfer, and with the introduction of full retail contestability, Aurora Energy now operates as a standalone competitive retail business in Tasmania.

Environmental Regulation

The operations of the Company are subject to State and Commonwealth environmental legislation including the *Tasmanian Environmental Management and Pollution Control Act* 1994 and the *Commonwealth Environment Protection and Biodiversity Conservation Act* 1999. No environmental protection notices were served, prosecutions launched or fines issued against Aurora under environmental legislation during the year under review.

Environmental Incidents

All environmental incidents that caused or could have caused material or serious environmental harm were reported to the Department of Primary Industries, Parks, Water and the Environment. Reports were also made in relation to oil spills, incorrect disposal of waste, licence exceedances and any impact on threatened wildlife species caused by contact with the electrical distribution system.

Indemnification and Insurance

The Tasmanian State Crown provided indemnities in favour of the initial directors, Mr J. Hasker AM, Mr G. Loughran and Dr D. Norton, against liabilities arising out of the Company entering into a number of specified contracts at commencement of operations in July 1998 and in relation to any sale or lease of the assets or shares of the company pursuant to an Act of Parliament.

The Company has indemnified directors and other officers as defined by the *Corporations Act 2001* against any liability incurred in their role and in relation to reasonable legal costs in defending actions for such liability. The company has insured its directors, officers and employees and the directors and officers of controlled entities, against liabilities as permitted by the Corporations Act, including by taking out run off insurance.

The *Electricity Reform Act 2012* indemnifies the directors, officers, employees and agents of Aurora Energy and other State owned electricity entities for any actions or inactions taken in good faith in compliance with a direction issued under section 8 of the Act. It also indemnifies such persons from any liability incurred in relation to actions or inactions taken in good faith in compliance with a request for information, advice or assistance from the Electricity Reform Co-ordinator and otherwise protects the disclosure or use of information and other actions carried out for the purposes of electricity reform.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 83 of the Financial Report.

Rounding of Amounts

Amounts in the Directors' Report have been rounded off in accordance with that Class Order 98/100 to the nearest thousand dollars.

Signed in accordance with resolution of the Directors:

G. Willis
Chairman
12 August 2014

M. Vertigan
Director
12 August 2014

Tasmanian Audit Office

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12 August 2014

The Board of Directors
Aurora Energy Pty Ltd
Level 2
21 Kirksway Place
Hobart TAS 7000

Dear Board Members

Auditor's Independence Declaration

In accordance with section 307C of the *Corporations Act 2001*, I provide the following declaration of independence.

As the auditor of the financial report of Aurora Energy Pty Ltd for the financial year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) any applicable code of professional conduct in relation to the audit.

Pursuant to section 298(1)(c) of the *Corporations Act 2001* a copy of this declaration must be included in the Directors' report.

Yours sincerely

E R De Santi
Deputy Auditor-General
Delegate of the Auditor-General

Directors' Declaration

In accordance with a resolution of the directors of Aurora Energy Pty Ltd, we state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act* 2001, including
   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date;
   (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

(b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

On behalf of the Board

G. Willis
Chairman
12 August 2014

M. Vertigan
Director
12 August 2014

Statement of comprehensive income for the financial year ended 30 June 2014

	Note	Consolidated 2014 $'000	2013 $'000 Restated*
Revenue	2A	1,201,470	1,557,873
Other gains/(losses)	2A	1,501	(5,694)
Energy and transmission purchases	2A	(681,424)	(1,063,223)
Electricity derivative fair value movements	2A	(79,958)	7,597
Functional expenses	2A	(180,060)	(186,039)
Finance costs	2G	(54,533)	(71,782)
Depreciation and amortisation expense	2H	(102,344)	(119,692)
Other expenses from operating activities		(39,571)	(45,443)
Profit before income tax equivalent expense		65,081	73,597
Income tax equivalent expense	3	(1,090)	(22,111)
Profit for the year		63,991	51,486
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Gain/(loss) on revaluation of assets	11,21(b)	26,688	(3,360)
Actuarial superannuation re-measurement gains/(losses)		(7,364)	10,899
Income tax equivalent relating to items that will not be reclassified subsequently	3(b),21	(5,797)	(2,262)
		13,527	5,277
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
(Loss)/gain taken to equity	21(b)	(13,083)	7,601
Transferred to profit for the year	21(b)	(3,520)	(4,432)
Income tax equivalent relating to item that may be reclassified subsequently	3(b), 21(b)	4,981	(951)
		(11,622)	2,218
Other comprehensive income for the year net of income tax equivalent		1,905	7,495
Total comprehensive income for the period		65,896	58,981

*Certain amounts shown here do not correspond to the 2013 financial statements and reflect adjustments made, refer note 1, page 35.

Notes to and forming part of the accounts are included on pages 34-82

Statement financial position as at 30 June 2014

ASSETS	Note	Consolidated 2014 $'000	2013 $'000
Current assets			
Cash and cash equivalents	5	44,679	4,813
Trade and other receivables	6	176,550	231,687
Inventories	7	20,732	27,219
Financial assets	8	6,514	18,741
Other current assets	9	6,126	3,767
		254,601	286,227
Non-current assets classified as held for sale	10	-	1,144
Total current assets		254,601	287,371
Non-current assets			
Property, plant and equipment	11	1,466,593	1,420,910
Deferred tax assets	3(d)	59,484	46,053
Intangible assets	12	69,670	52,938
Financial assets	13	34,597	8,924
Total non-current assets		1,630,344	1,528,825
Total assets		1,884,945	1,816,196
LIABILITIES			
Current liabilities			
Trade and other payables	14	123,208	148,282
Borrowings	17	103,290	75,545
Current tax payable	3(c)	22,294	19,957
Provisions	16	61,052	21,514
Other current liabilities	15	67,465	53,217
Total current liabilities		377,309	318,515
Non-current liabilities			
Borrowings	17	659,280	674,268
Deferred tax liabilities	3(d)	143,062	159,942
Provisions	18	104,139	94,200
Other non-current liabilities	19	38,139	14,353
Total non-current liabilities		944,620	942,763
Total liabilities		1,321,929	1,261,278
Net assets		563,016	554,918
EQUITY			
Issued capital	31	232,319	225,116
Reserves	21	184,434	177,375
Retained earnings	22	146,263	152,427
Total Equity		**563,016**	**554,918**

Notes to and forming part of the accounts are included on pages 34-82

Statement of changes in equity for the financial year ended 30 June 2014

		Consolidated				
	Note	Share Capital $'000	Asset revaluation reserve $'000	Cash flow hedge reserve $'000	Retained earnings $'000	Total equity $'000
Balance 1 July 2012		314,255	185,178	(7,575)	109,218	601,076
Profit for the period (restated*)		-	-	-	51,486	51,486
Disposal of assets - revalued amount		-	(94)	-	94	-
Other comprehensive income (restated*)		-	(2,352)	2,218	7,629	7,495
Total comprehensive income for the period		-	(2,446)	2,218	59,209	58,981
Transactions with owners in their capacity as owners:						
Capital return (Transfer of AETV)	1	(89,139)	-	-	-	(89,139)
Dividends paid	23	-	-	-	(16,000)	(16,000)
Balance 30 June 2013 (restated *)		225,116	182,732	(5,357)	152,427	554,918
Profit for the period		-	-	-	63,991	63,991
Disposal of assets - revalued amount		-	-	-	-	-
Other comprehensive income		-	18,681	(11,622)	(5,155)	1,904
Total comprehensive income for the period		-	18,681	(11,622)	58,836	65,895
Transactions with owners in their capacity as owners:						
Contributed capital	31	7,203	-	-	-	7,203
Dividends paid/provided	23	-	-	-	(65,000)	(65,000)
Balance 30 June 2014		232,319	201,413	(16,979)	146,263	563,016

*Certain amounts shown here do not correspond to the 2013 financial statements and reflect adjustments made, refer note 1, page 35.

Notes to and forming part of the accounts are included on pages 34-82

Statement of cash flows for the financial year ended 30 June 2014

	Note	Consolidated 2014 $'000	2013 $'000
Cash flows from operating activities			
Receipts from customers		1,334,960	1,634,420
Interest received		965	1,832
Payments to suppliers and employees		(1,088,150)	(1,389,543)
Settlement of AETV intercompany account on transfer [1]		-	(17,296)
Interest and other finance costs paid		(40,653)	(54,300)
Government guarantee fees		(9,679)	(12,188)
Income tax equivalents paid		(29,881)	(3,386)
Net cash provided by operating activities	30(c)	167,562	159,539
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		3,256	4,972
Payment for property, plant and equipment		(107,038)	(99,017)
Payment for intangible assets		(31,644)	(14,840)
Net cash used in investing activities		(135,426)	(108,885)
Cash flows from financing activities			
Proceeds from contribution of equity		7,203	-
Proceeds from borrowings		582,483	801,056
Repayment of borrowings		(569,726)	(920,825)
Dividend paid		(25,000)	(16,000)
Net cash provided by financing activities		(5,040)	(135,769)
Net increase in cash and cash equivalents		27,096	(85,115)
Cash and cash equivalents at the beginning of financial year		4,813	89,928
Cash and cash equivalents at the end of financial year	30(a)	31,909	4,813

[1] Aurora Energy (Tamar Valley) Pty Ltd transferred to Hydro Tasmania on 1 June 2013. This transaction was treated as a distribution to Aurora's shareholders equivalent to the net assets of Aurora Energy (Tamar Valley) Pty Ltd at 31 May 2013 ($89.139M). The transfer was for nil cash consideration. Of the total amount of net assets transferred, $17.296M represented the AETV intercompany account which was settled post transfer.

Notes to and forming part of the accounts are included on pages 34-82

1. Statement of Significant Accounting Policies

Aurora Energy Pty Ltd is a private company, incorporated in Australia and operating in Australia.

Aurora's registered office and its principal place of business are as follows:

Registered office: Level 1 21 Kirksway Place HOBART TAS 7000

Principal place of business: 21 Kirksway Place HOBART TAS 7000

Up until 30 June 2014 the entity's principal activities were the distribution and retailing of electricity and, until 31 May 2013, generation was also a principal activity of the company. With effect from 1 July 2014, the principal activity of the company is the retailing of electricity in a fully competitive environment.

The financial statements were authorised for issue by the directors on 12 August 2014.

Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001 as amended and Australian Accounting Standards (AASBs), and complies with other requirements of the law.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

The financial statements are prepared on an accrual basis under the historical cost convention with the exception of certain property, plant and equipment and corresponding depreciation, investments and derivative financial instruments which are carried at fair value.

On 15 May 2012 (and in subsequent updates) the Minister for Energy announced a comprehensive and integrated reform package for the Tasmanian electricity industry which has significantly affected Aurora's principal activities:

- Aurora Energy (Tamar Valley) Pty Ltd (AETV), as defined in the Transfer Notice gazetted on the 29 May 2013, transferred to Hydro Tasmania as part of the electricity reforms on 1 June 2013. This transaction was treated as a distribution to Aurora's shareholders equivalent to the net assets (at book value) of AETV at 31 May 2013 ($89.139M). The transfer was for nil cash consideration;

- Following the AETV transfer and final reconciliation, an adjustment was made to the above amount which led to an equity contribution of $7.296M from the shareholders in the 2013-14 year.

- On 1 July 2014, the merger of Aurora's distribution and telecommunications businesses with Transend Pty Ltd concluded, with the new business Tasmanian Networks Pty Ltd (TasNetworks) commencing operations on 1 July 2014. Relevant assets and liabilities were transferred from Aurora to TasNetworks via a gazetted Transfer Notice dated 25 June 2014. This transaction was treated as a distribution to Aurora's shareholders equivalent to the net assets (at book value) of the non-Retail related net assets transferred to TasNetworks (approximately $523M). This transfer was for nil cash consideration; and

- Full retail competition was introduced in Tasmania on 1 July 2014. Aurora will continue as an energy retailer in Tasmania from 1 July 2014.

In resolving that the 2013-14 financial statements be prepared on a going concern basis the Directors have relied on the projected financial performance, cash needs requirements, borrowing and facility limits approved and in place and the balance sheet projected in the 2014 Corporate Plan.

In the application of the Group's accounting policies, Aurora is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments. These matters have been considered in these financial statements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by Aurora in the application of accounting standards that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 34.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability thereby ensuring that the substance of the underlying transactions or other events is reported.

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. The Group has reviewed and where relevant adopted the following standards:

- AASB 10 *Consolidated Financial Statements (August 2011)* for annual reporting periods beginning on or after 1 January 2013.

- AASB 11 *Joint Arrangements* for annual reporting periods beginning on or after 1 January 2013.
- AASB 12 *Disclosure of Interest in Other Entities* for annual reporting periods beginning on or after 1 January 2013.
- AASB 13 *Fair Value Measurement* for annual reporting periods beginning on or after 1 January 2013.
- AASB 119 *Employee Benefits* for annual reporting periods beginning on or after 1 January 2013.
- AASB 1053 *Application of Tiers of Australian Accounting Standards* for annual reporting periods beginning on or after 1 July 2013.
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial assets and Financial Liabilities* for annual reporting periods beginning on or after 1 January 2013.
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle* for annual reporting periods beginning on or after 1 January 2013.

The adoption of these standards has no material financial impact on the financial statements of the Group except for AASB 119 *Employee Benefits (Revised 2011)*.

The Group applied AASB 119 (Revised 2011) retrospectively in the current period in accordance with the transitional provisions set out in the revised standard. The comparative figures have been accordingly restated. The key changes that impacted the Group are the accounting for RBF defined benefit obligations and plan assets. These changes include the following:

- The requirement that all actuarial gains and losses be recognised immediately through other comprehensive income, rather than immediately through profit or loss as was the Group's prior accounting policy. The profit after income tax for the year ended 30 June 2013 is reduced by $8.149M and the other comprehensive income after income tax for the said year is increased by $8.149M.
- The interest cost and expected return on plan assets used in the previous version of AASB 119 are replaced with a net-interest amount which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period. The profit after income tax for the year ended 30 June 2013 is increased by $0.520M and the other comprehensive income after income tax for the said year is decreased by $0.520M.

Impact on profit and other comprehensive income:

AASB 119 comparative year adjustment	2014 $'000	2013 $'000
Profit or loss		
Labour costs	(1,666)	(1,546)
Finance costs	904	743
Actuarial superannuation gains/(losses)	8,126	(10,096)
Profit before income tax equivalent expense	7,364	(10,899)
Income tax equivalent expense	(2,209)	3,270
Profit for year	5,155	(7,629)
Other comprehensive income		
Actuarial superannuation re-measurement gains/(losses)	(7,364)	10,899
Income tax equivalent expense	2,209	(3,270)
Other comprehensive income for the year net of income tax equivalent	(5,155)	7,629
Total comprehensive income for the period	0	0

AASB 119 (Revised 2011) has been applied retrospectively, with the following permitted exceptions:

- The carrying amounts of other assets have not been adjusted for changes in employee benefit costs that were included before 1 July 2012.
- Sensitivity disclosures for the RBF defined benefit obligation for comparative period (Year ended 30 June 2013) have not been provided.

The following standards and amendments were available for early adoption but have not been applied by the Group in these financial statements:

- AASB 9 *Financial Instruments (September 2012)* revised standard. AASB 9 is applicable for annual reporting periods beginning on or after 1 January 2018.
- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial assets and Financial Liabilities* is applicable for annual reporting periods beginning on or after 1 January 2014.
- AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets* is applicable for annual reporting periods beginning 1 January 2014.
- AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting* is applicable for annual reporting periods beginning 1 January 2014.
- AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities* is applicable for annual reporting periods beginning 1 January 2014.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group.

These Standards and Interpretations will be first applied in the financial report of the Group that relates to the annual reporting period beginning after the effective date of each pronouncement.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all entities that comprise the Group, being the company (the parent entity) and its controlled entities. Controlled entities are all those entities over which the parent entity has the power to govern the financial and operating policies so as to obtain benefits from their activities. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the Group, are eliminated in full.

(b) Revenue recognition and unbilled electricity sales

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

Revenue from the sale of electricity to retail customers is recognised at the time of the provision of the electricity to the customer. Income from the sale of retail electricity is the value of electricity units supplied to customers during the year. Included in this income is unbilled electricity. Unbilled electricity sales is an estimate of the value of electricity units supplied to customers between the date of the last meter reading and the year end, and is included in electricity sales (refer notes 6 and 34).

Revenues are not accrued or deferred for amounts that are allowed to be recovered from customers (or credited to them) through regulatory pricing mechanisms in future years. These include amounts that are recoverable or will result in credits to customers as a direct result of under or over recoveries in the current and prior periods.

(c) Inventories

Inventories including stores' items and renewable energy certificates are carried at the lower of cost and net realisable value.

Stores items are valued at purchase cost on an average purchased cost basis. The cost of purchase comprises the purchase price, import duties and other taxes (other than those subsequently recoverable from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of the stores (note 7).

(d) Property, plant and equipment

(i) Valuation

At 30 June 2012 generation assets were stated at historic cost less accumulated depreciation and any accumulated impairment losses. The Group had no generation assets at 30 June 2013 or 30 June 2014.

Distribution assets have been revalued at 30 June 2014 to the regulated asset base which Aurora believes approximates its fair value.

The valuation methodology for distribution assets reflects the National Electricity Rules which regulate the revenue from these assets. Aurora values the grid assets based on the revenue generation capacity of the assets, as determined by the Australian Energy Regulator. Valuations are conducted annually.

The fair value of land and buildings is assessed as either a market value where known or the Valuer-General's most recent valuation.

The value of certain non-grid assets, e.g. motor vehicles and minor assets such as computers, is assessed as those assets' historical written down value because of their low value, short lives and high turnover. Leasehold improvements are recorded at depreciated cost. All classes of assets are adjusted for any accumulated impairment losses.

Depreciation is calculated on the above asset classes over the remaining useful lives of the assets on a straight-line basis (note 11).

Revaluation increments are credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the net carrying amount of the asset after revaluation equals its revalued amount.

(d) Property, plant and equipment (continued)

(ii) Depreciation

Depreciation on property, plant and equipment is based on the straight-line method so as to write off the net cost or other revalued amount of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.
In accordance with Australian Accounting Standard AASB 116 *Property, Plant and Equipment* balances of accumulated depreciation are transferred to the appropriate asset accounts when assets are revalued each year.

The depreciation rates used for each class of assets are:

Class of non-current asset	Depreciation Rate
Buildings	2.0%
Underground high voltage lines	1.7%
Zone substations	2.5%
Overhead lines	2.9%
Distribution substations	2.5%
Meters	3.3%
Gas turbines	3.3%
Service connections	2.9%
Optical fibre	5.0%
Tools	10.0%
Motor vehicles	16.0%
Computer equipment	33.3%

(e) Non-current assets held for sale

Non-current assets are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction instead of use. They are not depreciated or amortised. For an asset to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

(f) Intangible assets

Computer software is recorded at cost less accumulated amortisation and impairment. Amortisation is generally charged on a straight-line basis over the estimated useful life of five years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

The customer care and billing system is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over the estimated useful life. The original estimated useful life was 12 years. Effective 1 July 2012 the useful remaining life was amended to 3 years being the period Aurora expected to provide retail services to purchasers of the Retail Book as a result of electricity industry reforms. With the Government decision not to sell the Retail Book, the remaining useful life is estimated to be 7 years as at 30 June 2014.

Changes in the expected useful life of an asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which can result in a change in an accounting estimate.

(g) Employee benefits

(i) Superannuation

The Retirement Benefits Fund (RBF) is a defined benefits superannuation scheme for Tasmanian Government employees. The RBF liability carried represents the present value of the defined benefit obligation adjusted for unrecognised service cost net of the fair value of the plan assets. The net assets, operating costs and investment returns of the RBF are allocated to Aurora based on the percentage of funded past service liabilities for Aurora compared to the funded past service liabilities for the whole of government. The RBF scheme was closed to new members from 15 May 1999.

The RBF is funded by employee and employer contributions. Employee contributions to the funds are transferred to RBF. An internal net interest charge, calculated by the application of market-related interest rates and after advice from the Group's actuary, is added to this provision each year.

Actuarial gains or losses are recognised in the statement of other comprehensive income and are recorded as a movement in retained earnings.

(ii) Other employee entitlement provisions

Contributions to these provisions are charged directly to cost centres as part of employment costs. The Group adopts the present value basis of measurement methodology where the liability recognised is the present value of expected non-current future payments to be made in respect of services provided by employees up to reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service.

(g) Employee benefits (continued)

Expected future payments are discounted using market yields at the reporting date on government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. Annual leave and long service leave provisions are classified as current where the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. This does not imply that there is an expectation that the current provision will be paid out within the next twelve months.

(h) Taxation

The *Electricity Companies Act 1997* section 14 requires the Group to comply with part 10 of the *Government Business Enterprises Act 1995*. The Group is required to calculate a tax equivalent as if it were a company subject to Commonwealth income tax laws.

(i) Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(ii) Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(iii) Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Aurora Energy Pty Ltd is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate accounting records of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group). Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of thegroup in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different from the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

(i) Receivables

Trade receivables and other receivables are recorded at amounts due less any allowance for impairment. The balance of the allowance for impairment is reviewed monthly.
An allowance for impairment is recognised when there is objective evidence that the receivable may not be able to

(i) Receivables (continued)

be collected. Financial difficulties of the debtor and default payments are considered objective evidence of impairment. There is an algorithm applied to debtor balances that determines gross doubtful debts, based on the age of those debts and past collection history. This is then adjusted for proportionate recoveries. Any other known contingencies are taken into consideration.

Construction work in progress receivable is stated at cost plus profit recognised to date less a provision for foreseeable losses and less progress billings.

(j) Construction Contracts

As soon as the outcome of construction contracts with external parties can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to surveys of work performed. An expected loss on contract is recognised immediately in the statement of comprehensive income.

(k) Payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. Due to their short-term nature they are not discounted. The carbon liability payments the Group is obliged to make under the Clean Energy Act, during the fixed price period, is recognised as a Trade and other payable. Due to their short-term nature they are not discounted.

(l) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(ii) for receivables and payables which are recognised inclusive of GST, the net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis.

(m) Goodwill

Any goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of the acquisition. Any goodwill is subsequently measured at its cost less any accumulated impairment losses.

For the purposes of impairment testing, any goodwill is allocated to each of the entity's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the business combination. Cash-generating units or groups of cash- generating units to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of cash-generating units) and then to the other assets of the cash-generating units pro-rata on the basis of the carrying amount of each asset in the cash-generating unit (or group of cash-generating units). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period. On disposal of an operation within a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

At 30 June 2014, the Group has not recognised any goodwill in assets.

(n) Impairment of assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible 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, if any, of the impairment loss.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. 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 rates and the risks specific to the asset (or cash-generating unit) 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 is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

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

(n) Impairment of assets excluding goodwill (continued)

no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(o) Customer contributions applied towards capital works

Customer contributions applied towards capital works are treated as revenue under accounting Interpretation 18 Transfer of Assets from Customers. Where capital works are incomplete, customer contributions in excess of the works completed are included as a liability in the statement of financial position.

(p) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Any bank overdrafts are included within trade and other payables on the statement of financial position.

(q) Investments

Investments in controlled entities are recorded at cost. If there is an indication of an impairment loss, the recoverable amount of the investment is estimated and the carrying value of the investment is correspondingly reduced. Any investments in associates are accounted for under the equity method (AASB 128) in the consolidated financial statements.

At 30 June 2014 the company held no investments in associates.

(r) Contributed Equity

Ordinary shares are classified as equity.

(s) Derivative Financial Instruments

The Group enters into various financial instruments including interest rate and electricity swaps, forward start borrowing agreements, futures, options, forward rate agreements (FRAs) and foreign exchange contracts in order to manage financial exposures faced by the Group from its operations. In accordance with its Treasury and Energy Risk Policies, the Group does not hold or issue derivative financial instruments for trading purposes. Further details of derivative instruments are disclosed in note 32.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss on the statement of comprehensive income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss on the statement of comprehensive income depends on the nature of the hedge relationship. On the date the contract is entered, each contract is recorded in Aurora's hedge accounting system where the relevant effectiveness tests and documentation is created at inception and all further designation and valuation data is recorded. The fair value of a hedging instrument is presented as current or non-current based on the timing of the contractual cash flows, with cash flows expected to be realised or settled after 12 months classified as non-current and cash flows expected to be realised or settled within 12 months classified as current. Other derivatives are presented as current assets or current liabilities.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risk and characteristics are not closely related to those host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss on the statement of comprehensive income.

(t) Hedging

The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities of firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss on the statement of comprehensive income immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss on the statement of comprehensive income from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or losses relating to ineffective portions are recognised immediately in profit or loss on the statement of comprehensive income. Amounts deferred in equity are recycled in profit or loss on the statement of comprehensive income in the periods when the hedged item is recognised in profit or loss in the statement of comprehensive income. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

(t) Hedging (continued)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss on the statement of comprehensive income. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss on the statement of comprehensive income.

(u) Foreign currency

Realised and unrealised gains and losses on foreign currency exposures are brought to account in the year to which they apply. Transactions in foreign currencies are initially recorded in Australian dollars by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at balance date are translated to Australian dollars at exchange rates in effect at that date. The gains and losses from hedging equipment exposures are transferred to the equipment accounts to become part of the acquisition cost of the assets. All exchange gains and losses relating to other hedge transactions are brought to account in the statement of comprehensive income in the same period as the exchange differences on the items covered by the hedge transactions. As a policy objective the company eliminates its exposure to foreign currencies, except for exposures less than AUD 100,000 arising through the normal course of business.

(v) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

Current borrowings are those borrowings that mature within 1 year of the reporting date, except where the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date or the unconditional right to refinance the borrowings for at least 12 months after the reporting date. All borrowings that are not current borrowings are non-current borrowings.

(w) Renewable energy certificate forward contracts

Renewable Energy Target measures are contained in the Federal renewable energy legislation that commenced on 1 April 2001. The aims of the measures are to increase the proportion of energy from renewable generators. Renewable energy generators are able to issue RECs (Renewable Energy Certificates), where 1 REC is 1MWh of electricity based on the amount of renewable energy generated from a defined renewable source. From 1 January 2011, the scheme was split into two parts, the Large-scale Renewable Energy Target (LRET) and the Small-scale Renewable Energy Scheme (SRES). Retailers are required to purchase sufficient large-scale generation certificates (LGCs) and small-scale technology certificates (STCs) (based on a percentage of the retailers' energy acquisitions) to meet their obligations under the Act for each calendar year. STCs are submitted to the Regulator on a quarterly basis and LGCs in February of each year. The price of RECs (LGCs and STCs) varies, so the company has implemented a purchasing target to mitigate market risk.

Aurora acquires its RECs by forward REC purchase contracts in accordance with the benchmark, with purchases on the spot market and from the STC Clearing House. This allows Aurora to lock in a price for the future delivery and settlement of RECs. The liability for the acquittal of RECs is recognised in the statement of financial position, trade and other payables, on a continuous basis as electricity is purchased. The expense for RECs is recognised on the statement of comprehensive income, within energy and transmission purchases, on a continuous basis as electricity is purchased.

Any RECs purchased but not yet remitted to the Regulator are included in inventory.

(x) Leases

Leases are classified as finance leases when the terms of the lease substantially transfer all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term. Lease incentives are recognised in the statement of comprehensive income as an integral part of the total lease expense.

(y) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provisions are measured at the present value of Aurora's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time (unwinding of discount) is recognised in finance costs on the statement of comprehensive income.

(y) Provisions (continued)

A provision for decommissioning is recognised when there is a present obligation as a result of production activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing the facilities and restoring the affected areas.

A restructuring provision is only recognised when general recognition criteria provisions are fulfilled. The Group needs to follow a detailed formal plan about the part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate time line, and the people affected have a valid expectation that the restructuring is being carried out or the implementation has been initiated already.

(z) Comparisons with previous year

Where necessary, comparative figures are adjusted to conform with changes in presentation in the current year.

	Consolidated	
	2014	2013
	$'000	$'000

2 Operating Profit

A. Detailed income statement

Revenue		
Total sales revenue	1,134,514	1,483,343
Interest received (note 2B)	983	1,821
Community service agreements (note 4)	36,730	35,438
External work sales (note 2C)	17,432	18,524
Customer contributions (note 1(o))	8,432	7,471
Rental and lease revenue	795	670
Other	2,584	10,606
Total revenue	1,201,470	1,557,873
Other gains/(losses)		
Loss on disposal of property, plant and equipment (note 2D)	91	(798)
(Impairment)/reversal of impairment of non-current assets (notes 1(n), 11)	1,410	(4,896)
Total gain/(loss)	1,501	(5,694)
Energy and transmission purchases		
Energy and transmission purchases	(626,602)	(997,377)
Renewable energy certificates (note 1(w))	(54,822)	(65,846)
Total energy and transmission purchases	(681,424)	(1,063,223)
Functional expenses		
Labour	(104,026)	(99,729)
Operating lease rental expense (notes 1(x), 2E)	(2,527)	(2,750)
Services	(34,038)	(47,099)
IT and communications charges	(16,530)	(16,166)
Licence fees	(3,077)	(2,817)
Customer service level payments	(3,740)	(2,999)
Insurance	(1,680)	(2,655)
Other	(14,442)	(11,824)
Total functional expenses	(180,060)	(186,039)
Other major expense items		
Finance costs (note 2G)	(50,710)	(66,947)
Net interest cost regarding RBF provision (note 2G, 20)	(3,823)	(3,456)
Unwinding discount on decommissioning costs (note 2F, 2G)	-	(1,379)
Depreciation and amortisation (note 2H)	(102,344)	(119,692)
Impairment losses on trade receivables (note 6)	(2,849)	(10,005)
Loss on derivatives in a fair value hedge accounting relationship	(16,106)	(18,761)
Gain on adjustment to hedged item in a fair value hedge accounting relationship	16,055	18,724
Unrealised loss on electricity derivatives at fair value through P&L	(1,093)	7,634

	Consolidated	
	2014	2013
	$'000	$'000
2 Operating Profit (continued)		
Realised loss on derivatives at fair value through the P&L[1] (note 32(c))	(78,814)	-
Community service agreements - discounts allowed (note 4)	(36,722)	(35,438)
Total expenses	(1,137,890)	(1,478,582)
Profit before income tax equivalent expense	**65,081**	**73,597**
Income tax equivalent expense (note 3)	(1,090)	(22,111)
Profit for the year	**63,991**	**51,486**

[1] Electricity derivatives entered into between 1 July 2012 and 26 September 2013 were not designated in a hedge accounting relationship due to the announced sale of the Retail Business which was subsequently abandoned on 26 September 2013. In the prior year derivatives of this nature were designated in hedge accounting relationships and therefore disclosed in energy and transmission purchases.

B.	**Interest revenue**		
	Money market investments	98	45
	Bank investments	57	168
	Trade receivables	828	1,608
		983	1,821
C.	**Details of gross margin on external work sales**		
	Income from external work sales (note 2A)	17,432	18,524
	Less cost of external work sales	(11,377)	(10,578)
	Gross margin on external work sales	6,055	7,946
D.	**Details of loss on disposal of property, plant and equipment**		
	Income from sale of property, plant and equipment	3,673	5,252
	Less cost of sale/scrapping of property, plant and equipment	(3,583)	(6,050)
	Loss on sale/scrapping of property, plant and equipment (notes 1(d), 2A)	90	(798)
E.	**Details of operating lease rental expenses**		
	Minimum lease payments	(2,527)	(2,750)
F.	**Net transfer (to)/from provisions for:**		
	Employee entitlements (notes 16, 18)	(9,263)	10,796
	Workers compensation	111	(117)
	Payroll tax	94	24
	Provision for restructuring	(419)	(1,747)
	Provision for decommissioning costs	-	24,565
		(9,477)	33,521
	Provision for restructuring		
	Opening balance	1,781	34
	Additional provision	13,670	1,781
	Utilised	(13,251)	(34)
	Closing balance	2,200	1,781

	Consolidated	
	2014	2013
	$'000	$'000
2 Operating Profit (continued)		
Provision for decommissioning costs		
Opening balance	-	24,565
Additional provision	-	-
Unwinding discount	-	1,379
Reduction due to transfer of subsidiary (note 1)	-	(25,944)
Closing balance	-	-
G. Finance costs		
Interest on bank overdrafts and loans	(41,031)	(54,759)
Government guarantee fees	(9,679)	(12,188)
	(50,710)	(66,947)
Net interest cost regarding RBF provision (note 20)	(3,823)	(3,456)
Unwinding discount on decommissioning costs	-	(1,379)
	(54,533)	(71,782)
H. Depreciation and amortisation expense		
Distribution assets (note 11)	(73,480)	(72,741)
Generation assets (note 11)	-	(11,519)
Buildings (note 11)	(760)	(818)
Other (note 11)	(13,296)	(12,045)
	(87,536)	(97,123)
Gas supply contracts amortisation	-	(1,398)
Intangibles amortisation (note 12)	(14,808)	(21,171)
	(102,344)	(119,692)
3 Income Tax		
(a) Income tax recognised in profit		
Tax expense comprises:		
Current tax expense	27,717	26,457
Adjustments recognised in the current year in relation to the current tax of prior years	4,500	(4,865)
Deferred tax expense relating to the origination and reversal of temporary differences	(8,171)	519
Effect on deferred tax balances due to the change in income tax treatment of unbilled revenue	(22,956)	-
Total tax expense from continuing operations	1,090	22,111
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
Profit before income tax equivalent expense (note 2A)	65,081	73,597
Income tax equivalent expense calculated at 30%	19,524	22,079

	Consolidated	
	2014	2013
	$'000	$'000
3 Income Tax (continued)		
Non-deductible expenses	22	32
	19,546	22,111
Under/(over) provision of income tax in prior years	4,500	-
Effect on deferred tax balances due to the change in income tax treatment of unbilled revenue	(22,956)	-
Income tax equivalent expense	1,090	22,111

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

(b) Income tax recognised directly in equity		
The following current and deferred amounts were charged directly to equity during the period:		
Deferred tax:		
Property, plant and equipment revaluations	(8,006)	1,008
Cash flow hedges	4,981	(951)
Provisions	2,209	(3,270)
	(816)	(3,213)
(c) Current tax assets and liabilities		
Income tax payable attributable to:		
Head entity	22,294	19,957
(d) Deferred tax balances		
Deferred tax assets comprise:		
Tax losses – revenue	-	-
Temporary differences	59,484	46,053
Deferred tax liabilities comprise:		
Temporary differences	(143,062)	(159,942)
Net deferred liability	(83,578)	(113,889)

3 Income Tax (continued)

Taxable and deductible temporary differences arise from the following:

2014	Consolidated						
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisition/ disposals $'000	Exchange differences $'000	Changes in tax rate $'000	Closing Balance $'000
Gross deferred tax liabilities:							
Property, plant and equipment	127,374	(4,646)	8,006	-	-	-	130,734
Receivables	24,268	(24,268)	-	-	-	-	-
Financial instruments & other	8,300	10,903	(6,875)	-	-	-	12,328
	159,942	(18,011)	1,131	-	-	-	143,062
Gross deferred tax assets:							
Provisions	38,190	(891)	2,209	-	-	-	39,508
Financial instruments & other	7,863	14,007	(1,894)	-	-	-	19,976
	46,053	13,116	315	-	-	-	59,484
	(113,889)	31,127	(816)	-	-	-	(83,578)

2013	Consolidated						
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisition/ disposals $'000	Exchange differences $'000	Changes in tax rate $'000	Closing Balance $'000
Gross deferred tax liabilities:							
Property, plant and equipment	150,111	(4,576)	(1,008)	(17,153)	-	-	127,374
Receivables	22,691	1,577	-	-	-	-	24,268
Financial instruments & other	3,113	4,236	951	-	-	-	8,300
	175,915	1,237	(57)	(17,153)	-	-	159,942
Gross deferred tax assets:							
Provisions	39,371	2,564	(3,270)	(475)	-	-	38,190
Financial instruments & other	15,166	(1,846)	-	(5,457)	-	-	7,863
	54,537	718	(3,270)	(5,932)	-	-	46,053
	(121,378)	(519)	(3,213)	11,221	-	-	(113,889)

3 Income Tax (continued)

	Consolidated	
	2014	2013
	$'000	$'000
Unrecognised deferred tax balances		
The following deferred tax assets have not been brought to account as assets:		
Tax losses - capital loss on sale of subsidiary	633	633

Tax consolidation

Relevance of tax consolidation to the Group.

The company and its wholly-owned Australian resident entities formed a tax-consolidated group with effect from 1 July 2003 and are taxed as a single entity from that date. The head entity within the tax-consolidated group is Aurora Energy Pty Ltd. The members of the tax-consolidated group are identified at note 28.

Nature of tax-funding arrangements and tax-sharing agreements:

Entities within the tax-consolidated group have entered into a tax-funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax-funding arrangement, Aurora Energy Pty Ltd and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax-sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as the possibility of payment of any amounts under the tax-sharing agreement is considered remote.

Unbilled revenue

Aurora accounts for unbilled revenue for customers billed quarterly using an estimate of energy consumed until reporting date but not yet billed. For taxation purposes, Aurora has previously treated quarterly account unbilled revenue as derived for income tax purposes only when an invoice was issued to customers. This gave rise to a deferred tax liability.

Aurora and the Australian Taxation Office (National Taxation Equivalent Regime administrator) have agreed a revised approach whereby Aurora's tax treatment will transition to the approach consistent with the accrual method used for accounting. This agreement will result in a changeover adjustment for the 2010, 2011, 2012, and 2013 years only, to be taken up in the 2014 years tax return.

The agreement with the Australian Taxation Office results in an income tax benefit of $22.956M, arising from a reversal of the deferred tax liability.

	Consolidated	
	2014	2013
	$'000	$'000

4 Community Service activity agreements

Pensioner discounts

The company has an agreement with the Crown in right of the State of Tasmania to provide community services and for Aurora to be reimbursed for the community services costs and administration costs.

Discounts allowed to customers and included in the accounts of the company	36,722	35,438
Amount billed to the Crown and included in the accounts of the company	36,730	35,438

5 Cash and cash equivalents

Bank balances	669	4,793
Money market investments	44,010	20
	44,679	4,813

6 Current trade and other receivables

Trade receivables (note 1(i))	71,704	101,926
Accrued income	35,276	60,239
Unbilled energy sales (note 1(b))	75,860	80,895
Provision for impairment	(6,290)	(11,373)
	176,550	231,687

Of the total $71.704M (2013: $101.926M) of trade receivables, $52.059M (2013: $60.365M) are current with an average of 20.42 days. It is considered that there are no indications as of the reporting date that the debtors will not meet their payment obligations, unless otherwise provided.

(a) Movement in the allowance for impairment of debts:

Balance at the beginning of the year	11,373	6,352
Impairment losses recognised on receivables	2,849	10,005
Amounts written off as uncollectable	(8,780)	(5,410)
Amounts recovered during the year	848	426
Balance at the end of the year	6,290	11,373

(b) Included in the allowance for impairment of debts are individually impaired trade receivables for which $0.212M (2013: $1.722M) has been provided where the debt is in dispute and subject to negotiation. The Group does not hold any collateral over these balances. The ageing of these receivables is greater than an average of 143 days overdue.

(c) Ageing of trade receivables that were past due but not impaired

Less than 30 days overdue	7,798	11,562
Between 31 and 60 days overdue	1,682	10,179
Between 61 and 180 days overdue	2,766	5,385
Greater than 180 days overdue	1,109	3,062
	13,355	30,188

	Consolidated	
	2014	2013
	$'000	$'000

6 Current trade and other receivables (continued)

On the basis of historical experience no additional provision is required on these residual balances. The Group holds no collateral over these balances.

(d) Of the total receivables, $3.622M (2013: $7.176M) are renegotiated receivables and Aurora has assessed on the basis of historical experience that not all will be recoverable and an impairment of $1.081M (2013: $1.273M) has been recorded.

(e) An amount of $6.290M (2013: $11.373M) is considered impaired and has been provided for. An allowance account has been made for estimated irrecoverable trade receivable amounts arising from the past rendering of services, determined by reference to past default experience.

7 Inventories

Stores

Stores (valued at cost)	12,198	10,697
Allowance for loss on stores (note 1(c))	(152)	(152)
	12,046	10,545
Renewable energy certificates (valued at cost) (note 1(w))	8,686	16,674
	20,732	27,219

Stores and renewable energy certificates recognised as an expense (or capitalised as part of a constructed asset) for the year ended 30 June 2014 totalled $77.773M (2013: $84.990M).

8 Current financial assets

Interest accrued	18	1
Derivative contracts (at fair value) (note 1(s))	8	8,941
Fair value adjustment to hedged item designated in a fair value hedge accounting relationship	6,488	9,799
Total current financial assets	6,514	18,741

9 Other current Assets

Prepayments	2,519	3,187
Customer services obligation recoveries	2,857	-
Payroll prepaid	737	240
Other	13	340
	6,126	3,767

10 Non-current assets classified as held for sale

Property, plant and equipment	-	1,144

11 Property, plant and equipment

	Consolidated				
	Distribution at fair value	Land & buildings at fair value	Generation at cost	Other at cost	Total
	$'000	$'000	$'000	$'000	$'000
Gross carrying amount					
Balance as at 30 June 2012	2,690,593	42,730	361,884	119,321	3,214,528
Reclassify assets	(9,377)	-	-	9,377	-
Additions	85,269	680	1,237	13,989	101,175
Disposals	(2,613)	-	(8)	(9,712)	(12,333)
Transfer of AETV (iv)	-	(1,104)	(363,113)	(995)	(365,212)
Net revaluation increments	(35,867)	1,606	-	-	(34,261)
Transfer to assets held for sale	-	-	-	159	159
Balance as at 30 June 2013	**2,728,005**	**43,912**	**-**	**132,139**	**2,904,056**
Reclassify assets	-	(1,181)	-	1,181	-
Additions	89,446	671	-	20,398	110,515
Disposals	(1,130)	-	-	(7,050)	(8,180)
Net revaluation (decrement) increments	27,721	(225)	-	-	27,496
Transfer to assets held for sale	-	-	-	-	-
Balance as at 30 June 2014	**2,844,042**	**43,177**	**-**	**146,668**	**3,033,887**
Accumulated depreciation and impairment losses					
Balance as at 30 June 2012	(1,388,689)	(478)	(36,529)	(62,744)	(1,488,440)
Reclassify assets	3,634	-	-	(3,634)	-
Disposals	1,514	-	4	7,691	9,209
Transfer of AETV (iv)	-	108	48,044	576	48,728
Net adj. revaluation increments (decrements)	32,524	(1,624)	-	-	30,900
Impairment losses charged to profit (i)	(2,283)	(2,877)	-	-	(5,160)
Reversal of impairment losses charged to profit (ii)	-	264	-	-	264
Transfer to assets held for sale	-	651	-	(141)	510
Depreciation expense (iii)	(72,741)	(818)	(11,519)	(12,045)	(97,123)
Balance as at 30 June 2013	**(1,426,041)**	**(4,774)**	**-**	**(70,297)**	**(1,501,112)**
Reclassify assets	-	-	-	-	-
Disposals	516	-	-	5,689	6,205
Net adj. revaluation increments (decrements)	(1,509)	701	-	-	(808)
Impairment losses charged to profit (i)	-	(100)	-	-	(100)
Reversal of impairment losses charged to profit (ii)	1,186	325	-	-	1,511
Transfer to assets held for sale	-	59	-	-	59
Depreciation expense (iii)	(73,480)	(760)	-	(13,296)	(87,536)
Balance as at 30 June 2014	**(1,499,328)**	**(4,549)**	**-**	**(77,904)**	**(1,581,781)**
Net book value – at recoverable amount					
As at 30 June 2012	1,301,904	42,252	325,355	56,577	1,726,088
As at 30 June 2013	1,301,964	39,138	-	61,842	1,402,944
As at 30 June 2014	1,344,714	38,628	-	68,764	1,452,106

11 Property, plant and equipment (continued)

	Consolidated				
	Distribution at fair value	Land & buildings at fair value	Generation at cost	Other at cost	Total
	$'000	$'000	$'000	$'000	$'000
Capital works in progress – at cost					
As at 30 June 2012	18,747	140	1,605	559	21,051
As at 30 June 2013	14,827	24	-	3,115	17,966
As at 30 June 2014	12,696	-	-	1,791	14,487
Total property, plant and equipment					
As at 30 June 2012	1,320,651	42,392	326,960	57,136	1,747,139
As at 30 June 2013	1,316,791	39,162	-	64,957	1,420,910
As at 30 June 2014	1,357,410	38,628	-	70,555	1,466,593

(i) The impairment losses for distribution assets in 2013 relates to the resetting of values by the Australian Energy Regulator as at 1 July 2012 as part of 2012-2017 determination. The impairment losses for land & buildings recognised in both years relate to the Valuer-General's valuation of some buildings. Impairment losses are included in the line item 'other (losses)/gains' in the statement of comprehensive income.

(ii) Reversal of impairment losses are included in the line item 'other (losses)/gains' in the statement of comprehensive income. The reversal of impairment losses for land and buildings in both years relates to the increases in the Valuer-General's most recent valuation of some land and buildings. The reversal of impairment losses for distribution assets in 2014 relates the revaluation of assets previously impaired in 2013 as part of the 2012-2017 determination by the Australian Energy Regulator.

(iii) Aggregate depreciation allocated during the year is recognised as an expense in the line item 'depreciation and amortisation expense' in the statement of comprehensive income.

(iv) Aurora Energy (Tamar Valley) Pty Ltd transferred to Hydro Tasmania on 1 June 2013.

Distribution Revaluation

The entity revalued distribution assets as at 30 June 2014 to their value in use, based on the regulated revenue that the assets are allowed to earn under the National Electricity Rules, based on the written-down optimised replacement value of the assets and adjustments to these values as determined by the Australian Energy Regulator. The fair value measurement is categorised as Level 3.

The result of applying this methodology was that the assessed recoverable amount was used for the final valuation of the company's distribution assets in these accounts, with a consequent increase in the carrying amount of the company's property, plant and equipment at 30 June 2014 of $27.398M and the result for total assets of $28.099M.

The Australian Energy Regulator has made a determination of asset values and the applicable weighted average cost of capital (WACC), 8.28% post-tax nominal, to be used for determining the revenue allowed to be earned in the future from the distribution assets. The recoverable amount of the company's distribution assets has been taken as the value placed on the distribution assets by the Australian Energy Regulator and equates with fair value (refer note 1(d)(i)). This implicitly means that the company recognises that the WACC rate determined by the Regulator is the appropriate rate to apply to discount cash flows and to make investment decisions for the regulated component of its business.

The unregulated portion of distribution assets of $7.654M has been valued at the written-down optimised replacement value and equates with fair value.

The carrying amounts that would have been recognised had the revalued assets (other than those classified as held for sale) been carried under the cost model are:

	Consolidated	
	2014	2013
	$'000	$'000
Distribution Assets	1,186,263	1,178,072
Land & Buildings	31,380	33,462

12 Intangible assets

	Consolidated		
	Patents	Computer software	Total
	$'000	$'000	$'000
Gross carrying amount			
Balance as at 30 June 2012	193	130,902	131,095
Additions	79	6,048	6,127
Disposals	-	(1)	(1)
Transfer of AETV (ii)	-	(619)	(619)
Balance as at 30 June 2013	**272**	**136,330**	**136,602**
Additions (iii)	48	41,107	41,155
Disposals	-	(815)	(815)
Balance as at 30 June 2014	**320**	**176,622**	**176,942**
Accumulated amortisation and impairment losses			
Balance as at 30 June 2012	-	(73,145)	(73,145)
Disposals	-	1	1
Transfer of AETV (ii)	-	557	557
Amortisation expense (i)	-	(21,171)	(21,171)
Balance as at 30 June 2013	**-**	**(93,758)**	**(93,758)**
Disposals	-	711	711
Amortisation expense (i)	-	(14,808)	(14,808)
Balance as at 30 June 2014	**-**	**(107,855)**	**(107,855)**
Net book value			
As at 30 June 2012	193	57,757	57,950
As at 30 June 2013	272	42,572	42,844
As at 30 June 2014	320	68,767	69,087
Software works in progress – at cost			
As at 30 June 2012	-	1,381	1,381
As at 30 June 2013	-	10,094	10,094
As at 30 June 2014	-	583	583
Total intangible assets			
As at 30 June 2012	193	59,138	59,331
As at 30 June 2013	272	52,666	52,938
As at 30 June 2014	320	69,350	69,670

(i) Amortisation expense is included in the line item 'depreciation and amortisation expense' in the statement of comprehensive income.

Amortisation of $2.542M (2013: $8.670M) related to the entity's amortisation of its customer care and billing systems. The decreased amortisation charge is as a result of a reassessment of the useful life of the system as a result of Government's decision not to sell Aurora's retail book as part of industry reform (described in note1).

(ii) Aurora Energy (Tamar Valley) Pty Ltd transferred to Hydro Tasmania on 1 June 2013.

(iii) Computer software additions include $36.451M of distribution and retail costs to prepare for Full Retail Contestability from 1 July 2014.

	Consolidated	
	2014	2013
	$'000	$'000
13 Non-current financial assets		
Derivative contracts (at fair value) (note 1(s))	6,306	8,924
Fair value adjustment to hedged item designated in a fair value hedge accounting relationship	28,291	-
	34,597	8,924
14 Current trade and other payables		
Trade payables	81,028	117,134
Bank overdraft	12,770	-
Accrued expenses	2,210	3,457
Accrued REC expenses (note 1(w))	11,451	12,719
Goods and services tax payable	3,708	3,213
Accrued interest	12,041	11,759
	123,208	148,282
All trade payables and accrued expenses are unsecured		
15 Other current liabilities		
Income received in advance	24,913	26,859
Derivative contracts (at fair value)	28,033	11,669
Customer security deposits	14,500	14,500
Other	19	189
	67,465	53,217
16 Current provisions		
Employee entitlements:		
Annual leave	6,567	7,536
Long service leave	7,471	7,459
Superannuation	1,263	1,328
Retirements Benefits Fund (note 20)	2,399	1,961
Time bank	189	306
	17,889	18,590
Other current provisions:		
Workers compensation	18	129
Payroll tax	945	1,014
Provision for restructuring	2,200	1,781
Provision for dividend	40,000	-
	43,163	2,924
Total current provisions	61,052	21,514

The provisions for restructuring related to the restructuring of Aurora arising from Tasmanian Energy Reforms.

	Consolidated	
	2014	2013
	$'000	$'000

17 Borrowings

All semi-government loans have been transacted through the Tasmanian Public Finance Corporation (Tascorp). All borrowings are secured by a floating charge on all present and future trade & other receivables.

(a) Current borrowings	103,290	75,545
Non-current borrowings	659,280	674,268
Total borrowings	762,570	749,813
Tascorp loans have been valued using the market yield to maturity at the end of the financial year (adjusted for accrued interest) and are included for information only. The maturity pattern of borrowings has been detailed in note 32(f).	804,940	792,917

During the current year and prior years, there were no defaults or breaches on any of the loans.

(b) Forward start borrowing commitments

As at 30 June 2014 the Group had no forward start borrowings

(2013: 1 for $36.0M book value)

The maturity pattern of forward start borrowing commitments has been detailed in note 32(f).

18. Non-current provisions

Employee entitlements:		
Long service leave	3,962	4,373
Superannuation	348	338
Retirements Benefits Fund (note 20)	99,566	89,202
	103,876	93,913
Other non-current provisions:		
Payroll tax	263	287
Total non-current provisions	104,139	94,200

19. Other non-current liabilities

Derivatives contracts (at fair value)	38,139	14,353

20 Retirement Benefits Fund (RBF)

The RBF is a defined benefit fund which pays lump sum and pension benefits to members upon retirement (most of which are calculated as a multiple of the member's final average salary). The RBF has Contributory members, Compulsory Preserved members and pensioners.

The RBF operates under the *Retirement Benefits Act 1993* and the *Retirement Benefits Regulations 2005.* Although the RBF is not formally subject to the Superannuation Industry (Supervision) (SIS) legislation, the Tasmanian Government has undertaken to operate the fund in accordance with the spirit of the SIS legislation.

As an exempt public sector superannuation scheme (as defined in the SIS legislation), the fund is not subject to any minimum funding requirements.

The RBF Board (the Board) is responsible for the governance of the RBF. As Trustee, the Board has a legal obligation to act solely in the best interests of RBF beneficiaries. The Board has the following roles:

- Administration of the RBF and payment to the beneficiaries when required in accordance with the RBF rules;
- Management and investment of the RBF assets; and
- Compliance with the spirit of the SIS legislation as referred to above

This actuarial assessment has been provided by the State Actuary, Dr David Knox, Fellow of the Institute of Actuaries of Australia, in a report dated 11 July 2014.

Statement of financial position results **Net liability**	**30 June 2014** **$'000**	**30 June 2013** **$'000**
Total Defined Benefit Obligations	124,672	112,735
RBF Contributory scheme assets	(22,707)	(21,572)
Deficit	101,965	91,163
Adjustment for effect of asset ceiling	-	-
Net liability	101,965	91,163
Current net liability (note 16)	2,399	1,961
Non-current liability (note 18)	99,566	89,202
Key assumptions		
Key assumptions as at balance date and for the following year expense		
Discount rate:	4.10%	4.25%
Salary increase rate:	3.00%	3.00%
Compulsory preserved increase rate	4.50%	3.75%
Inflation (pensions):	2.50%	2.50%
Decrement rates:	As per the most recent actuarial investigation and report dated 13 January 2014	

20 Retirement Benefits Fund (RBF) (continued)

Profit and loss results for year	30 June 2014	30 June 2013
Expense	$'000	$'000
Employer service cost [1]	2,417	2,955
Net interest cost (note 2A) [2]	3,823	3,456
Recognised past service cost [1]	-	-
Curtailment / settlement (gain)/loss [1]	-	-
Expense recognised	6,240	6,411

Note 1. Recognised in labour cost

Note 2. Recognised in net interest cost regarding RBF provision

Other comprehensive income results for year		
Expense		
Actuarial (gains)/losses	9,030	(7,016)
Actual return on plan assets less interest income	(1,666)	(3,883)
Adjustment for effect of asset ceiling	-	-
Expense recognised	7,364	(10,899)

Movements in the fair value of Plan assets		
Fair value of Plan assets		
Fair value Plan assets at end of prior year	21,572	20,076
Employer contributions	2,802	5,895
Interest income	904	684
Actual return on plan assets less interest income	1,666	3,883
Actual participant contributions	661	764
Taxes, premiums & expenses paid	(190)	(200)
Actual benefit payments	(4,708)	(9,530)
Foreign currency exchange rate assets	-	-
Business combination assets	-	-
Curtailments/settlement assets	-	-
Fair value Plan assets at end of year[1][2][3]	22,707	21,572

Note 1. Assets are not held separately for each authority but are held for the Fund as a whole. The fair value of Fund assets was estimated by allocating the total assets to each authority in proportion to the value of each authority's funded liabilities, calculated using the assumptions outlined in this note.

Note 2. The fair value of the Fund assets includes no amounts relating to any of the entity's own financial instruments.

Note 3. The total value of RBF assets includes $19 million relating to the value of 21 Kirksway Place, Hobart valued as at 31 March 2014. This property is partly occupied by Aurora Energy.

20 Retirement Benefits Fund (RBF) (continued)

Fair value of Plan assets as at 30 June 2014[1]

	Total	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Unobservable inputs Level 3
Asset category	$'000	$'000	$'000	$'000
Cash and cash equivalents	3,158	3,158	-	-
Equity instruments	16,038	8,113	7,278	647
Debt instruments	3,165	916	1,315	934
Derivatives	(118)	-	(118)	-
Real Estate	464	-	464	-
Investment funds	-	-	-	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	22,707	12,187	8,939	1,581

Note 1. Estimated based on assets allocated to Aurora as at 30 June 2014 and asset allocation of the RBF as at 30 June 2013

Movements in the present value of Defined Benefit Obligations Total Defined Benefit Obligations (net discount rate)	30 June 2014 $'000	30 June 2013 $'000
Total Defined Benefit Obligations at end of prior year	112,735	121,562
Employer service cost plus operating costs	2,417	2,955
Interest cost	4,727	4,199
Actual participant contributions	661	764
Actuarial (gains)/losses arising from changes in demographic assumptions	3,782	-
Actuarial (gains)/losses arising from changes in financial assumptions	3,504	(18,157)
Actuarial (gains)/losses arising from liability experience	1,744	11,142
Taxes, premiums & expenses paid	(190)	(200)
Actual benefit payments	(4,708)	(9,530)
Foreign currency exchange rate liabilities	-	-
Business combination liabilities	-	-
Curtailments/settlement liabilities	-	-
New past service costs	-	-
Total Defined Benefit Obligations at end of year	124,672	112,735

20 Retirement Benefits Fund (RBF) (continued)

A quantitative sensitivity analysis for significant assumptions as at 30 June 2014

	Base Case	Scenario A -0.5% Discount rate	Scenario B +0.5% Discount rate	Scenario C -0.5% pa Pension increase rate	Scenario D +0.5% pa Pension decrease rate
Discount rate	4.10% pa	3.60% pa	4.60% pa	4.10% pa	4.10% pa
Pension increase rate	2.50% pa	2.50% pa	2.50% pa	2.00% pa	3.00% pa
Defined benefit obligation ($'000)	124,647	135,000	115,466	118,022	131,991

Scenario A and B relate to discount sensitivity. Scenario C and D relate to expected pension increase rate sensitivity. The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

Risks to RBF

There are a number of risks to which the Fund exposes Aurora. The more significant risks relating to the defined benefits are:

- Investment risk – The risk that investment returns will be lower than assumed and employers will need to increase contributions to offset this shortfall.
- Salary growth risk – The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and the associated employer contributions.
- Inflation risk – The risk that inflation is higher than anticipated, increasing pension payments and the associated employer contributions.
- Benefit options risk – The risk is that a greater proportion of members who joined prior to 1 July 1994 will elect the pension option, which is generally more costly than the alternative lump sum option.
- Pensioner mortality risk – The risk is that pensioner mortality will be lighter than expected, resulting in pensions being paid for a longer period.
- Legislative risk – The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

Estimate of expense for 2015	30 June 2015 $'000
Current service cost	2,240
Net interest cost	4,121
Past service cost	-
Movement in limitation on net assets	^
Effect of curtailments/settlements	^
Estimated superannuation expense	6,361

^ not known until end of 2015

Aurora is not aware of any asset and liability matching strategies adopted by the Fund.
The weighted average duration of the defined benefit obligation for Aurora is 16.3 Years.
The expected employer contribution for 2015 is $2,399,000.

Funding and contribution information

The employer meets the cost of benefits as they emerge by paying a percentage of the benefit as it falls due, as defined in the *Retirement Benefits Regulations 2005*.

	Consolidated	
	2014	2013
	$'000	$'000

21 Reserves

(a) Reserves comprise

Asset revaluation reserve	201,413	182,732
Cash flow hedge reserve	(16,979)	(5,357)
	184,434	177,375

(b) Movements in reserves

Asset revaluation reserve		
Balance at beginning of year	182,732	185,178
Revaluation of assets in the year	28,099	(8,256)
Deferred tax liability arising on revaluation	(8,007)	1,008
Transferred to retained earnings	-	(94)
Impairment losses/(reversals)	(1,411)	4,896
Balance at end of year	201,413	182,732

The asset revaluation reserve arises on the revaluation of distribution assets and land and buildings. Where a revalued asset is disposed of, that portion of the asset revaluation reserve which relates to that asset, and is effectively realised, is transferred directly to retained earnings.

Cash flow hedge reserve		
Balance at beginning of year	(5,357)	(7,575)
Gain/(loss) recognised		
Interest rate swaps	1,168	9,455
Electricity price swaps	(14,251)	(5,772)
Forward exchange contracts	-	3,918
	(13,083)	7,601
Transferred to profit or loss		
Interest rate swaps	(2,639)	(3,793)
Electricity price swaps	(881)	3,380
Forward exchange contracts	-	(4,019)
	(3,520)	(4,432)
Deferred tax arising on hedges	4,981	(951)
Balance at end of year	(16,979)	(5,357)

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss.

	Consolidated	
	2014	2013
	$'000	$'000
22 Retained Earnings		
Balance at beginning of year	152,427	109,218
Net profit attributable to members of the parent entity	63,991	51,486
Dividend provided/paid	(65,000)	(16,000)
Actuarial gain/(loss) on RBF defined benefit plan net of tax	(5,155)	7,629
Transfer from asset revaluation reserve	-	94
Balance at end of year	146,263	152,427
23 Dividends		
Recognised amounts		
Declared, dividends on ordinary shares	40,000	-
Declared and paid, dividends on ordinary shares	25,000	16,000
Unrecognised amounts	-	25,000

The dividend for the year ended 30 June 2014 was declared, but not paid prior to 30 June 2014.

The dividend has been calculated in line with the Shareholders letter of expectations dated 16 June 2011, based on the March 2014 forecast financial results.

24 Commitments for expenditure		
(a) Property, plant and equipment commitments		
Property, plant and equipment		
Not longer than 1 year	1,732	4,674
Longer than 1 year and up to 5 years	1,732	-
Longer than 5 years	-	-
	3,464	4,674
(b) Operating leases (note 1(x))		
Non-cancellable operating lease payments		
Not longer than 1 year	2,479	2,710
Longer than 1 year and up to 5 years	8,201	8,155
Longer than 5 years	1,828	4,454
	12,508	15,319

Note 24(b) relates to leases for office machinery and property leases.

The Group leases property under operating leases expiring over periods from 2 to 6 years. The major property lease provides for a right of renewal for a further 10 years at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on movements in the Consumer Price Index.

All commitments are listed net of GST.

25 Contingent liabilities		
Claims related to property loss, personal injury (excluding claims by employees for personal injuries), contractual and other matters, and with an estimated potential cost to the Group of $0.320M were outstanding at the date of publication of these accounts. The company is actively defending these claims and the directors are of the opinion, based on legal advice, that no provision is required	320	524

26 Auditors' remuneration

Amounts received, due and receivable, by the Auditor-General from the Group for:

	Consolidated 2014 $	Consolidated 2013 $
Auditing the accounts of the Group	197,017	302,439
Auditing Financial Services Licence and regulatory accounts	220,487	46,007
	417,504	348,446

Ernst and Young, who provide external audit services on behalf of the Tasmanian Audit Office, provided $305,585 (2013: $104,345) of additional audit services to the entity in the year. This related to 2013 regulatory information notices, including amounts paid to Ernst and Young's subcontractors.

27 Key management personnel compensation

The key management personnel of the Group during the year were:

G. Willis (Chairman, non-executive director)

P. Lowe (non-executive director)(retired effective midnight on 01/07/14)

C. Demarte PSM (non-executive director)

M. Vertigan AC (non-executive director)

M. Davies (non-executive director)(retired effective midnight on 01/07/14)

M. Wallace (non-executive director) (appointed 19/11/2013)

P. Davis (Chief Executive Officer/Managing Director)[1] [2]

D. Smith (Chief Financial Officer) [2]

A. Botha (Chief Operations Officer Distribution) (resigned 7/12/2013)

W. Batchelor (Chief Operations Officer Distribution) (commenced as key management personnel 8/12/2013) [2]

R. Inglis (General Manager Strategy and Corporate Affairs and General Manager Reform Transition) [2]

J. O'Reilly (General Manager Governance, General Counsel and Company Secretary) [2]

J. Whittle (General Manager People and Culture) [2]

R. Wilkes (Executive General Manager Retail Transition) (ceased as key management personnel on 28/2/2014)

R. Kardos (Chief Executive Officer Designate) (commenced as key management personnel 1/3/2014)[3]

[1]*Required to resign as Managing Director effective midnight on 1 July 2014.*
[2]*Ceased as key management personnel as at 30 June 2014.*
[3]*Appointed as the head of Aurora's Retail operations and became the Aurora Energy Pty Ltd CEO on 1 July 2014.*

27 Key management personnel compensation (continued)

The aggregate compensation of the key management personnel of the Group is set out below:

	Consolidated	
	2014	2013
	$	$
Short-term employee benefits	3,024,264	2,907,672
Post-employment benefits	264,959	230,332
Other long-term benefits	-	-
Termination benefits	2,844,278	208,345
	6,133,501	3,346,349

The short-term employee benefits include short-term incentive payments. With regard to 2013, these short term incentive payments included those that were due and payable for the year but were not paid at balance date.

Director remuneration

The following tables disclose the remuneration details in bands for each person that acted as a non-executive director during the current and previous financial years:

2014

Band (Total Payments)	Number of Directors	Directors' Fees	Committee Fees	Super-annuation	Other	Total 2014	Total 2013
>$50,000	5	$313,021	$38,750	$28,954	$15,250	$395,975	$442,220
<=$50,000	1	$32,331	$4,747	$2,991	$0	$40,069	$0
Total	**6**	**$345,352**	**$43,497**	**$31,945**	**$15,250**	**$436,044**	**$442,220**

2013

Band (Total Payments)	Number of Directors	Directors' Fees	Committee Fees	Super-annuation	Other	Total 2014	Total 2012 [4]
>$50,000	6	$352,026	$53,567	$27,377	$9,250	$442,220	$503,762
<=$50,000	0	$0	$0	$0	$0	$0	$7,662
Total	**6**	**$352,026**	**$53,567**	**$27,377**	**$9,250**	**$442,220**	**$511,424**

[4] *In 2012 there were 7 directors in the >$50,000 band and 3 directors in the <=$50,000 band.*

Director remuneration principles

Non-executive directors are appointed by the Treasurer and Portfolio Minister in accordance with the company's constitution following a process and on terms and conditions prescribed by the Board Appointments Guideline issued by the Department of Treasury and Finance.

A matrix of maximum Board fees to be paid to non-executive directors is periodically set for all State Owned entities by the Department of Premier and Cabinet with the appropriate level of remuneration for a particular entity determined by its level of assets and complexity. The actual level of remuneration paid within this framework requires the approval of the Treasurer. Committee fees are set to ensure they do not exceed 15% of total Board fees. Superannuation is paid at the appropriate rate as prescribed by superannuation guarantee legislation. No other leave, termination or retirement benefits are accrued or paid to directors. Directors are entitled to reimbursement of reasonable expenses incurred while attending to Board business.

27 Key management personnel compensation (continued)

Executive remuneration

The following tables disclose the remuneration details in bands for each person who acted as a senior executive during the current and two previous financial years.

2014

Band	Number of Employees	Base Salaries	Short Term Performance Payments	Super-annuation	Termination benefits	Total 2014	Total 2013
>$1,050,000	1	$506,815	$101,114	$60,343	$1,344,928	$2,013,200	-
$900,001-$1,050,000	1	$382,852	$64,856	$25,000	$520,517	$993,225	-
$600,001-$750,000	-	-	-	-	-	-	$653,920
$450,001-$600,000	3	$731,075	$136,604	$79,183	$753,099	$1,699,961	-
$300,001-$450,000	2	$366,905	$72,029	$38,321	$225,734	$702,989	$1,587,607
$150,001-$300,000	1	$151,411	-	$20,314	-	$171,725	$587,807
<=$150,000	1	$106,504	-	$9,852	-	$116,357	$74,795
Total	**9**	**$2,245,562**	**$374,603**	**$233,014**	**$2,844,278**	**$5,697,457**	**$2,904,129**

2013

Band	Number of Employees	Base Salaries	Short Term Performance Payments	Super-annuation	Termination benefits	Total 2013	Total 2012[5]
>$600,000	1	$492,001	$109,623	$52,296	-	$653,920	-
$450,001-$600,000	-	-	-	-	-	-	$1,106,320
$300,001-$450,000	4	$1,083,873	$195,388	$100,001	$208,345	$1,587,607	$1,217,914
$150,001-$300,000	2	$462,845	$80,497	$44,465	-	$587,807	$539,713
<=$150,000	1	$68,602	-	$6,193	-	$74,795	$64,873
Total	**8**	**$2,107,321**	**$385,508**	**$202,955**	**$208,345**	**$2,904,129**	**$2,928,820**

[5] *In 2012 there were 2 employees in the $450,001-$600,000 band; 3 employees in the $300,001-$450,000 band; 2 employees in the $150,000-$300,000 band; and 2 employees in the <=$150,000 band.*

Note: Vehicles are included in the Base Salaries as they are optional and form part of the Total Employment Package.

As a result of the Tasmanian Government's electricity reforms, termination benefits in 2013/14 included retention arrangements for some key management personnel that were made redundant. In May 2012 the Board approved retention arrangements to mitigate the significant risk of loss of key employees critical to the transformation activities required to support the electricity reforms and to oversee the operations of Aurora Energy until the structural changes of the reforms had been implemented. The retention arrangements were only available to those employees that remained with Aurora Energy until the completion of the transformation activities, and made redundant as a result of the reforms. The termination payments also include redundancy payments that were paid to key management personnel whose employment was terminated with Aurora Energy during the financial year. The size of the redundancy payments is commensurate with the years of services of those employees.

27 Key management personnel compensation (continued)

Executive remuneration principles
Aurora's approach to executive remuneration is designed to attract, retain and motivate competent and experienced executive management personnel.

Aurora uses the Mercer CED Job Evaluation methodology to determine the classification band for all positions organisation-wide. In determining the classification of each role and the appropriate salary band, a number of factors are considered. These are:

- Knowledge and expertise required to competently perform the role;
- The level and type of judgement required; and
- The type and level of accountability.

Market considerations, competence and performance are factors in determining salary positioning within the band.
Executive remuneration is governed by a policy approved by the Board Appointments and Remuneration Committee (the Committee). Until February 2014 the target policy position for senior executive positions was the median of the Mercer Australian General Market. In February 2014 the Committee approved a revised Executive Management Remuneration Policy for the future, changing the policy position to the median of the Mercer Tasmanian General Market. This has been applied to the Aurora CEO (Designate) and direct reports who became senior executives from 1 July 2014[6] following transfer of the majority of assets and operations to the newly formed TasNetworks and the entity becoming solely focussed on electricity retailing on the commencement of full retail contestability in Tasmania.

Aurora Energy is compliant with the State Government's Director and Executive Remuneration Guidelines as at the date of this report.

The employment terms and conditions of senior executives are contained in individual employment contracts and prescribe total remuneration, superannuation, annual and long service leave and salary sacrifice provisions. The operation of and participation in any short term incentive scheme is reviewed each year by the Committee. Executives invited to participate in a short term incentive scheme each year were offered an 'at risk' component of remuneration. The actual remuneration was calculated with regard to achievement of key performance indicators on an annual basis, with measurements being made against operational targets (including financial and safety) and achievement of strategic company or divisional objectives. For 2014-15, Aurora Energy does not have any "at risk" component to salary.

The performance of each senior executive and proposed remuneration arrangements for the subsequent year, including the CEO, is reviewed annually by the Board Appointments and Remuneration Committee. At the date of this report, notice periods of key management personnel range from 1 month to 6 months. In addition, one executive is entitled to compensation should their employment be terminated prior to February 2015 so that their overall remuneration is a minimum of 18 months' salary.

[6] *On 30 June 2014, other than R. Kardos, the remaining Aurora Group Executive Team left the business and on 1 July 2014 the senior executives became the Aurora Leadership Team from that date.*

28 Consolidated entity

Name of entity	Country of incorporation	Ownership Interest 2014 %	Ownership Interest 2013 %
Parent entity			
Aurora Energy Pty Ltd	Australia		
Subsidiaries			
EziKey Group Pty Ltd	Australia	100	100
Auroracom Pty Ltd	Australia	100	100

29 Related party disclosures

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 28 to the financial statements.

(b) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 27 to the financial statements.

(c) Transactions with key management personnel

All transactions with key management personnel, including the supply of electricity for domestic purposes and to key management personnel related entities, were conducted on an arm's length basis in the normal course of business and on commercial terms and conditions.

(d) Controlling entity

The Crown (Tasmanian government) is the ultimate parent entity of Aurora Energy Pty Ltd.

The Group retails electricity and undertakes certain other transactions with government entities on an arm's length basis in the normal course of business and on commercial terms and conditions.

The Group purchased electricity transmission services and telecommunications from Transend Networks (and from 1 July 2014 purchases these services from TasNetworks). The Group purchases electricity derivatives and consulting services from Hydro Tasmania.

The Group supplied electrical services to TasNetworks and Hydro Tasmania, and supplied these services to Transend Networks until 30 June 2014.

As part of the electricity industry reform process, certain costs in relation to preparation for the merger of Transend Networks and Aurora's Distribution and Telecommunications Business on 1 July 2014 were incurred in the 2013-14 year by either Transend Networks or by Aurora Energy. Overall costs incurred by Aurora in relation to reform are included in note 36.

All transactions with Transend Networks, TasNetworks and Hydro Tasmania are on an arm's length basis in the normal course of business and on commercial terms and conditions.

30 Notes to the cashflow statement

	Consolidated 2014 $'000	Consolidated 2013 $'000
(a) Reconciliation of cash and cash equivalents (note 1(p))		
For the purposes of the cash flow statement, cash includes cash on hand, in banks, 11 am cash and short-term security deposits net of any outstanding bank overdrafts. Cash at the end of the reporting period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash	669	4,793
Bank overdraft*	(12,770)	-
11 am cash	44,000	-
Security Deposits	10	20
	31,909	4,813

* Relates to payments made from the operating bank account on 30 June 2014. On 1 July 2014 funds were transferred from the 11 am cash investment account prior to processing of these payments by the bank.

(b) Financing facilities		
The Group has access to finance facilities at 30 June as indicated below.		
Master Loan Facility Agreement		
Facility Limit (including guarantees)	1,162,000	1,162,000
Less used/committed	(799,322)	(782,579)
Balance	362,678	379,421
Committed Intra Day Credit Accommodation Facility		
Facility Limit	30,000	30,000
Bank overdraft		
Facility Limit	1,000	1,000
Less used/committed	-	-
Balance	1,000	1,000
Bank guarantee		
Facility Limit	65,000	65,000
Less used/committed	(52,257)	(46,700)
Balance	12,743	18,300
Corporate Mastercard		
Facility Limit	4,000	4,000
Less used/committed	(174)	(224)
Balance	3,826	3,776
Eligible Undertaking Facility		
Facility Limit	140,000	140,000
Less used/committed	(140,000)	(140,000)
Balance	-	-

30 Notes to the cashflow statement (continued)

(c) Reconciliation of profit for the period to net cash provided by operating activities

	Consolidated 2014 $'000	Consolidated 2013 $'000
Operating profit after income tax equivalents	63,991	51,486
Depreciation, amortisation & decommissioning costs	102,344	121,071
Loss on disposal of non-current assets	(91)	798
Fair value through profit or loss of financial instruments	10,022	(7,597)
Impairment of non-current assets	(1,410)	4,896
Decrease in accrued interest/market traded receivables	(18)	11
Decrease in other assets	(2,359)	4,501
Decrease/(increase) in inventories	6,488	2,634
Decrease in trade and other receivables	55,137	(27,503)
Increase in accrued interest payable	281	361
Increase in deferred and current taxes	(28,790)	21,995
Settlement of AETV intercompany account on transfer	-	(17,296)
Decrease in trade and other payables	(37,706)	2,404
(Decrease)/increase in employee provisions	1,694	255
Increase in other liabilities	(2,117)	1,425
Other	96	98
Net cash provided by operating activities	167,562	159,539

31 Share capital

Issued and paid-up capital	
112,700,004 ordinary shares, fully paid	232,319 225,116

	2014 No.	2014 $'000
Authorised shares, shares have no par value	500,000,000	
Movements in ordinary share capital		
Balance at beginning of year	112,700,004	225,116
Movements - increase in capital	-	7,203
Balance at end of year	112,700,004	232,319

Aurora Energy Pty Ltd received additional share capital from the State as a result of the settlement of a working capital adjustment with Hydro Tasmania related to the transfer of Aurora Energy (Tamar Valley) Pty Ltd.

32 Financial instruments

(a) Capital risk management

The Group's objective is to have an appropriate capital structure that ensures financial flexibility and fiscal discipline and therefore ongoing viability to continue to provide returns for shareholders.

To 30 June 2014, the capital structure was maintained through the monitoring of key financial ratios that support the continued management of the objective to maintain a target capital structure of 60 per cent debt and 40 per cent equity. On 1 July 2014 all debt was transferred to TasNetworks as set out in note 37.

The debt to total capital ratios were as follows:

	Consolidated	
	2014	2013
	$'000	$'000
Debt (i)	762,570	749,813
Year-end Equity (ii)	564,148	554,918
Total debt to total capital ratio (iii)	57%	57%

(i) Debt is defined as long and short term borrowings

(ii) Equity includes all capital and reserves

(iii) Total capital is defined as debt plus equity

(b) Categories of financial instruments

	Carrying amount	Carrying amount
Financial assets		
Loans and receivables		
- Cash and cash equivalents	44,679	4,813
- Trade and other receivables	71,704	101,926
- Market traded receivables	-	-
Financial liabilities		
Amortised cost		
- Trade and other payables and bank overdraft	80,491	117,134
- Customer security deposits	14,500	14,500
- Borrowings	762,570	749,813
Derivative instruments		
- Electricity swaps, futures and options – note 32(g)(i)	(51,029)	(9,819)
- Interest rate swaps – note 32(g)(ii)	(8,830)	(7,261)
- Forward exchange contracts – note 32(g)(iii)	-	-

32 Financial instruments (continued)

(c) Financial risk management

The Group's Corporate Treasury function provides services to the Group, coordinates access to financial markets, and manages the interest rate, foreign exchange and commodity (excluding energy) risks relating to the operations of the Group. Risk management in respect of energy commodity exposures is managed under board approved energy risk management (ERM) principles. Treasury and ERM operate under policies approved by the Board.

The Group's activities exposed it primarily to the financial risks of changes in energy price, foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to these risks, including:

- electricity swaps, futures and caps to hedge the energy price risk arising on purchases and sales of electricity to customers;
- forward foreign exchange contracts to hedge the exchange rate risk arising on forecast foreign currency payments;
- forward commodity exchange contracts to hedge the risk arising from forecast commodity prices; and
- interest rate swaps to mitigate the risk of rising interest rates

(d) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in notes 1(s), 1(t), 1(v) to the financial statements.

(e) Credit risk management

Credit risk represents the loss that would be recognised at the reporting date if counterparties failed to meet their contractual obligations. The Group measures credit risk as the positive revaluation of financial instruments plus the potential credit exposure and an amount for settlement risk.

Credit risk associated with receivables is described in note 6.

A Board approved Credit Risk Framework establishes credit limits for parties depending on their credit rating. The Group also uses ISDA agreements with derivative counterparties in order to limit exposure to credit risk through the netting of amounts receivable from and amounts payable to individual counterparties. The Credit Risk Framework was overseen by the Group's Treasury Committee and customer credit approvals resided within Business Units and were approved with delegations overseen by the Chief Financial Officer. The Group's overall strategy towards credit risk remained unchanged from 2010 however a revised credit policy and associated documentation was put in place for 1 July 2014 following the transfer of the Distribution and Telecommunications business to TasNetworks.

The majority of the Group's credit risk is to Australian based banks, financial institutions and electricity generators. At balance date, the only significant concentration of credit risk with any counterparty is to Hydro Tasmania as the dominant generator in Tasmania and the Westpac Bank and Tascorp for bank deposits. There is no material concentration risk in retail customers.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk at reporting date. In respect to those financial assets and the credit risk embedded within them, the Group holds no significant collateral as security and there are no other significant credit enhancements in respect of these assets.

The Group accepts guarantees from Australian financial institutions on behalf of major customer and supply contracts as collateral in respect of the financial assets/receivables.

(f) Liquidity risk management

Prudent liquidity management involves maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. To help counter this risk, the Group has adequate stand-by facilities and other funding arrangements in place as disclosed in note 30(b) and only uses financial instruments that are highly tradable.

The Group also continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

32 Financial instruments (continued)

The following tables detail the Group's remaining contractual maturity for its financial assets and liabilities and expected maturity of derivative instruments. The tables have been drawn up based on the undiscounted cash flows based on the earliest date on which the Group can be required to pay its financial liabilities and receive its financial assets and is expected to settle its derivative instruments. The tables include both principal and interest cash flows.

2014	Weighted average effective interest rate	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
	%	$'000	$'000	$'000	$'000
Financial assets					
Cash and cash equivalents	2.63	44,679	-	-	-
Trade and other receivables	-	71,704	-	-	-
Interest rate swaps	-	-	-	-	-
Electricity derivatives	-	7	6,494	76	-
		116,390	6,494	76	-
Financial liabilities	-				
Trade and other payables	-	80,491	-	-	-
Customer security deposits	-	14,500	-	-	-
Borrowings – fixed rate	5.90	77,902	59,973	522,046	-
Borrowings – floating rate	3.33	107,188	42,804	51,970	-
Forward start borrowing commitments	0.00	-	-	-	-
Interest rate swaps	4.49	2,727	3,547	3,873	-
Electricity derivatives	-	26,631	13,259	20,312	-
Forward exchange contracts - note 32(g)(iii)	-	-	-	-	-
		309,439	119,583	598,201	-

32 Financial instruments (continued)

2013

	Weighted average effective interest rate	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
	%	$'000	$'000	$'000	$'000
Financial assets					
Cash and cash equivalents	2.65	4,813	-	-	-
Trade and other receivables	-	101,926	-	-	-
Interest rate swaps	-	-	-	-	-
Electricity derivatives	-	8,968	-	-	-
		115,707	-	-	-
Financial liabilities					
Trade and other payables		117,134	-	-	-
Customer security deposits		14,500	-	-	-
Borrowings – fixed rate	5.93	59,848	76,116	529,622	-
Borrowings – floating rate	3.68	100,434	47,779	63,186	-
Forward start borrowing commitments	5.45	-	1,962	39,924	-
Interest rate swaps	4.62	2,639	2,607	3,062	37
Electricity derivatives	-	9,849	2,557	7,360	-
Forward exchange contracts - note 32(g)(iii)	-	-	-	-	-
		304,404	131,021	643,154	37

The liquidity risk of the parent is not materially different from that of the Group as disclosed in the above table.

(g) Market risk management

(i) Price risk management

The Group is exposed to commodity price risk from electricity associated with the purchase and/or sale of electricity. To manage its commodity price risks in respect to electricity, the Group enters into electricity derivatives, including caps and swaps.

The key elements of the Group's strategy include:

- Energy trading risks being actively managed and monitored against Board approved limits. These limits cover relative and absolute trading limits;
- Incorporating sufficient margin within contestable retail customer contract pricing to adequately cover costs and generate the required return for risk; and
- Ensuring alignment between key terms of customer sales and associated hedge contracts.

The Group's overall strategy remains unchanged. A majority of Aurora's load is covered by whole of meter swaps, with a small amount since October 2013 being hedged as a portfolio with standard flat and peak swaps.

The following tables detail the remaining terms of energy derivatives contracts outstanding as at reporting date and their fair values.

32 Financial instruments (continued)

2014	1 year or less $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total $'000
Assets					
Derivatives designated hedge in a cash flow relationship	8	6,305	-	-	6,313
Derivatives designated in a fair value hedge relationship	-	-	-	-	-
Derivatives not in designated hedge relationship	-	-	72	-	72
	8	6,305	72	-	6,385
Liabilities					
Derivatives designated hedge in a cash flow relationship	(17,152)	(3,239)	(1,029)	-	(21,420)
Derivatives designated in a fair value hedge relationship	(8,128)	(9,142)	(17,596)	-	(34,866)
Derivatives not in designated hedge relationship	(863)	(262)	(1)	-	(1,126)
	(26,143)	(12,643)	(18,626)	-	(57,412)
Total asset/(liability)	(26,135)	(6,338)	(18,554)	-	(51,027)

2013	1 year or less $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total $'000
Assets					
Derivatives designated hedge in a cash flow relationship	-	-	-	-	-
Derivatives designated in a fair value hedge relationship	-	-	-	-	-
Derivatives not in designated hedge relationship	8,941	-	-	-	8,941
	8,941	-	-	-	8,941
Liabilities					
Derivatives designated hedge in a cash flow relationship	-	-	-	-	-
Derivatives designated in a fair value hedge relationship	(9,747)	(2,450)	(6,564)	-	(18,761)
Derivatives not in designated hedge relationship	-	-	-	-	-
	(9,747)	(2,450)	(6,564)	-	(18,761)
Total asset/(liability)	(806)	(2,450)	(6,564)	-	(9,820)

Price sensitivity

The following table summarises the impact of increases/decreases of the relevant forward prices for electricity on the Group's post tax profit for the year and on other components of equity. The sensitivity analysis is calculated based on a calculation of the region's volatility of price as observed over the past year, to provide an indicator of likely potential variation to profit and equity of the Group. Note that these sensitivities assume variations based on historical information. Actual results may differ dependant on future market conditions. All variables other than the relevant primary risk variable identified are held constant in the analysis.

32 Financial instruments (continued)

	Impact on post tax profit of the Group +/(-) ($'000)	Post tax impact on equity of the Group +/(-) ($'000)
2014 Electricity forward price	1,408/(588)	32,843/(13,161)
2013 Electricity forward price	25,332/(12,719)	-/-

Profit for the year would increase/decrease as a result of electricity derivatives which do not qualify for cash flow hedge accounting under AASB 139. Equity would increase/decrease as a result of electricity derivatives which do qualify for cash flow hedge accounting under AASB 139.

(ii) Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, by entering into forward start borrowing agreements and by the use of interest rate swap contracts. The Group's overall strategy remains unchanged.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section to this note.

Forward start borrowings

The Group is able to enter into forward start borrowing agreements with the Tasmanian Public Finance Corporation to manage liquidity risk and/or interest rate risk. Forward start borrowings can be either fixed or floating, depending on the risk being managed.

As at 30 June 2014 the Group had no forward start borrowings.

Interest rate swaps

The Group is able to enter into interest rate swap contracts to manage the interest rate risk of the debt portfolio. Interest rate swap transactions allow the Group to swap floating rate exposure to fixed rate exposure and vice versa.

As at 30 June 2014 the Group had 12 pay fixed/receive floating interest swaps with an aggregate face value of $285.0M. The majority of the swaps were entered into during 2011/12.

The following table details the notional principal amounts, remaining terms of interest rate swap contracts outstanding as at reporting date and the fair values.

	Average contracted fixed interest rate		Notional principal amount		Fair value	
Outstanding floating for fixed contracts	2014	2013	2014	2013	2014	2013
	%	%	$'000	$'000	$'000	$'000
Less than 1 year	3.8141	4.2404	55,000	47,500	(12)	(630)
1 to 2 years	4.6038	5.1150	40,000	25,000	(1,043)	(615)
2 to 5 years	4.6543	4.4740	190,000	155,000	(7,775)	(4,448)
5 years +	-	5.0000	-	75,000	-	(1,568)
			285,000	302,500	(8,830)	(7,261)

32 Financial instruments (continued)

Interest rate sensitivity

The following table summarises the impact of increases/decreases of the relevant interest rates on the Group's post-tax profit for the year and on other components of equity. A 100 basis point increase or 50 basis point decrease (2013: 100 basis point increase or 50 basis point decrease) represents Aurora's assessment of the possible change in interest rates.

	Impact on post tax profit of the Group +100bp/(-50bp) ($'000)	Post tax impact on equity of the Group +100bp/(-50bp) ($'000)
2014 Interest rates	204/(408)	3,899/(2,014)
2013 Interest rates	166/(333)	4,598/(2,395)

The interest price risk of the company is not materially different to that of the Group as disclosed in the above tables.

Post-tax profit for the year would increase/decrease mainly attributable to the Group's exposure to interest rates on its variable rate borrowings. However, all variable rate borrowings (excluding variable short term borrowings) have been effectively hedged, to change the exposure to a fixed rate. Other components of equity would increase/decrease as a result of the interest rate swap contracts which qualify for cash flow hedge accounting under AASB 139.

(iii) Foreign exchange risk management

The Group is exposed to foreign currency risk on certain transactions that are denominated in a currency other than the respective entity's functional currency and exposures to exchange rate fluctuations arise. Foreign currency risk arises primarily from the purchase of capital items, payment of maintenance fees and management fees, and the purchase of spare parts. The Group uses forward exchange contracts to hedge its currency exposure on a minimum rolling 12 month basis when a foreign currency firm commitment exists.

There were no forward foreign exchange contracts outstanding as at reporting date:

(h) Fair value of financial instruments

The carrying amount of financial assets and financial liabilities recorded in the financial statements, except for the borrowings from Tascorp as discussed below, approximate their fair values.

Tascorp loans have an aggregate carrying amount of $762.6M and an estimated net fair value of $804.9M. The Group has not written these liabilities up as it expects to repay the carrying amount fully by holding them to maturity.

Fixed rate loans, floating rate notes and overnight borrowings are valued at current risk adjusted market rates.

The fair value of derivative instruments are calculated using quoted prices or where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Derivative transactions are only used for the purpose of managing financial exposures that arise from underlying business positions. Therefore fair values should not be assessed in isolation. The overall impact should take account of the underlying exposures being hedged.

Tasmanian Electricity Derivative Contracts

The Group has in place hedge arrangements for its Tasmanian market contracts with all contestable customers. Hedges take the form of load following or fixed volume electricity swap agreements. The economic effect of these arrangements is to transfer to the counterparties some of the variable price risk and to fix the cost of electricity to the Group in line with the revenue streams that are contracted for with customers.

32 Financial instruments (continued)

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 (i.e. as prices) or indirectly (i.e. 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 date (unobservable inputs).

30 June 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Derivative instruments				
- Electricity swap, futures and options – note 32(g)(i)	-	(51,029)	-	(51,029)
- Interest rate swaps – note 32(g)(ii)	-	(8,830)	-	(8,830)
- Forward exchange contracts – note 32(g)(iii)	-	-	-	-
Total	-	(59,859)	-	(59,859)

There were no transfers between Level 1, 2 and 3 in the period.

30 June 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Derivative instruments				
- Electricity swap, futures and options – note 32(g)(i)	-	(9,819)	-	(9,819)
- Interest rate swaps – note 32(g)(ii)	-	(7,261)	-	(7,261)
- Forward exchange contracts – note 32(g)(iii)	-	-	-	-
Total	-	(17,080)	-	(17,080)

There were no transfers between Level 1, 2 and 3 in the period.

Significant assumptions used in determining fair value of financial assets and liabilities.

The financial statements include electricity swaps and customer contracts which are measured at fair value. Their fair values are determined using valuation techniques based on the calculation of the present value of expected future cash flows. Inputs to these valuation techniques include some assumptions relating to the electricity forward prices in Tasmania that are supportable by regulated market prices and forecast of future load demand.

33 Fair value measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities
Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at 30 June 2014.

	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable Inputs (Level 2)	Significant unobservable Inputs (Level 3)
Assets measured at fair value		$'000	$'000	$'000	$'000
Derivative financial assets					
Interest rate swaps	30 June 14	-	-	-	-
Electricity derivatives	30 June 14	6,313	-	6,613	-
Revalued property, plant and equipment					
Distribution grid	30 June 14	1,344,714	-	-	1,344,714
Land and buildings	30 June 14	38,628	-	38,628	-
There have been no transfers between Level 1, 2 and 3 in the period					
Liabilities measured at fair value					
Derivative financial liabilities					
Interest rate swaps	30 June 14	8,830	-	8,830	-
Electricity derivatives	30 June 14	57,342	-	57,342	-
Liabilities for which fair values are disclosed					
Interest bearing borrowings					
Borrowings – fixed rates	30 June 14	607,802	-	607,802	-
Borrowings – variable rates	30 June 14	197,138	-	197,138	-
There have been no transfers between Level 1, 2 and 3 in the period					

34 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Assessment of impairment of non regulated assets

The Group considers annually whether such assets have suffered any impairment, in accordance with the accounting policy stated in note 1(n). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of the following key assumptions:

- forecast electricity pool outcomes and regulated costs and revenues;
- the level of customer churn to competitors with the introduction of full retail contestability from 1 July 2014; and
- discount rates.

(ii) Energy Business asset impairment assessment

Where an indicator of impairment exists, Aurora makes a formal estimate of the recoverable amount of the asset.

A five year Corporate Plan for the Energy Business has been approved by the Board. The plan reflects up-to-date information and the projections represent management's best estimate of future financial performance. Based on the future projections of the Energy Business, the Board has determined that no indicators of impairment exist and, accordingly, no formal estimate of the recoverable amount has been performed.

(iii) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market (for example, certain types of electricity derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at each balance sheet date.

(iv) RBF liability

The Retirement Benefits Fund defined benefits provision detailed in note 20 has been assessed by the State Actuary and various actuarial assumptions have been applied to arrive at the carrying value reported.

(v) Unbilled revenue

Unbilled electricity sales are an estimate of the value of electricity units supplied between the date of the last meter reading and the year-end. The estimate of the units supplied is based on the customer historic usage profile adjusted to reflect the actual wholesale electricity purchases and the unit price used reflects the relevant tariff prices.

(vi) Recovery of deferred tax asset

Deferred tax assets are recognised for deductible temporary differences as Aurora considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(vii) Customer care and billing system

A customer care and billing system was commissioned in February 2011 to replace an existing system which was no longer supported by the vendor and was unable to effectively support National Electricity Market requirements. Aurora receives an allowance per customer through the independent retail price regulation process. The book value of the customer care and billing system at 30 June 2013 was $17.226M. It was being depreciated over a useful remaining life of 3 years to 30 June 2015, the date reasonably expected as the end to Aurora's retail services functions proposed under reform process with the sale of Aurora's retail book. Following the September 2013 announcement of the abandonment of a process to sell Aurora's retail customer base and the continuing on of Aurora as a Retailer, the estimated useful life was reassessed to 8 years from 1 July 2013.

Aurora will continue to assess the effective useful life in accordance with note 1(f).

35 Parent entity information

	2014 $'000	2013 $'000
Current assets	255,280	287,843
Total assets	1,886,229	1,817,273
Current liabilities	329,804	315,800
Total liabilities	1,319,424	1,258,563
Issued capital	232,319	225,116
Retained earnings	150,052	156,219
Asset revaluation reserve	201,414	182,732
Cash flow hedge reserve	(16,979)	(5,357)
Total shareholders' equity	566,805	558,710
Total revenue including tax benefit of the parent entity	1,193,079	1,624,020
Total expenses including tax expense of the parent entity	1,129,092	1,567,530
Profit after tax of the parent entity	63,987	56,490
Total comprehensive profit of the parent entity	65,892	56,356
Contingent liabilities:		
Contingent liabilities of the parent entity are set out in note 25, and are the same as for the consolidated entity.		
Property, plant and equipment commitments:		
Property, plant and equipment		
Not longer than 1 year	1,732	4,674
Longer than 1 year and up to 5 years	1,732	0
Longer than 5 years	0	0
	3,464	4,674

36 Tasmanian Energy Reform related costs borne by Aurora

On 18 June 2013 Tasmanian Department of Treasury and Finance issued a Protocol for reporting electricity reform implementation costs. The following operating costs were incurred by the Group:

	2014 $'000	2013 $'000
Operating Expenditure		
Aurora's share of costs of funding the Business Transition Group	837	792
Costs of consultants engaged on Electricity Reform Project	724	259
Operating costs of employees who spend greater than 80% of their time on reform activities, including the establishment of TasNetworks, and contracted labour and contracted services	7,521	3,339
Redundancy costs paid and payable	13,724	880
Other costs of reform	2,523	415
Total reform costs borne by Aurora	**25,329**	**5,685**

Make ready costs to deliver Transitional Services for purchasers of the Retail Book are included in the table above in 2013-14. In the prior year such costs were excluded and recorded as a receivable from the Crown, reimbursable from sales proceeds. The sale was abandoned on 26 September 2013.

During 2014 and following the discontinuation of the retail sale process, the Business Transition Group was realigned to support Network integration and the establishment of TasNetworks.

The Protocol requires the disclosure of the direct costs of employees who spend greater than 80% of their time on reform related activities. The amount in the table above is a management estimate of the reform cost that would have been included based on the 80% basis as set out in the Protocol. The actual costs for all employees that were allocated to reform activities from the beginning of the year under the entity's normal costing practices is $9.141M (2013:$4.493M).

Capital expenditure incurred during the year to prepare for Full Retail Contestability was $28.458M, comprising of $26.735M for software (refer Note 12), ($9.681M in 2013) and $1.723M for IT network infrastructure. Aurora Energy has applied to the Australian Energy Regulator to have a substantial part of this capital expenditure included in the Regulated Asset Base.

The table above excludes accelerated depreciation on the Customer Care and Billing System for 2012/13 (refer Note 12).

37 Subsequent events

On 15 May 2012 (and in subsequent updates) the Minister for Energy announced a comprehensive and integrated reform package for the Tasmanian electricity industry which has significantly affected Aurora's principal activities. Many changes to Aurora Energy's operations occurred in the 2012-13 and 2013-14 years. On 1 July 2014 the merger of Aurora's distribution and telecommunications businesses with Transend concluded, with the new business TasNetworks commencing operations on 1 July 2014.

On 1 July 2014, relevant assets and liabilities were transferred from Aurora Energy to TasNetworks via a gazetted Transfer Notice dated 25 June 2014. At the same time, Aurora Energy's facility limits under its Master Loan Facility Agreement were amended as follows: (i) $902M of the facility limit was transferred to TasNetworks and (ii) an amount of $80M was added to the facility limit. The transfer will be accounted for as an Administrative Arrangement under AASB 5, as a distribution to Aurora's shareholders equivalent to the net assets (at book value) of approximately $523M, for nil cash consideration. The $40M dividend declared by Aurora Energy for the year ended 30 June 2014 is to be paid by TasNetworks in December 2014, as prescribed in the Transfer Notice. A reconciliation and audit of the net asset transfer to TasNetworks is being undertaken and will be finalised in quarter 1, 2014-15.

Following these net asset transfers, and with the introduction of full retail competition from 1 July 2014, Aurora Energy operates a competitive retail business in Tasmania. Following the implementation of the Transfer Notice, the net asset position of Aurora Energy on 1 July 2014 was approximately $40M; the company had no debt and had sufficient finance facilities to operate in the National Electricity Market.

Tasmanian
Audit Office

Independent Auditor's Report

To the Members of Aurora Energy Pty Ltd

Financial Report for the Year Ended 30 June 2014

Report on the Financial Report

I have audited the accompanying consolidated financial report of Aurora Energy Pty Ltd (the Company), which comprise the statement of financial position as at 30 June 2014, the statements of comprehensive income, changes in equity and cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration on the financial report of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Auditor's Opinion

In my opinion:

(a) the Company's financial report is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated financial position as at 30 June 2014 and their financial performance for the year ended on that date

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001.*

The Responsibility of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the Directors determine necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report complies with Australian Accounting Standards.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based upon my audit. My audit was conducted in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend upon my judgement, including the assessment of risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, I considered internal control relevant to the Directors' preparation and fair presentation of the financial report in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*. The *Audit Act 2008* further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of State Entities but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Tasmanian Audit Office are not compromised in their role by the possibility of losing clients or income.

I confirm that the independence declaration required by the *Corporations Act 2001*, was provided to the Directors on the same date as this audit opinion and is included in the Directors' report.

Tasmanian Audit Office

E R De Santi
Deputy Auditor-General
Delegate of the Auditor General

HOBART
12 August 2014

9. Glossary

AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AET	Aurora Executive Team
AETV Power	Aurora subsidiary responsible for construction and operation of the Tamar Valley Power Station
A&RC	Board's Appointments and Remuneration Committee
ASHEC	Aurora Safety, Health and Environment Committee
ASX	Australian Stock Exchange
Aurora Group	Aurora Energy Pty Ltd, including subsidiary companies
BARCC	Board Audit, Risk & Compliance Committee
bn	Billion
CablePI	Tasmanians brand name for the WireAlert safety sensor
CCGT	Combined-cycle gas turbine
CEO	Chief Executive Officer
CIMS	Carbon Inventory Management Scheme
Demand-side management	Encouraging end-users to be thrifty with electricity management
DPIPWE	Department of Primary Industries Parks, Water & Environment
EEO	Equal Employment Opportunity
EHV	Extra High Voltage
EMF	Electric and magnetic fields
EHEC	Executive Safety, Health and Environment Committee
FiT	Feed-in-tariff
FRC	Full retail competition
FTE	Full-time equivalent
GRI	Global Reporting Initiative – international organisation that provides a reporting framework for measuring and reporting economic, social and environmental performance
GSL	Guaranteed Service Level scheme
GWh	Gigawatt hour (one GWh is equal to one million kilowatt hours)
HV	High Voltage
ICS	Incident Control System
IRT	Incident Review Team
km	Kilometre
kV	Kilovolt (1000 volts)
kW	Kilowatt (1000 watts)
kWh	Kilowatt hour (standard unit of energy, equivalent to production of consumption at the rate of one kilowatt for one hour)
LifeSafe	Aurora program that identifies risky safety behaviours
LTIFR	Lost Time Injury Frequency Rate
LV	Low voltage (up to 1000 watts)
Mark-to-market	adjustment of derivative to their current market value
MTIFR	medical treatment injury frequency rate
MW	megawatt (one MW is equal to 1000 kilowatts or 1,000,000 watts)
NBN	National Broadband Network

NECF	National Energy Customer Framework
NEM	National Electricity Market
NGERS	National Greenhouse Emissions Reporting Scheme
NILS	No Interest Loans Scheme
NMBS	Net Metering Buyback Scheme
NOx	oxides of nitrogen, produced during the combustion process
OCGT	open-cycle gas turbine
Peak Shaving	Reducing the instantaneous electivity usage during peak periods, when usage would ordinarily be high. Methods may include the use of generators, energy saving devices or incentives to encourage shifting usage to off peak periods
PCBs	polychlorinated biphenyls
REC	renewable energy certificates
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SMART goals	Specific, measurable, achievable, relevant and time-bound
STIPS	Service Target Performance Incentive Scheme
TasCOSS	Tasmanian Council of Social Services
Tranche	Customer segment
Transmission Line	Extra high voltage power supply, usually on steel towers
TSA	Transitional Services Agreement
TSP	Transitional Services Provider
TVPS	Tamar Valley Power Station
Volt	unit of potential or electrical pressure
Watt	rate of which electrical energy is produced or used
WireAlert	trading name of Aurora subsidiary EziKey Group Pty Ltd and national brand name for Aurora's safety sensor
Zero Harm	Aurora's safety, health and environmental improvement strategy

Accounts/connections/general	
Residential	1300 13 2003
Business	1300 13 2045
Customer feedback	1800 800 753
Switchboard	1300 13 2007
Internet	www.auroraenergy.com.au
TasNetworks	1300 13 7008

Aurora ENERGY