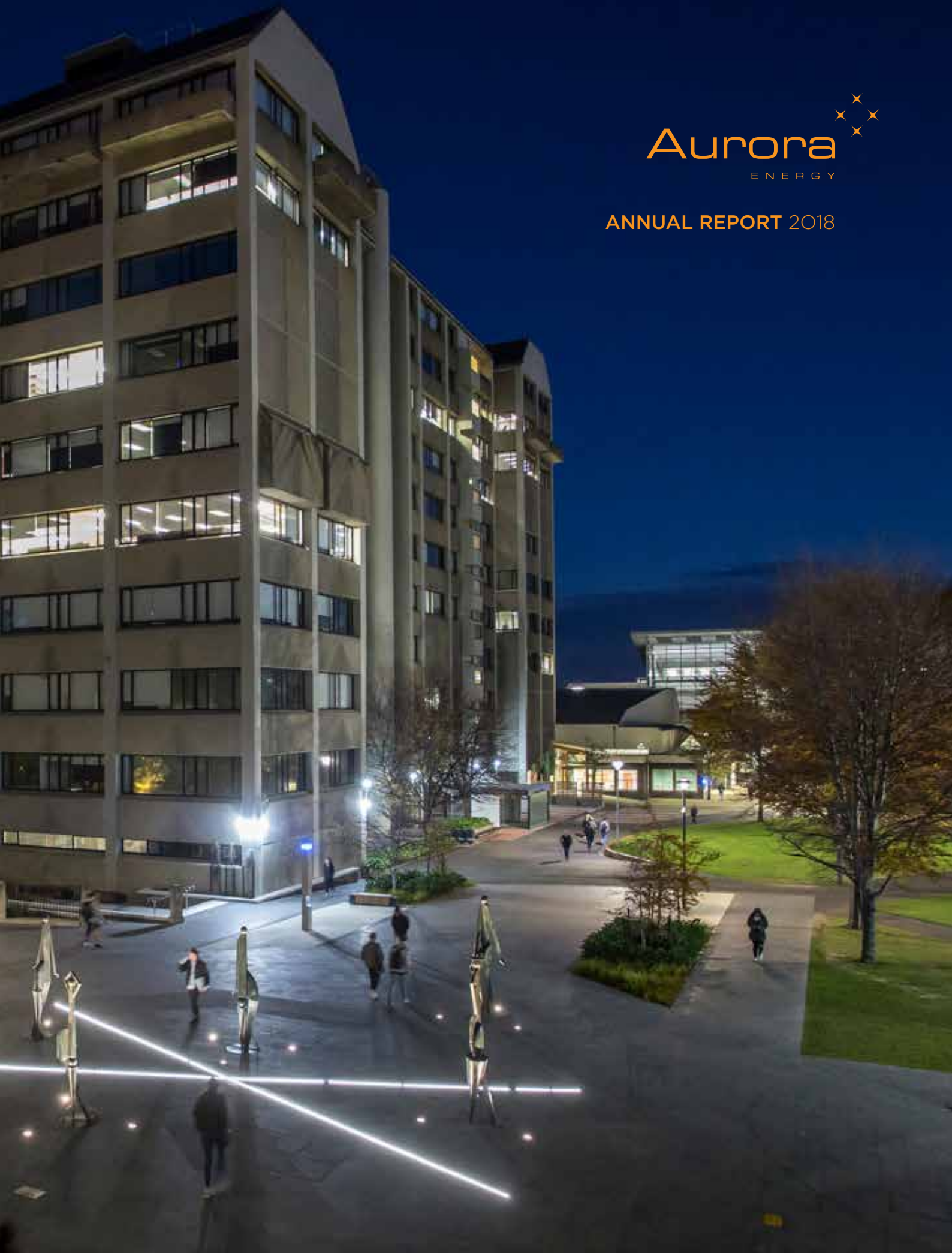




ANNUAL REPORT 2018



CONTENTS

8	30	31
CHAIR AND CHIEF EXECUTIVE'S REPORT	TREND STATEMENT	STATEMENT OF SERVICE PERFORMANCE
34	35	40
NETWORK PERFORMANCE	DIRECTORS' REPORT	INFORMATION ON THE DIRECTORS
41	42	48
FINANCIAL CONTENTS	FINANCIAL STATEMENTS	NOTES TO THE FINANCIAL STATEMENTS
72	77	
INDEPENDENT AUDITOR'S REPORT	COMPANY DIRECTORY	



Aurora Energy is the local electricity distribution network for Central Otago, Queenstown Lakes and Dunedin.

Our function is to transport electricity from the national grid to the end-use consumer. We are responsible for the safe and reliable supply of electricity to nearly 90,000 homes, farms and businesses throughout the Otago region.

Aurora Energy Limited is a subsidiary company of Dunedin City Holdings Limited owned by Dunedin City Council.





OUR NETWORK



We serve close to

90,000

customer connections



54,000
power poles



94,000
cross arms



7,000
distribution transformers



6,683
km of network length, overhead
lines and underground cables



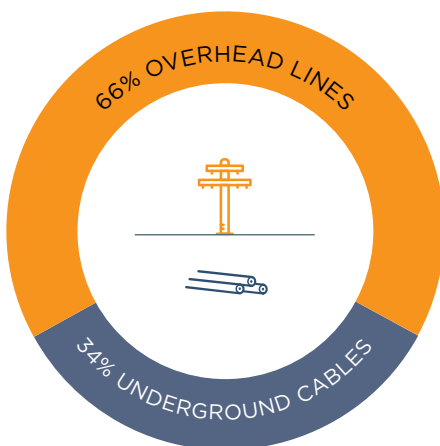
4,399
km of overhead lines



2,284
km of underground cables



40
zone substations



YOUR ELECTRICITY SUPPLY



GENERATION

Power stations generate electricity from water, wind, geothermal, gas and coal.



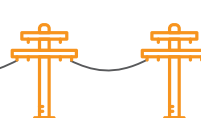
TRANSMISSION

Extra high voltage electricity is moved across Transpower's national grid in bulk.



DISTRIBUTION

Aurora Energy substations take electricity from the national grid and lower the high voltage electricity for local use.



DISTRIBUTION

Aurora Energy distributes the electricity to your place via power lines and underground cables.



RETAILERS

Retailers sell electricity to customers and deal directly with the customer.



CUSTOMERS

Your place.

OUR PURPOSE

OUR VISION IS TO BE...

A respected local partner recognised for providing essential electricity services to support the future growth and wellbeing of our communities

OUR MISSION IS TO...

Deliver electricity to our communities when and where it's needed, safely, reliably and efficiently



OUR VALUES ARE...



SAFETY FIRST



SOLUTIONS FOCUSED



ONE TEAM



LEARNING & INNOVATION



INTEGRITY



HIGHLIGHTS

For the year ended 30 June 2018





\$0.5 billion

total assets



\$94 million

amount invested renewing, maintaining
and building our network



89,199

customer connections
as at 31 March 2018



1,400 gigawatt hours

electricity received into network for delivery to
customers for the year ended 31 March 2018



135 employees

across three locations in Dunedin, Cromwell
and Queenstown



6,683 kilometres

of network length, overhead lines and
underground cables as at 31 March 2018

Bringing power to customers in Central Otago involves crossing challenging terrain and withstanding extreme weather conditions. In May, a helicopter was used to install six new high voltage power lines nearly 600 metres across Gorge Creek at Fruitlands near Roxburgh.

The lines are part of the subtransmission network that connects Alexandra and Roxburgh and exports power from the Teviot hydro schemes. The upgrade replaced equipment that was nearing the end of its useful life.

CHAIR AND CHIEF EXECUTIVE'S REPORT

For the year ended
30 June 2018

EXIT

This year marks the first year of operation for Aurora Energy as a standalone network owner with a new Board, management and team. We are an organisation of 135 staff based in Dunedin, Cromwell and Frankton who are dedicated to running the network with the support of contractors in the field.

A fresh start provides fresh opportunity. The organisation began the year with two main priorities, to continue the renewal of our electricity network while building the organisation's capacity to deliver its largest work programme ever. We focused our activities on safety, asset management, operational performance, customer orientation and building a high performance team.

We take our responsibility to provide a safe, reliable electricity supply to our customers and the community very seriously. In 2017, Aurora Energy set out a

multi-year plan of asset renewal and investment to ensure that our network remains safe and reliable for the long term. We committed to a new level of investment to upgrade the ageing network and cater for future growth with elevated levels of spend targeted across all types of network assets.

Those plans have turned into action and this year saw us invest record levels in replacing, upgrading and maintaining our assets.

We agree that it is unacceptable for our assets to fail in service due to their condition or a lack of maintenance. Low levels of investment in the past means that a proportion of our assets are now in poor condition and need renewing - in particular poles, overhead lines and zone substations. Our focus is to bring that situation under control, while recognising that it will take time to rectify.

Last year we took urgent steps to address the pressing issue of some of our worst condition poles through our Fast Track

Pole Programme that concluded in December. That was a start, but with the age and state of the network, we still have a lot of work ahead to inspect, maintain and upgrade other equipment.

Our immediate focus has been on the electricity poles on our network. We are nearly a third of the way through a pole inspection and renewal programme at the end of which every one of our 54,000 poles will have had an inspection in the last five years and, where necessary, replaced or reinforced.

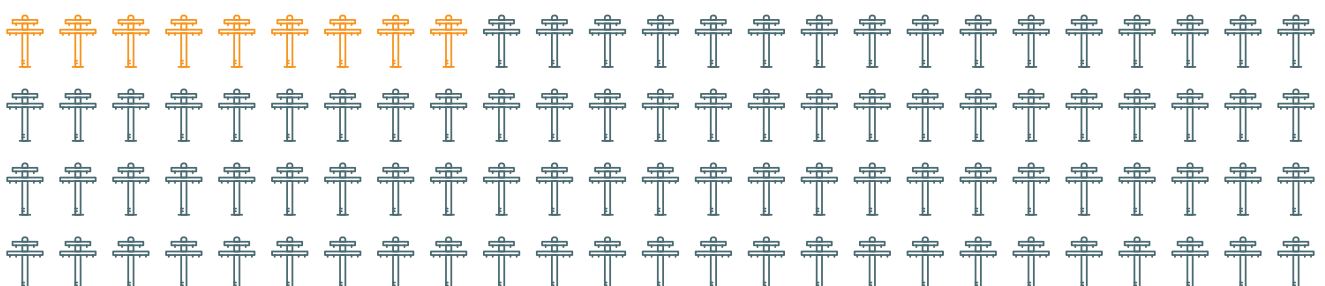
To illustrate what has already been achieved, in the last 18 months we have replaced or reinforced more than 5,000 of the 54,000 poles on the Aurora Energy network.

We have a lot to do over the next ten years but we are committed to making the needed investment and to target that investment on the parts of our network that need it the most. Safety will continue to be our number one priority when making those decisions.

More than

9.3%

of network poles renewed since January 2017





FORWARD PLANNING

There is growing electricity demand in parts of our network and our long term plans will support regional and business growth as well new technology choices for our customers.

Like other networks in New Zealand and around the world, much of our local electricity infrastructure was built in the 1950s and 1960s and is due for renewal.

In March, we commissioned an independent expert review to provide a baseline assessment of the state of our network that can be shared and understood by all of our stakeholders, including customers, regulators, local Councils and the wider community.

The independent review, which is being undertaken by the international engineering consultancy WSP Opus, is a prudent response to the challenges Aurora Energy faces in operating an ageing network and the major renewal programme planned over the next decade.

The independent review combines a desktop review of existing asset data and a more detailed assessment of assets including physical inspections and sample testing in the field. The review will have a consumer focus in respect of it providing an opinion on public safety, reliability, resilience and overall network risk.

Once completed in late calendar 2018, we expect the insights from the review to confirm our understanding of the priority areas for investment. We will also address any issues raised by the review that have not previously been captured. The review will be a key input into our future network investment plans.

Our next Asset Management Plan will be published in October 2018 and will update our ten-year plans and explain how we make decisions on where to target our asset spend.



Visual inspection using drones as part of independent review



FUTURE PRICING

The level of investment we are making, and will continue to make over the next decade, is a significant increase on historical levels, and well above our current regulatory allowances determined by the Commerce Commission.

To deliver the safe and reliable service our customers expect over the long-term will require funding that better reflects the cost of upgrading assets. This will inevitably require future price increases for our network services. While any price increase is unwelcome, our network prices have been low historically, compared to the rest of the distribution sector.

A Customised Price Path, or CPP, is the process where the Commerce Commission can set new spending thresholds for an individual company based on its current circumstances.

We will submit a CPP application to the Commission in May 2020 and transition to this new price path mechanism from April 2021.

As part of our process to develop a CPP application, we will undertake a series of detailed consultations with customers on our proposed investment plans, what this will mean for future network charges and any options that may be available

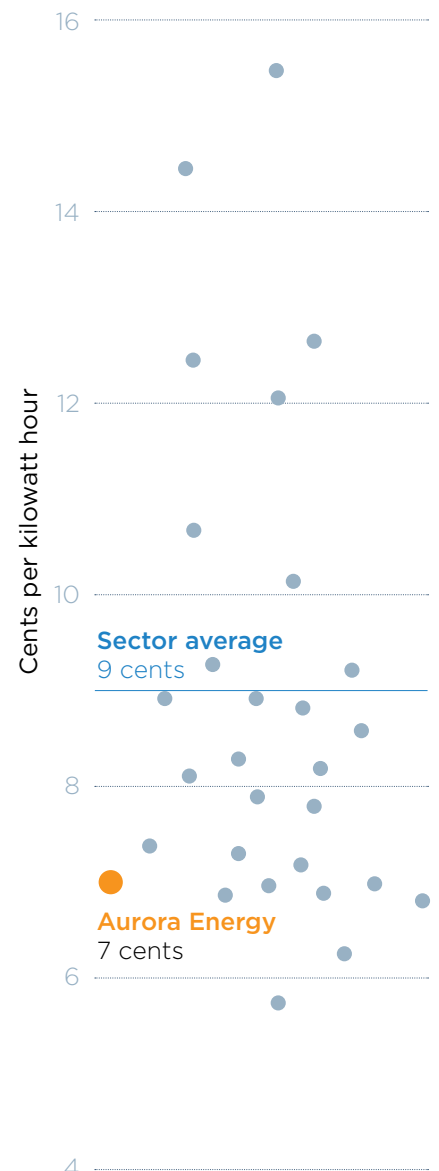
to customers. We will seek customers' views on the trade-off between prices they pay and the reliability of the service they receive for a range of possible investment alternatives.

During the year, the Commerce Commission continued its investigation into Aurora Energy's breaches of regulated reliability limits in 2015, 2016 and 2017. We cooperated fully with the regulator as it conducted an in-depth analysis of our past reliability performance. We expect the Commerce Commission to make a decision in late calendar 2018 on enforcement action in relation to these past breaches, in line with the regulatory framework.

In the meantime, we are continuing to drive our business forward to make the necessary asset management maturity improvements.

SECTOR PRICING

Our network prices benchmark low against the rest of the sector.



Note: Source data from PwC Electricity Line Business 2017 Information Disclosure Compendium (total line charge revenue per kilowatt hour, transmission and distribution) for year ended 31 March 2017



FINANCIAL RESULTS

The company's financial performance for the year ended 30 June 2018 (FY18) reflects the investment demands of major infrastructure renewal combined with the additional costs of operating a standalone company. Overall, results were broadly in line with forecast expectations.

Aurora Energy continues to invest strongly in its network. Capital expenditure on new assets increased by 74 percent to \$78.4 million (FY17: \$45.1 million). Total assets increased by \$62.9 million to \$535.5 million, noting there is a timing lag between network expenditure and its full value recognition in the regulated asset base. Term borrowings increased by \$63.2 million to \$254.6 million.

Operating expenses increased by 15.5 percent to \$95.5 million in the first full year of Aurora Energy operating as a standalone organisation and include upfront establishment costs, the direct employment of staff and building capacity in systems and people.

Aurora Energy's operating expenditure currently exceeds the historic regulated allowances administered by the Commerce Commission under its default price-quality path regime. In line with forecast expectations, net profit after tax was \$0.4 million, \$0.2 million lower than budget. No dividend (FY17: \$1.5 million) or subvention payment (FY17: \$1.4 million) was made this year.

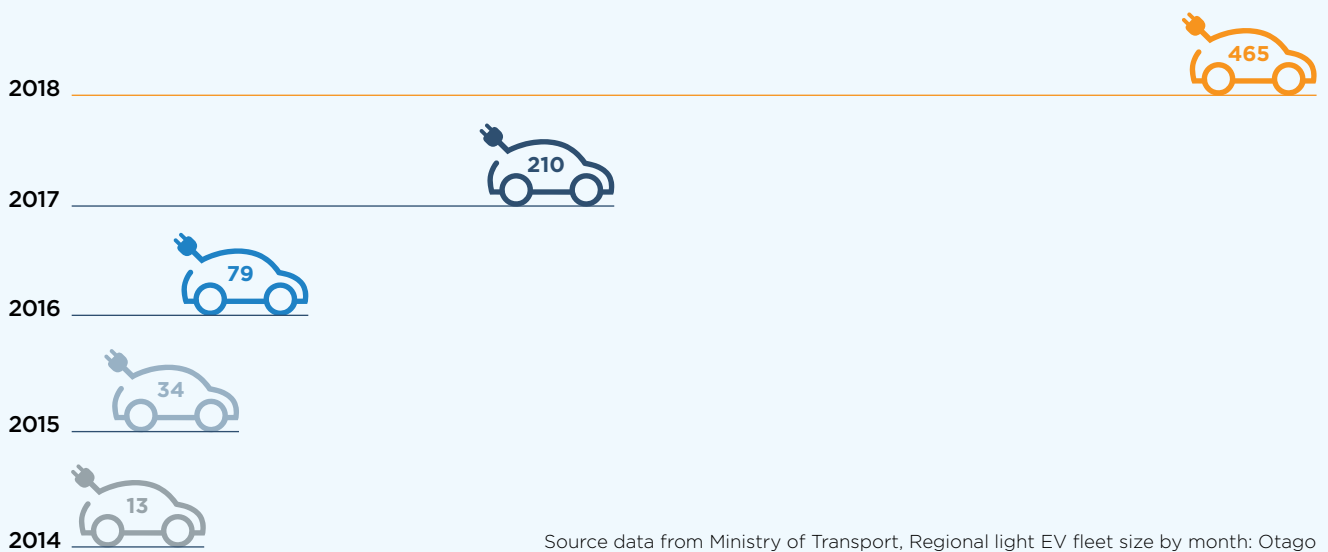
Total revenue increased from \$102.9 million to \$106.5 million, following inflation-adjustment to regulated income and growth in customer connections.

As signalled in our Statement of Intent, Aurora Energy paid no dividends during FY18 as all earnings were reinvested in the network. The view of the Board and our shareholder, Dunedin City Holdings Limited, is that forgoing dividends during the current period of infrastructure renewal is prudent and in the long term interests of both the shareholder and Aurora Energy's customers.

NEW TECHNOLOGY

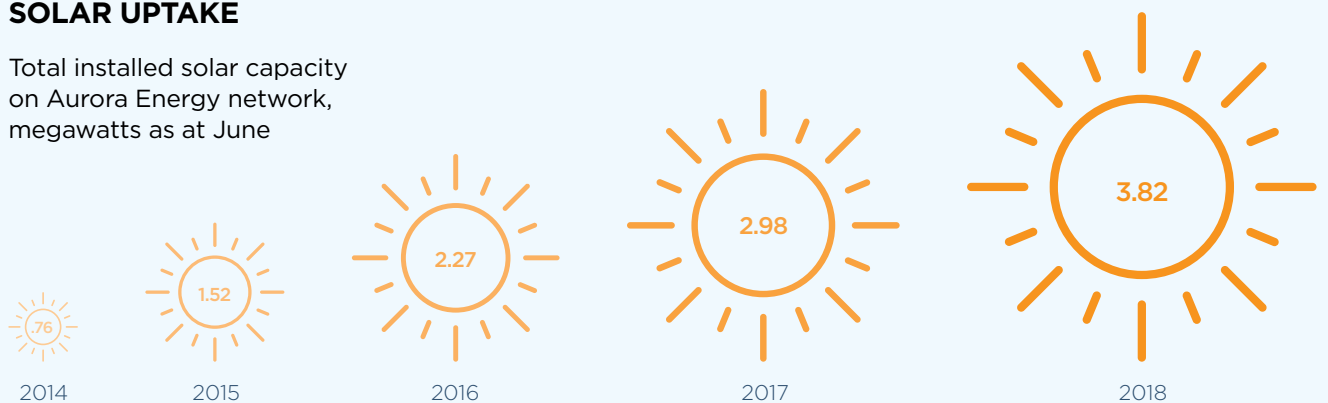
ELECTRIC VEHICLE UPTAKE

Number of light electric vehicles in Otago as at June



SOLAR UPTAKE

Total installed solar capacity on Aurora Energy network, megawatts as at June



Source data from Electricity Authority Electricity Market Information website



NETWORK INVESTMENT



5,000+

poles replaced or reinforced in last 18 months
(January 2017 - June 2018)



44.4

km of vegetation management along overhead lines



Carisbrook substation


\$13 million project under construction



Riverbank Road substation

\$9 million project under construction





During the year we achieved a significant increase in the renewal, maintenance and inspection rates on the network. Combined spend on new assets and maintenance totalled \$93.7 million (FY17: \$61.0 million). The main areas of focus were poles, switchgear and zone substations.

The \$30 million Fast Track Pole Programme concluded in December 2017, having achieved its primary goal of removing the risk of 2,910 priority poles and increasing the pace of pole renewals during the 2017 calendar year. The company's pole renewal and inspection programmes are an ongoing priority.

Up-to-date asset condition information is a requisite for quality decision-making and we made further effort to scale up our inspections programme including poles, distribution transformers and ring main units (a type of switchgear).

Keeping trees clear of power lines is critical for public safety and to reduce the risk of unplanned outages. Vegetation management was carried out along 44.4 kilometres of overhead lines this year.

Building off the back of the introduction of an advanced distribution management system last year, we now have the ability to operate as a single network from either of our two control centres in Dunedin and Cromwell. Having dual control centres with a whole-of-network view gives further operating flexibility and added resilience in the event of a major natural disaster. The new Cromwell control centre was constructed in containerised form and can be relocated to an alternative location, should that be necessary.

NETWORK INVESTMENT



Aurora Energy advanced two major zone substation developments in the past year to future-proof and modernise critical supply.

The new Carisbrook zone substation will improve security of electricity supply for neighbouring South Dunedin suburbs. The \$13 million project replaces the existing Neville Street substation, the oldest substation on our network, built in the 1940s and 1950s, and the older-type gas-insulated underground cables that supply it. During the year, the major works were completed at the new substation site and modern solid-insulation cables were installed connecting into the national grid at South Dunedin. The commissioning phase is underway with the new substation expected to be operational and supplying customers by the end of the calendar 2018.

Aurora Energy's \$9 million Wanaka upgrade project made significant progress towards completion. Electricity demand in Wanaka has increased as the local and visitor population grows and Aurora Energy is responding with a major upgrade to the electricity supply in the area.

We completed the main works on the new switching substation at Riverbank Road and installed the new underground cabling to the existing Wanaka substation. The final part of the project is to upgrade the overhead line along Riverbank Road from 33kV to 66kV (or 33,000 volts to 66,000 volts), which will be completed after winter 2018, outside the peak demand period.

The new Riverbank Road substation is expected to be commissioned by the end of calendar 2018. Once complete, the new substation will provide a hub for the high voltage supply into Wanaka and surrounding areas, will add capacity to the existing Wanaka substation and be able to reroute supply in the event of a fault.



Carisbrook substation



CUSTOMERS

We are committed to providing customers on the Aurora Energy network a quality, reliable service and to engage openly about our future plans. We are progressing a number of initiatives to streamline our processes and improve our responsiveness to customers when they interact with us for services such as new supply connections.

CUSTOMER CONNECTIONS

as at 31 March



Our goal is to achieve meaningful engagement and improve customer experience when dealing with Aurora Energy.

Customers tell us that what they value highly is up-to-date information on power outages and restoration times. Early notification for planned outages is provided up to four weeks in advance via retailer notification and listed on our website, with reminders a week ahead in the local newspaper. Our new Customer Care team provides updates on unplanned outages during working hours, plus updates and reminders via social media and on the website. The team also makes outbound calls to medically dependent consumers and affected businesses in advance of planned outages, as a further check. Future improvements are envisaged to provide better, real-time information on unplanned outages, round-the-clock.

Aurora Energy acknowledges the inconvenience to customers when their power is off, especially during colder weather. During winter, we trialled two new initiatives to lessen the impact on customers. New guidelines were introduced that limit the timing and duration of planned outages during winter. We also trialled drop-in centres for larger winter outages to provide a dry, warm space for affected customers. We will review the effectiveness of, and appetite for, these initiatives in future years.

As we carry out a major renewal of our network assets over several years, it is important that we engage with our stakeholders and the end-customers of our services, to ensure we are meeting their expectations.

We developed new Customer Voice Panels to better understand the needs and preferences of our customers, particularly what they value, and

what is effective, in terms of communication and engagement.

The panels, which began in late August 2018, bring together a cross-section of residential and small business customers in our key service regions of Dunedin, Central Otago and Queenstown Lakes.

Panellists will meet three to four times each year, for a few hours each time, to review information and provide feedback on how Aurora Energy delivers its services and how best to keep them informed.

We expect the panels, as they evolve, will provide an opportunity for meaningful two-way discussion and complement other customer engagement mechanisms such as direct feedback and customer surveys.



HAVE YOUR SAY

WHAT CUSTOMERS TOLD US

Asked about their communication preferences, our customers told us they want us to...



Offer easy access to information on power outages in their area



Communicate the plan for our power pole programme



Clarify what distribution companies do in relation to the rest of the electricity sector

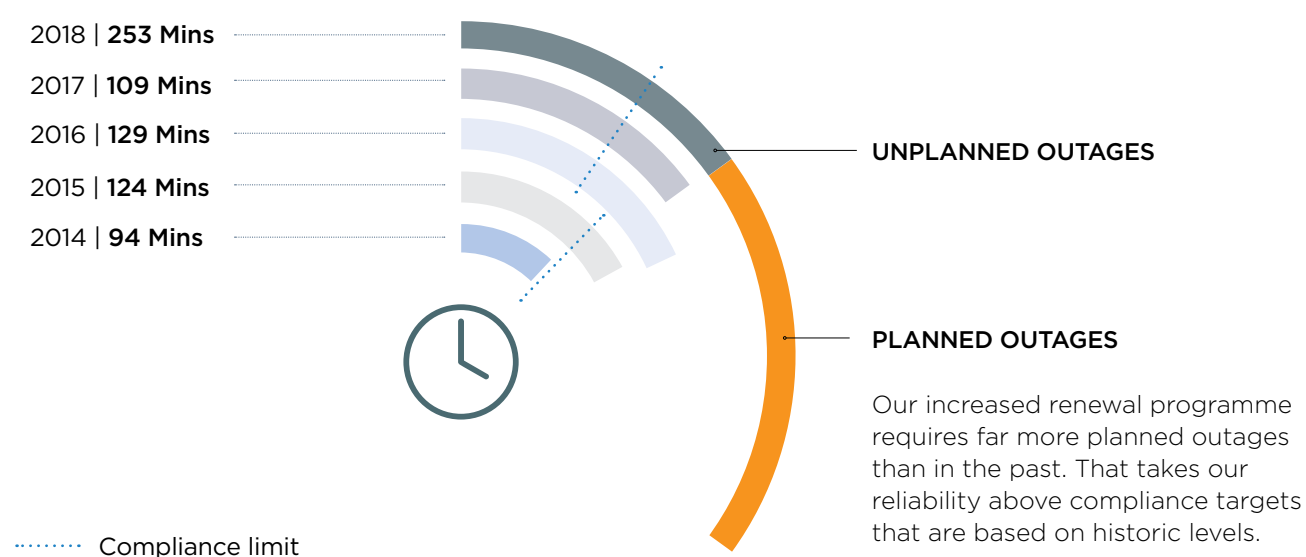


Provide simple and clear communications, with the information they really care about

RELIABILITY OF SUPPLY

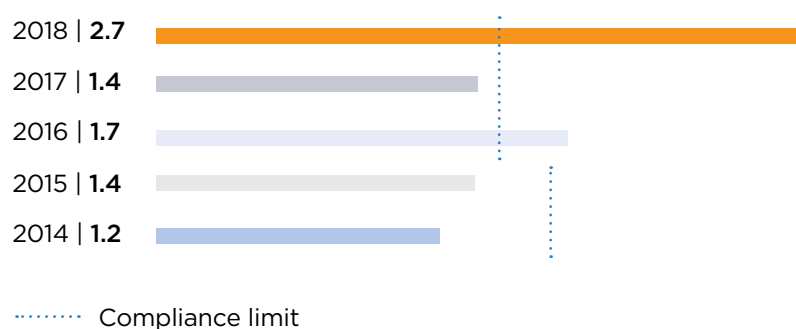
MINUTES OFF

Average number of minutes that customers were without electricity, per consumer per annum (normalised SAIDI) years ended 31 March



INTERRUPTIONS

Average number of times that customers were without electricity, per consumer per annum (normalised SAIFI) years ended 31 March



CUSTOMER COMPLAINTS

Customer complaints received by independent complaints resolution service, Utilities Disputes. The majority of complaints related to planned outages, which have increased as a direct consequence of our large renewal programme.

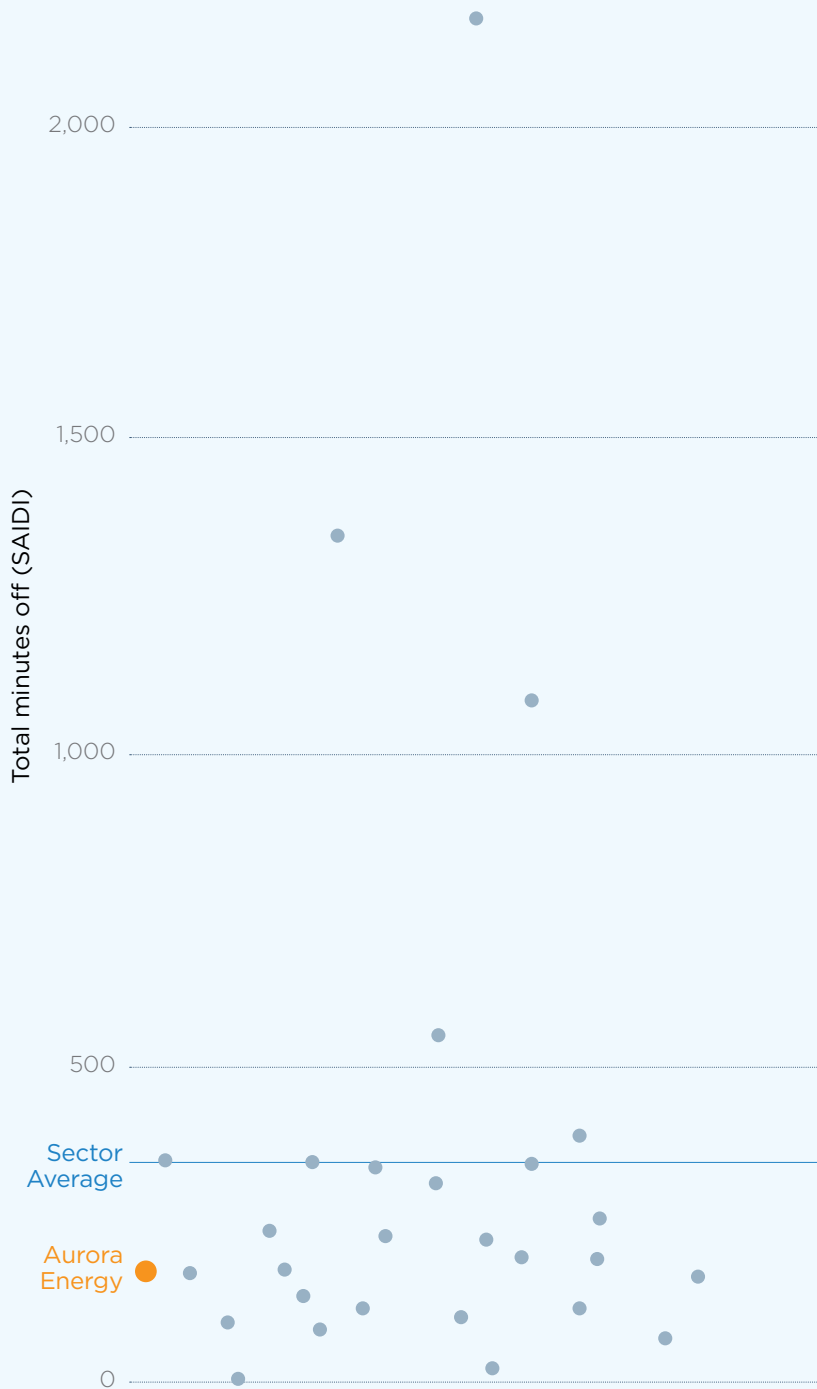


REASON FOR COMPLAINTS

- OUTAGES
- OTHER

RELIABILITY

Our reliability of supply is better than the average for the rest of the country.



Source data from PwC Electricity Line Business 2017 Information Disclosure Compendium (total SAIDI minutes) for year ended 31 March 2017





COMMUNITY

How we use energy is changing rapidly and a range of new technology choices is becoming available for electricity consumers.

The public charging network for electric vehicles has further expanded in Otago, with five rapid chargers on Aurora Energy's network in Dunedin, Roxburgh, Alexandra, Cromwell and Wanaka. Through our partnership with ChargeNet, we are supporting the installation of additional chargers at key driving locations and the switch to electric, emission-free transport.

Aurora Energy entered a conservation partnership in 2016 with the Department of Conservation to reduce the risk to kārearea or New Zealand falcon when they perch on overhead electrical equipment. Subsequently we tested changes to network design that would minimise that risk and these have been progressively incorporated into network standards. Key measures include electrical insulation on new or refurbished high voltage pole-top equipment and cross arm designs that prevent birds from perching.



Engaging young minds on science and technology opens up a world of possibility for exploration of ideas. We were again proud to sponsor the Aurora Energy Otago Science and Technology Fair in 2017, which saw hundreds of students from 27 schools across the Otago region participate. The Aurora Energy Premier Award for Best in Fair went to Columba College pupil Corrie Anderson for her investigation into the insecticidal properties and chemical structure of horopito, familiar to many New Zealanders as the pepper tree, because of its hot-tasting leaves.

Photo credit, Otago Daily Times



SAFETY AND RISK

Safety is our foremost priority. As an electricity asset owner, we have responsibilities for safeguarding those working on our network and the wider public, and as an employer, for ensuring an injury-free workplace.

OUR SAFETY RULES



**ELECTRICAL
SAFETY**



**WORKING
AT HEIGHTS**



**LIFTING
OPERATIONS**



**VEHICLES, PLANT
AND EQUIPMENT**



DRIVING



**PUBLIC
SAFETY**



**REMOTE AND
ISOLATED WORK**



**EMERGENCY
RESPONSE**

We are driving a cultural safety transformation throughout Aurora Energy to reposition our safety leadership and performance.

Our safety approach took account of our new status as a direct employer of staff. The new role of Head of Network Safety and Risk was established to support safety leadership in the new organisation.

We developed and launched an online health and safety induction process for all new and existing employees to deepen awareness of critical risks, key safety behaviours and processes.

During the year we launched our Safety Choices programme to embed safety as a leadership priority and make safety highly visible as a core value.

Our critical risk standards are an important element of Aurora Energy's safety management framework. They have been developed to provide clarity on our expectations and mandatory controls for our people and the multiple service providers operating on the network at any given time.

The eight critical risk areas are electrical safety; working at heights; lifting operations; vehicles, plant and equipment; driving; public safety; remote and isolated work, and; emergency response.

Safety rules were developed for each risk area that reinforce the required behaviours to keep everyone safe.

"THE PUBLIC DEPENDS ON US TO DO THE RIGHT THING"



OUR SAFETY RULES



PUBLIC SAFETY

Always protect the public from the work site
Never leave electrical equipment unsecured

SAFETY
NOTHING LESS

PUBLIC SAFETY

Aurora Energy has an ongoing public awareness programme to inform the community about keeping safe around our electricity network.

Targeted safety messages are promoted through print and online advertising on the hazards of working near overhead lines, digging near underground cables and being prepared in the event of power outages. A new safety message around trimming trees near electricity lines was added during FY18, supported by a safety guide for tree owners and advice on what species to plant (or avoid) near power lines.

Aurora Energy's public safety management system was certified to New Zealand Standard: NZS 7901:2008, following annual public safety audit by Telarc.

BE A GOOD NEIGHBOUR

KEEP TREES AWAY FROM POWER LINES



**KEEP SAFE
AROUND
ELECTRICITY**

Trees growing near or through power lines are a major safety hazard and can cause power cuts. Working together, we can keep trees a safe distance from power lines. Always use an Aurora Energy-approved contractor to safely trim or cut down trees growing within four metres of any power lines.

0800 22 00 05 | www.auroraenergy.co.nz

Aurora
ENERGY

LOOK UP LOOK OUT KEEP SAFE



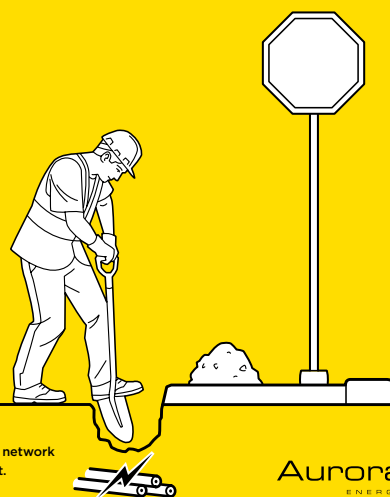
**KEEP SAFE
AROUND
ELECTRICITY**

Be smart around power lines. Call your electricity retailer and Aurora Energy will temporarily disconnect your service line for free, so you can do those jobs round home safely.

0800 22 00 05 | www.auroraenergy.co.nz

Aurora
ENERGY

CHECK BEFORE YOU DIG.



**KEEP SAFE
AROUND
ELECTRICITY**

Before you dig or install stakes in the ground, call us for a free check of our network plans to find out where underground cables and equipment are located first.

0800 22 00 05 | www.auroraenergy.co.nz

Aurora
ENERGY



THANKS

The Board thanks the new management team and all the staff of Aurora Energy for their contribution during the year. The Board was pleased to welcome the new chief executive, Richard Fletcher, who joined the organisation in January 2018, and thanks him for his leadership.

The year has been one of constant development that has put in place the building blocks for a step change improvement in our forward planning and programme delivery.

The Board and team at Aurora Energy is committed to delivering on our plans to ensure the customers and communities we serve can have confidence in our network, their electricity supply, and the safety of assets near their homes and businesses.

Stephen Thompson
CHAIRMAN

Richard Fletcher
CHIEF EXECUTIVE

10 September 2018



TREND STATEMENT

YEARS ENDED 30 JUNE	Note	2018	2017	2016	2015	2014
Energy received into network	GWh	1,451	1,441	1,398	1,408	1,351
Energy received for delivery to consumers	GWh	1,417	1,390	1,365	1,361	1,313
Energy delivery reliability (average time without supply per consumer per annum)	Minutes	258.3	227.0	235.0	137.3	123.6
Total revenue	\$000	106,501	102,868	100,032	99,462	92,895
Net profit before tax (before subvention payments)	\$000	1,197	11,278	16,262	18,420	18,024
Net profit before tax/average funds employed		2.2%	4.5%	6.0%	6.9%	7.1%
Tax – current year provision	\$000	793	2,185	2,519	3,132	3,037
– prior year (over)/under provision	\$000	(21)	387	(12)	(180)	45
Net profit for the year (before after-tax value of subvention payments)	\$000	425	7,294	11,713	13,426	12,900
Net profit for the year (after subvention payments)	1 \$000	425	7,294	6,463	8,176	7,650
Cashflow from operating activities	\$000	18,448	20,981	23,286	20,392	24,278
Dividends paid	\$000	-	1,500	3,000	4,750	4,750
Equivalent dividends (actual dividends plus after-tax value of subvention payments)	\$000	-	1,500	8,250	10,000	10,000
Shareholder's equity	\$000	190,819	190,432	183,648	182,550	180,983
Total assets	\$000	535,549	472,619	436,452	413,855	390,882
Capital expenditure (net)	\$000	78,421	45,152	37,196	35,421	21,260
Return on average equity (before after-tax value of subvention payments)		2.2%	3.9%	6.4%	7.4%	7.2%
Equity to total assets		35.6%	40.3%	42.1%	44.1%	46.3%

NOTE:

- 1 Aurora Energy Limited is part of the Dunedin City Holdings group of companies. In the years ended 30 June 2014 to 2016, Aurora Energy Limited made pre-tax subvention payments to companies within the Dunedin City Council group of companies, which had the effect of reducing the net profit for the year. In the year ended 30 June 2017, Aurora Energy made a post-tax subvention of \$1.4 million which had no effect on the company's profit for the year. Aurora Energy did not make a subvention payment in the year ended 30 June 2018.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2018

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
HEALTH, SAFETY, COMMUNITY AND ENVIRONMENT OBJECTIVES			
Health and Safety			
• Zero serious harm events involving members of the public.	0	Achieved	There were no serious harm incidents during the year involving members of the public.
• Reduce levels of recordable harm.	≤ 4.75 total recordable injury frequency rate (TRIFR) per 200,000 hours worked	Achieved	Aurora Energy and its contractors achieved a TRIFR of 4.63 per 200,000 hours worked during the year.
Community			
• Maintain community support.	\$10,000 of sponsorship per annum	Achieved	\$10,103 was spent in support of community initiatives during the year. Aurora Energy's main community sponsorship was the Otago Science & Technology Fair.
• Promote uptake of electronic vehicles.	At least 2 public charging facilities connected to Aurora network	Achieved	There are five public fast chargers connected to the network, one each in Dunedin, Alexandra, Cromwell, Wanaka and Roxburgh.
• Partner with Department of Conservation in the NZ falcon conservation project aimed at reducing risk of bird electrocution.	At least 3 site installations of falcon safe network designs	Achieved	Falcon safe network designs were tested and the findings progressively incorporated into network standards across all regions.
Environment			
• No transgression of the environmental and resource law occurs.	No breaches	Achieved	There were no Resource Management Act breaches during the year.
NETWORK OPERATIONS (Period Ended 31 March 2018)			
• To successfully transition Aurora Energy into a self performing asset management and network operating business.	Transition complete, asset management and network operations self performed from 1 July 2017	Achieved	With effect from 1 July 2017, Aurora Energy directly employed around 100 staff to self perform its own asset management and operation functions.
• Implementation of new services procurement models.	New models implemented by 30 June 2018	Not achieved	New key field service providers announced August 2018.
• Consumer connections (ICP count) per annum	88,000 average	Achieved	Total customer connections were 89,199 as at 31 March 2018.
• Energy received into the network for delivery to customers	1,400 Gigawatt hours per annum	Achieved	1,400 Gigawatt hours were received.
• Load factor %	≥ 54.00% energy into network/peak kW hours	Not achieved	53%
• Loss ratio %	≤ 6.0% energy into network less energy delivered/energy into network	Not achieved	6.6%

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2018 – continued

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
NETWORK OPERATIONS (continued)			
• Capacity utilisation %	≥ 30.0% peak network kW/installed distribution transformer capacity kVA	Achieved	31%
• Customer responsiveness – achieve average network restoration times of < 4 hours for urban customers and < 6 hours for rural customers.	≤ 60 number of events outside urban and rural restoration targets that resulted in service payments to customers	Not achieved	81 events occurred outside of restoration targets that resulted in service payments being made.

NETWORK RELIABILITY (Period Ended 31 March 2018)

• SAIDI			
- Class B interruptions planned	≤ 138.40 minutes	Not achieved	144.98 minutes
- Class C interruptions unplanned	≤ 76.41 minutes	Not achieved	108.15* minutes
- Total	≤ 214.81 minutes	Not achieved	253.13 minutes
• SAIFI			
- Class B interruptions planned	≤ 0.52	Not achieved	0.71 interruptions
- Class C interruptions unplanned	≤ 1.40	Not achieved	2.03* interruptions
- Total	≤ 1.92	Not achieved	2.74 interruptions

*Class C SAIDI and SAIFI are expressed as normalised figures. Regulatory reporting allows for the effect of extreme events to be removed, resulting in normalised figures that are compared against target. The raw results for Class C SAIDI and SAIFI were 117.96 minutes and 2.10 interruptions respectively.

ECONOMIC DEVELOPMENT

• Promote economic development by providing essential electricity infrastructure to support the Council's strategy to be one of the world's great small cities.	Refer to Safety & Network Reliability targets above	Not achieved	Safety targets were achieved however Network Reliability targets were not achieved.
---	---	--------------	---

SHAREHOLDER OBJECTIVES

• Implementation and progress reporting of recommendations set out at Section 1.5.9 of the Deloitte report on Network Safety concerns.	Confirmation from Deloitte and/or shareholder that they are satisfied all recommendations from the Deloitte report have been addressed	Achieved	All recommendations have been addressed. One longer term action has been carried forward to a future period.
• The Statement of Intent (SOI) will be submitted to and approved by Dunedin City Holdings Limited (DCHL), ensuring consistency across the DCHL Group.	30 June 2017	Achieved	The Statement of Intent for the 2018 financial year was submitted to and accepted by DCHL prior to 30 June 2017.
• Bring to the attention of the Shareholder any strategic or operational matters where there may be a conflict between the Council's community outcomes and those of the Company.	No unnotified potential conflicts	Achieved	Issues of potential strategic or operational conflicts were notified to the Shareholder.
• Keep the Shareholder informed of all substantive matters.	All substantive matters reported within 24 hours	Achieved	All substantive matters were reported to the Shareholder within 24 hours.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2018 – continued

PERFORMANCE MEASURE	TARGET \$000	OUTCOME	RESULT \$000
FINANCIAL OBJECTIVES			
• EBITDA (before subvention)	29,679	Not achieved	27,444
• Net profit after tax	590	Not achieved	425
• Shareholder's funds	186,899	Achieved	190,819
• Cash flow from operations (after subvention)	29,267	Not achieved	18,448
• Capital expenditure	≥ 74,916	Achieved	78,421
• Term debt	≤ 249,850	Not achieved	254,550
• Shareholder's funds to total assets	35%	Achieved	36%

NETWORK PERFORMANCE

These statistics are generally as required to be disclosed by the Commerce Commission Information Disclosure Requirements.

12 months ended 31 March		2018	2017	2016	2015	2014
System Physical Measures						
Average length of lines and cables	km	6,683	6,135	5,878	5,815	5,796
Total capacity of distribution transformers	MVA	962	953	947	928	910
Distribution transformer capacity utilisation		31%	31%	31%	31%	31%
Consumer Measures						
Number of consumer connections		89,199	87,771	86,375	85,530	84,362
System maximum coincident demand	MW	300	291	291	286	279
Energy received for delivery to customers	GWh	1,400	1,364	1,388	1,347	1,321
Average load factor		53%	53%	54%	54%	54%
Average minutes off per fault	CAIDI	92	80	74	95 ⁽¹⁾	78
Average faults per annum	SAIFI	2.7	1.5	1.7	1.4	1.2
Average minutes off per annum	SAIDI	253 ⁽⁴⁾	109 ⁽³⁾	129 ⁽²⁾	124 ⁽¹⁾	94

NOTES:

km – kilometres

MVA – megavolt amperes

MW – megawatts

GWh – gigawatt hours

CAIDI – Consumer Average Interruption Duration Index

SAIFI – System Average Interruption Frequency Index

SAIDI – System Average Interruption Duration Index

(1) An extreme weather event in Dunedin on 24 May 2014 was responsible for 18 minutes of the SAIDI index and 7 minutes of the CAIDI index in 2015.

(2) A series of extreme weather events affected the reliability of the network in the 2016 year; including a severe windstorm in Dunedin on 10 March 2016 contributing 43 SAIDI minutes, a severe windstorm across Otago on 27 November 2015 that contributed 21 SAIDI minutes, a severe windstorm across Otago on 4 October 2015 that contributed 21 SAIDI minutes, and a lightning storm on the Otago Peninsula on 29 November 2015 that caused damage to a number of distribution transformers, contributing 12 SAIDI minutes.

(3) A number of events affected the reliability of the network in the 2017 year including; a logging contractor felling a tree across 33kV lines at Green Island contributing 10 SAIDI minutes, snow related outages on 12 October 2016, affecting Arrowtown and Glenorchy contributing 15 SAIDI minutes, and a fire at Rat Point, Lake Wakatipu on 11 January 2017 contributing 5 SAIDI minutes.

(4) 2018 results have been significantly driven by Aurora Energy's asset renewal programme, which requires a high proportion of de-energised work compared to previous years.

DIRECTORS' REPORT

for the year ended 30 June 2018

The Directors of Aurora Energy Limited are pleased to report on the financial results and associated matters for the year ended 30 June 2018.

PRINCIPAL ACTIVITIES OF THE COMPANY

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

Results for the year ended 30 June 2018	\$000
Operating profit before income tax	1,197
less income tax expense	772
Net profit for year	425

STATE OF AFFAIRS

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

DIVIDENDS

No dividends were declared or paid during the year.

RESERVES

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

	\$000
Cash flow hedge reserve - to (from)	(38)
Retained earnings - to (from)	425

DIRECTORS' REPORT

for the year ended 30 June 2018 - continued

REVIEW OF OPERATIONS

The Directors are generally satisfied with the performance of the company during its first year as a standalone business with a new organisation structure.

With effect from 1 July 2017, the company directly employed its own staff to self-perform asset management, engineering and design, network operations, commercial and corporate functions that were previously outsourced. Significant investments to develop resources and future capabilities were made during the period under review. The company recorded a net profit of \$0.425 million (2017: \$7.294 million) for the year.

The nature of electricity distribution assets is such that significant and ongoing capital expenditure is required to manage risk and reliability and to provide for growth well in advance of resulting revenue increases. The Company has continued its major programme of capital works aimed at renewing and upgrading existing network assets, and catering for growth on the Central Otago network in particular. A total of \$78.421 million (2017: \$45.152 million) was invested into new network-related assets during the year.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2018 are attached to this report.

DIRECTORS' INTERESTS IN CONTRACTS

Disclosures of interests made by Directors are recorded in the Company's interests register.

These general disclosures of interests are made in accordance with S140 (2) of the Companies Act 1993 and serve as notice that the Directors may benefit from any transaction between the Company and any of the disclosed entities. Details of these declarations are included in the Information on Directors section of this report.

Any significant contracts involving Directors' interests that were entered into during the year ended 30 June 2018 or existed at that date are disclosed in the related parties section of this report.

CHANGE OF DIRECTORS

Mrs M P Devlin was appointed as a Director on 1 July 2017.

Mr B J Hall was appointed as a Director on 1 July 2017.

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

DIRECTORS' REPORT

for the year ended 30 June 2018 - continued

DIRECTORS' REMUNERATION

The remuneration paid to Directors during the year was:

Stephen R Thompson	85,500
David J Frow	45,000
Margaret P Devlin	45,000
Brenden J Hall	45,000
	<hr/>
	\$220,500

EMPLOYEES' REMUNERATION

The number of employees and former employees whose remuneration and benefits exceeded \$100,000 for the year ended 30 June 2018 is listed below. Remuneration includes all non cash benefits and redundancy payments at total cost to the company where applicable:

\$100,000 – \$109,999	5
\$110,000 – \$119,999	2
\$120,000 – \$129,999	6
\$130,000 – \$139,999	3
\$140,000 – \$149,999	3
\$150,000 – \$159,999	1
\$160,000 – \$169,999	1
\$170,000 – \$179,999	4
\$220,000 – \$229,999	1
\$230,000 – \$239,999	2
\$260,000 – \$269,999	1
\$280,000 – \$289,999	1
\$300,000 – \$309,999	1
	<hr/>
	31

DIRECTORS' REPORT

for the year ended 30 June 2018 - continued

AUDIT AND RISK COMMITTEE

All Directors were members of the Audit and Risk Committee throughout their tenure as Directors of the Company. The Audit and Risk Committee has the responsibility for agreeing the arrangements for audit of the Company's financial accounts. Its responsibilities include ensuring that appropriate audit consideration is given to the following issues:

- effectiveness of systems and standards of internal control
- quality of management controls
- management of business risk
- compliance with legislation, standards, policies and procedures
- appointing and monitoring the internal audit function.

Specific areas for the Audit and Risk Committee's review were identified and a number of reviews have been completed, with the results reported to the Board. Review of further areas is ongoing and progress is satisfactory.

Crowe Horwath continued as internal auditor to the Company.

HEALTH AND SAFETY BOARD COMMITTEE

All Directors were members of the Health and Safety Committee throughout their tenure as Directors of the Company. The Committee's principal responsibility is to review and make recommendations to the Board on the appropriateness and effectiveness of the Company's health and safety strategy, performance and governance.

REMUNERATION COMMITTEE

All Directors were members of the Remuneration Committee throughout the year under review. The Remuneration Committee's role is to develop and implement policies relating to the remuneration and other terms and conditions of service of the Chief Executive and senior staff and to oversee remuneration practices.

AUDITOR

The Auditor-General is appointed Auditor pursuant to Section 45 of the Energy Companies Act 1992. The Auditor-General has contracted the audit to Audit New Zealand.

DIRECTORS' REPORT

for the year ended 30 June 2018 - continued

DIRECTORS' INSURANCE

In accordance with the Constitution, the Company has arranged policies of Directors' Liability Insurance that ensure that generally the Directors will incur no monetary loss as a result of actions undertaken by them as Directors, provided that they operate within the law.

DIRECTORS' BENEFITS

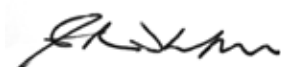
No Director has, since the end of the previous financial year, received or become entitled to receive a benefit other than a benefit included in the total remuneration received or due and receivable by the Directors shown in the financial statements.

There were no notices from Directors requesting to use Company information received in their capacity as Directors that would not otherwise have been available to them.

EVENTS SUBSEQUENT TO BALANCE DATE

There were no significant post balance date events.

For and on behalf of the Board of Directors



Stephen Thompson
CHAIRMAN

10 September 2018



Margaret Devlin
DIRECTOR

INFORMATION ON THE DIRECTORS

Director	Qualifications	Date Appointed	Declarations of Interests
Stephen R Thompson Non-Executive Chairman	BCom, FCA (PP), CF.Inst.D.	June 2016	Chair and shareholder – Thompson Bloodstock Limited Chair – Alpine Energy Limited Chair – NETcon Limited Chair – Timaru Electricity Limited Director and shareholder – Cairnmuir Road Winery Limited Director and shareholder – Passmore Consulting Services Limited Director and shareholder – Prospectus Nominees Director – F.S. Investments Limited Director – Integrated Contract Solutions Limited Director – Keano’s Trustee Company Limited Director – Millenium Solutions Limited Director – Owhiro River Limited Director – Sarita Holdings Ltd Director – Wanaka Bay Limited Director – Westminster Resources Limited Director – Whitestone Contracting Limited Partner – NT Partnership Partner – Queensberry Hills Development Shareholder – McKenzie Architects Ltd
Margaret P Devlin Non-Executive Director	CF.Inst.D.	July 2017	Chair – Audit and Risk Committee, Waikato District Council Chair – Harrison Grierson Holdings Limited Chair – Joint Committee, Waikato Plan Chair – Lyttelton Port Company Limited Chair – Titanium Park Limited Chair – Watercare Services Limited Chair – Women in Infrastructure Network (Advisory board to Infrastructure New Zealand) Director and Shareholder – Indepen NZ Limited Director – Auckland City Water Limited Director – IT Partners Group Limited Director – Meteorological Service of New Zealand Limited Director – Waikato Regional Airport Limited Councillor – Waikato University Councillor – WINTEC (Waikato Technical College) Member of the National Infrastructure Advisory Board
David J Frow Non-Executive Director	B.Sc.Eng, CF.Inst.D.	October 2012	Chair and shareholder – Major Consulting Group Limited Chair – Holmes GP Fire Ltd Director – Energy Democracy Pty Ltd (Aus) Director – ETEL Limited Director – ETEL Transformers Pty Ltd (Aus)
Brenden J Hall Non-Executive Director	B.Com, CM.Inst.D.	July 2017	Deputy Chair – Unison Networks Limited Director – Unison Fibre Ltd Director – ETEL Limited Director – ETEL Transformers Pty Ltd (Aus) Director – Stratview Holdings Ltd



FINANCIAL STATEMENTS

for the year ended 30 June 2018

42

STATEMENT OF
COMPREHENSIVE INCOME

43

STATEMENT OF
CHANGES IN EQUITY

44

BALANCE SHEET

46

STATEMENT OF CASH FLOWS

48

NOTES TO THE FINANCIAL
STATEMENTS

72

INDEPENDENT
AUDITOR'S REPORT

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Operating revenue	3	106,494	102,854
Financial revenue	4	7	14
Total revenue		106,501	102,868
Less expenses			
Operating expenses	5	95,459	82,659
Financial expenses	6	9,845	8,931
Total expenditure		105,304	91,590
Profit before tax and subvention		1,197	11,278
Subvention payment provided		-	1,412
Profit before tax		1,197	9,866
Income tax expense	9	772	2,572
Net profit/(loss) after tax for the year		425	7,294
Other comprehensive income			
Gain/(loss) on cash flow hedges		(38)	990
Gain/(loss) on terminated cash flow hedges		-	-
Total other comprehensive income		(38)	990
Total comprehensive income		387	8,284

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Note	2018 \$000	2017 \$000
Equity at beginning of the year		190,432	183,648
Recognised income and expense			
Total comprehensive income		387	8,284
Less distribution to owner	8	-	1,500
Equity at end of the year		190,819	190,432

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

BALANCE SHEET

as at 30 June 2018

	Note	2018 \$'000	2017 \$'000
EQUITY			
Share capital	11	10,000	10,000
Cash flow hedge reserve	12	(2,317)	(2,279)
Retained earnings	13	183,136	182,711
Total equity		190,819	190,432
CURRENT LIABILITIES			
Trade and other payables	14	20,796	25,282
Provisions	16	1,242	-
Total current liabilities		22,038	25,282
NON-CURRENT LIABILITIES			
Cash flow hedge instruments	22	3,219	3,166
Provisions	16	278	-
Term borrowings	17	254,550	191,350
Deferred tax liability	18	64,645	62,389
Total non-current liabilities		322,692	256,905
Total liabilities		344,730	282,187
TOTAL EQUITY AND LIABILITIES		535,549	472,619

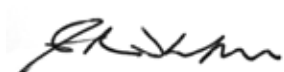
The accompanying notes and accounting policies form an integral part of these audited financial statements.

BALANCE SHEET

as at 30 June 2018 – continued

	Note	2018 \$000	2017 \$000
CURRENT ASSETS			
Cash and cash equivalents	19	36	58
Trade and other receivables	20	13,787	13,176
Inventories	23	2,535	4,045
Other current assets	15	1,597	1,583
Taxation receivable		2,168	304
Total current assets		20,123	19,166
NON-CURRENT ASSETS			
Investments	21	8	8
Intangible assets	25	156	-
Deferred tax asset	18	1,413	977
Property, plant and equipment	24	513,849	452,468
Total non-current assets		515,426	453,453
TOTAL ASSETS		535,549	472,619

For and on behalf of the Board of Directors



Stephen Thompson
CHAIRMAN



Margaret Devlin
DIRECTOR

10 September 2018

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

STATEMENT OF CASH FLOWS

for the year ended 30 June 2018

	Note	2018 \$000	2017 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from			
Receipts from customers		105,861	101,605
Interest and dividends received		7	14
Inter Company advance		-	85
Intra group transition payment		902	-
		106,770	101,704
Cash was disbursed to			
Payments to suppliers and employees		76,909	67,860
Interest paid		9,820	9,286
Intra group tax loss/subvention payments		450	721
Income tax paid		-	62
Net GST paid/(received)		792	753
Subvention payment		-	2,041
Intra group transition payment		351	-
		88,322	80,723
Net cash inflows/(outflows) from operating activities	27	18,448	20,981
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from			
Sale of property, plant and equipment		8	-
		8	-
Cash was disbursed to			
Purchase of property, plant and equipment		81,678	40,317
		81,678	40,317
Net cash inflows/(outflows) from investing activities		(81,670)	(40,317)

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

STATEMENT OF CASH FLOWS

for the year ended 30 June 2018 – continued

	Note	2018 \$000	2017 \$000
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from			
Proceeds from borrowings		82,300	41,660
		82,300	41,660
Cash was disbursed to			
Repayment of borrowings		19,100	20,770
Dividends paid		–	1,500
		19,100	22,270
Net cash inflows/(outflows) from financing activities		63,200	19,390
Net increase/(decrease) in cash, cash equivalents and bank overdraft		(22)	54
Cash and cash equivalents at beginning of the year		58	4
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	19	36	58

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

1 REPORTING ENTITY

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

The financial statements have been prepared in accordance with the requirements of the Energy Companies Act 1992.

The Company, incorporated in New Zealand under the Companies Act 2013, is a wholly owned subsidiary of Dunedin City Holdings Limited. Dunedin City Holdings Limited is wholly owned by Dunedin City Council.

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

2 SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The Company is a Tier 1 for-profit entity as defined by the External Reporting Board (expenses over \$30 million) and has reported in accordance with Tier 1 for-profit Accounting Standards. These annual financial statements are general purpose financial reports which have been prepared in accordance with NZIAS1, additional information as requested by Directors, and in accordance with NZ GAAP. They comply with New Zealand Equivalents to IFRS, and other applicable Financial Reporting Standards, as appropriate for profit orientated entities.

The financial statements were authorised for issue by the Directors on 10 September 2018.

BASIS OF ACCOUNTING

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

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

CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these financial statements the Company has made judgements, estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated.

The critical accounting judgements, estimates and assumptions of the Company are contained within the following policies.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

LEASING

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

GOODS AND SERVICES TAX (GST)

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST. The Statement of Cash Flows is exclusive of GST.

IMPAIRMENT OF ASSETS

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Any impairment loss is immediately expensed to the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is immediately recognised in the income statement.

FINANCIAL INSTRUMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

CHANGES IN ACCOUNTING POLICIES

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

STANDARDS AMENDED OR ISSUED DURING THE YEAR

During the period, there were no new or amended accounting standards which materially affected the Company or its reporting.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following accounting standards are relevant to the Company, but as they are not yet compulsory have not been adopted.

STANDARD

Amendments to NZ IAS 16
Leases

Adoption date: periods
beginning on or after
1 January 2019

Amendments to NZ IFRS 15
*Revenue from Contracts
and Customers*

Adoption date: periods
beginning on or after
1 January 2018

NZ IFRS 9 (2010)
Financial Instruments
Adoption date: periods
beginning on or after
1 January 2018

BRIEF OUTLINE

NZ IFRS 16 removes the classification of leases as either operating or finance leases – for the lessee – effectively treating all leases as finance leases. This is likely to have a material impact on the Company's financial statements and leading up to implementation the Company will review the new standard to ensure appropriate disclosure. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

The standard specifies how and when the company will recognise revenue as well as requiring the financial statements to include more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. This amendment is unlikely to have a major impact on the recognition and reporting of the Company's revenue. The Company will however continue to review the form of its contracts to ensure revenue is recognised in accordance with the new standard.

A revised version of NZ IFRS 9 will be released which includes changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of NZ IFRS 9 at the same time. The Company does not expect any material changes to current treatment or disclosure of its Financial Instruments.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

	2018 \$000	2017 \$000
3 OPERATING REVENUE		
Sales revenue	104,746	101,351
Avoided transmission constraint and loss revenue	1,748	1,503
	106,494	102,854

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and goods and services tax (GST).

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

Sales of goods are recognised when significant risks and rewards of owning the goods are transferred to the buyer, when the revenue can be measured reliably and when management effectively ceases involvement or control.

	2018 \$000	2017 \$000
4 FINANCIAL REVENUE		
Interest and dividends received	7	14

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

	2018 \$000	2017 \$000
5 OTHER EXPENSES		
Included in the operating expenses of the Company are the following items:		
Audit fees		
- for audit of financial statements	51	40
- for audit services in relation to regulatory (information disclosure) reporting	20	19
- for audit services in relation to price and quality thresholds and other regulatory reporting	15	15
Total audit fees	86	74
Transmission costs	37,405	36,642
Depreciation and amortisation	16,402	15,190
Maintenance costs	15,292	15,876
Employee remuneration and benefits	10,469	-
Other contractor costs	1,930	947
Directors' fees and expenses	246	132
Bad debts written off	90	19
Lease expense	996	253
Loss or (gain) on sale / disposal of fixed assets	702	-
Increase/(decrease) in provision for doubtful trade and other receivables	208	192

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

	2018 \$000	2017 \$000
6 FINANCIAL EXPENSES		
Interest – other	2	1
Interest – related parties	9,843	8,930
Total financial expenses	9,845	8,931

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare them for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the Income Statement in the period in which they are incurred.

	2018 \$000	2017 \$000
7 LEASE COMMITMENTS		
<i>Non-Cancellable Operating Lease Commitments</i>		
Payable within one year	423	384
Payable between one to five years	389	377
Payable later than five years	501	535
	1,313	1,296

8 DIVIDENDS

Interim dividend	December	\$0.000/share (2017: \$0.150)	-	1,500
Final dividend	June	\$0.000/share (2017: \$0.000)	-	-
		\$0.000/share for 2018 (2017: \$0.150)	-	1,500

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

9 TAXATION

The tax expense comprises both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year plus any adjustments to income tax payable in respect of prior years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable profit.

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

	2018 \$000	2017 \$000
INCOME TAX		
Operating profit before income tax	1,197	9,866
Tax thereon at 28% (2017: 28%)	335	2,762
<i>Plus/(less) the tax effect of differences</i>		
Expenditure (deductible)/non-deductible for taxation purposes	66	70
Group loss offset	–	(1,017)
Consolidated group adjustment	392	370
Under/(over) tax provision in prior years	(21)	387
Tax effect of differences	437	(190)
Tax expense	772	2,572
<i>Represented by</i>		
Current tax provision	(1,423)	128
Deferred tax provision	2,216	2,057
Under/(over) tax provision in prior years	(21)	387
Income tax	772	2,572
Effective tax rate	64.5%	26.1%

During the 2018 income year, Aurora Energy has removed from its cost of assets for tax depreciation purposes the identified profits arising on the construction of those assets supplied by DCHL subsidiary, Delta Utility Services Limited (Delta). These profits have also been deducted from the calculation of taxable income of the consolidated tax group. For accounting purposes, the group has decided to recognise the adjustment to remove the profit component of these assets and reflect a tax compensation payment of \$392,000 from Delta to Aurora Energy. This approach has been adopted from 1 July 2015, and contributed the majority of the \$387,000 under tax provision in the comparative year. The removal of the profit component from the 2018 assets acquired has also increased the current years' deferred tax charge.

IMPUTATION CREDIT ACCOUNT

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

	2018 \$000	2017 \$000
10 EARNINGS PER SHARE		
Basic earnings per share is calculated by dividing the net profit/(loss) attributable to the Shareholder of the Company by the weighted average number of ordinary shares on issue during the year.		
Number of shares		
Weighted average number of ordinary shares	10,000,000	10,000,000
Basic earnings per share in dollars	0.04	0.73
11 EQUITY - Share Capital		
Issued capital - 10,000,000 ordinary shares	10,000	10,000
12 CASH FLOW HEDGE RESERVE		
Balance at beginning of the year	(2,279)	(3,269)
Net revaluations	(53)	1,374
Deferred tax arising on hedges (note 18)	15	(384)
Balance at end of the year	(2,317)	(2,279)
The cash flow hedge reserve is comprised of the cumulative net change in the fair value of effective cash flow hedging instruments relating to interest payments that have not yet occurred and the value received from cash flow hedges that have been closed out and which relate to future periods.		
13 RETAINED EARNINGS		
Balance at beginning of the year	182,711	176,917
Net profit for the year	425	7,294
Dividend distributions	-	(1,500)
Balance at end of the year	183,136	182,711

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

	2018 \$000	2017 \$000
14 TRADE AND OTHER PAYABLES		
Trade and other payables are stated at cost and include:		
Trade payables	9,840	12,311
Due to related parties	10,956	12,971
	20,796	25,282
The Directors consider that the carrying amount of trade payables approximates their fair value. Creditors and other payables are non-interest bearing and are normally settled on 30-day terms.		
15 OTHER CURRENT ASSETS		
GST receivable	1,597	1,583
	1,597	1,583
16 PROVISIONS		
(i) Current liabilities		
Annual leave	935	-
Long service leave	62	-
Gratuities	47	-
Other provision	198	-
Balance at end of the year	1,242	-
(ii) Non current liabilities		
Long service leave	142	-
Gratuities	136	-
Balance at end of the year	278	-

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Entitlements to salary and wages and annual leave are recognised when they accrue to employees. This includes the estimated liability for salaries and wages and annual leave as a result of services rendered by employees up to balance date at current rates of pay.

Entitlements to long service leave and retirement gratuities are calculated on an actuarial basis and are based on the reasonable likelihood that they will be earned by employees and paid by the Company.

The Company recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The calculation is based on the value of excess sick leave taken within the previous twelve months.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

	2018 \$000	2017 \$000
17 TERM BORROWINGS (secured)		
Dunedin City Treasury Limited - related party	254,550	191,350
	254,550	191,350
The term borrowings are secured by a General Security Agreement over all the assets of the Company. At balance date, the Company had a term debt facility limit of \$260.0 million.		
The repayment periods on the term borrowings are:		
Repayable between one to two years	-	-
Repayable between two to five years	254,550	191,350

The weighted average interest rate for the loans inclusive of any current portion, was 4.65% (2017: 5.36%).

Borrowings are initially recorded net of directly attributable transaction costs and are measured at subsequent reporting dates at amortised cost. Finance charges, premiums payable on settlement or redemption and direct costs are accounted for on an accrual basis to the Income Statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

18 DEFERRED TAX

	Opening Balance Sheet \$000	Charged to Equity \$000	Charged to Income \$000	Transfer of Employees \$000	Closing Balance Sheet Assets \$000	Closing Balance Sheet Liabilities \$000	Closing Balance Sheet Net \$000
YEAR ENDED 30 JUNE 2018:							
Property, plant and equipment	(57,120)	-	(2,060)	-	-	(59,180)	(59,180)
Provisions	(5,179)	-	(126)	351	511	(5,465)	(4,954)
Revaluations of interest rate swaps	887	15	-	-	902	-	902
Balance at end of the year	(61,412)	15	(2,186)	351	1,413	(64,645)	(63,232)
YEAR ENDED 30 JUNE 2017:							
Property, plant and equipment	(54,529)	-	(2,591)	-	-	(57,120)	(57,120)
Provisions	(5,010)	-	(169)	-	90	(5,269)	(5,179)
Revaluations of interest rate swaps	1,271	(384)	-	-	887	-	887
Balance at end of the year	(58,268)	(384)	(2,760)	-	977	(62,389)	(61,412)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

18 DEFERRED TAX – continued

Deferred tax assets and liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Movements in deferred tax assets and liabilities are charged or credited in the income statement in the financial year that the movement occurs, except when it relates to items charged or credited directly to equity.

	2018 \$000	2017 \$000
19 CASH AND CASH EQUIVALENTS		
Cash and bank	36	58
	36	58
Cash and cash equivalents is comprised of cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown with borrowings in current liabilities in the balance sheet.		
The carrying amount of these assets or liabilities approximate their fair value.		
20 TRADE AND OTHER RECEIVABLES		
Trade and other receivables are classified as financial assets at cost less any allowances for estimated irrecoverable amounts.		
Trade receivables	14,042	13,320
Less estimated impairment	(523)	(315)
	13,519	13,005
Due from related parties		
- Dunedin City Council and Group entities	268	115
- Other related parties	-	56
	13,787	13,176
The Directors consider that the carrying amount of the trade and other receivables approximates their fair value. The estimated doubtful debts provision relates entirely to individually impaired trade receivable balances.		
Past due, but not impaired, receivables are:		
Age analysis:		
30-60 days	179	15
60-90 days	42	5
90 days plus	229	404
	450	424

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

	2018 \$000	2017 \$000
21 INVESTMENTS		
Investments are comprised of long-term equity instrument holdings which are available for sale. These are initially measured at cost, including transaction costs and are assessed annually for impairment. Any resultant losses on impairment are recognised in the income statement for the period in which they occur.		
Investments – listed companies	8	8
	8	8
Investments – listed companies		
The Company has acquired small shareholdings in several listed electricity-sector companies. These holdings are considered long-term.		
22 CASH FLOW HEDGE INSTRUMENTS AND HEDGE ACCOUNTING		
Interest rate swaps revaluations - receivable/(payable)	(3,219)	(3,166)
	(3,219)	(3,166)

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

The Company does not use cash flow hedge instruments for speculative purposes. Any derivatives that do not qualify for hedge accounting, under the specific NZ IFRS rules, are accounted for as trading instruments, with fair value gains/losses recognised directly in the income statement.

The use of cash flow hedge instruments is governed by policy approved by the Board of Directors in consultation with the Company's Shareholder.

Cash flow hedge instruments are recognised as a current asset or liability.

Cash flow hedge instruments are recognised at fair value on the date the hedge is entered into and are subsequently re-measured to their fair value. The fair value on initial recognition is the transaction price. Subsequent fair values are based on independent bid prices quoted in active markets for these instruments.

Changes in the fair value of cash flow hedge instruments that are designated and effective as hedges of future cash flows are recognised directly in equity. Any ineffective portion is recognised immediately in the income statement. Hedges that do not result in the recognition of an asset or a liability are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

	2018 \$000	2017 \$000
23 INVENTORIES		
Network spare parts	12	8
Materials and stores	2,523	4,037
	2,535	4,045

Inventories are stated at the lower of cost and net realisable value. Cost comprises of direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

24 PROPERTY, PLANT AND EQUIPMENT

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

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

Self-constructed assets include the direct cost of construction to the extent that they relate to bringing the fixed assets to the location and condition for their intended service.

Depreciation is charged so as to write-off the costs of assets, other than land, and capital work in progress, on the straight-line basis. Rates used have been calculated to allocate the assets' costs less estimated residual values over their estimated remaining useful lives.

Depreciation of assets commences when the assets are ready for their intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation rates and methods used are:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

24 PROPERTY, PLANT AND EQUIPMENT – continued

\$000	Land \$000	Buildings \$000	Network \$000	Plant Equipment \$000	Motor Vehicles \$000	Office Equipment \$000	Optical Fibre Network \$000	Construction in Progress \$000	Total
YEAR ENDED 30 JUNE 2018:									
Cost									
Balance at beginning of year	5,402	12,284	535,615	2,348	191	66	4,968	40,811	601,685
Purchases	30	48	60,383	413	-	402	-	17,145	78,421
Disposals	-	-	(1,265)	-	-	-	-	-	(1,265)
Total cost	5,432	12,332	594,733	2,761	191	468	4,968	57,956	678,841
Accumulated depreciation									
Balance at beginning of year	-	1,903	144,235	1,963	92	19	1,005	-	149,217
Purchases	-	-	-	7	-	21	-	-	28
Depreciation	-	148	15,788	161	9	44	152	-	16,302
Disposals	-	-	(555)	-	-	-	-	-	(555)
Total accumulated depreciation	-	2,051	159,468	2,131	101	84	1,157	-	164,992
Balance at end of year	5,432	10,281	435,265	630	90	384	3,811	57,956	513,849
YEAR ENDED 30 JUNE 2017:									
Cost									
Balance at beginning of year	5,402	12,190	505,715	2,281	191	16	4,962	25,776	556,533
Purchases	-	94	29,900	67	-	50	6	15,035	45,152
Total cost	5,402	12,284	535,615	2,348	191	66	4,968	40,811	601,685
Accumulated depreciation									
Balance at beginning of year	-	1,759	129,448	1,868	83	16	853	-	134,027
Depreciation	-	144	14,787	95	9	3	152	-	15,190
Total accumulated depreciation	-	1,903	144,235	1,963	92	19	1,005	-	149,217
Balance at end of year	5,402	10,381	391,380	385	99	47	3,963	40,811	452,468

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

25 INTANGIBLES

Intangibles includes software transferred at cost less accumulated amortisation from a related party. Software is amortised on a straight line basis over its estimated useful life – a maximum period of four years.

	2018 \$000	2017 \$000
SOFTWARE		
Cost		
Balance at beginning of year	-	-
Transfers from related party	483	-
Purchases	188	-
Total Cost	671	-
ACCUMULATED AMORTISATION		
Balance at beginning of year	-	-
Transfers from related party	415	-
Amortisation	100	-
Total amortisation	515	-
Closing Balance	156	-
26 CAPITAL EXPENDITURE COMMITMENTS		
Capital expenditure contracted for at balance date but not provided for in the financial statements	22,300	10,230
	22,300	10,230

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

	2018 \$000	2017 \$000
27 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/(loss) for the year	425	7,294
<i>Items not involving cash flows</i>		
Depreciation and amortisation	16,402	15,190
Increase/(decrease) in deferred tax	1,820	3,144
Other non-cash items	(39)	990
Increase/(decrease) in cash flow hedge valuation	53	(1,374)
<i>Impact of changes in working capital items</i>		
(Increase)/decrease in trade and other receivables	(611)	(1,373)
Increase/(decrease) in trade and other payables	(4,486)	7,721
Increase/(decrease) in provision for tax	(1,864)	(970)
(Increase)/decrease in other current assets	(14)	(854)
(Increase)/decrease in inter Company advance	-	85
(Increase)/decrease in inventories	1,510	(4,037)
(Increase)/decrease in employee liabilities	1,520	-
<i>Items classified as investing or financing activities</i>		
Capital creditors in accounts payable	3,030	(4,835)
Net (gain)/loss on sale of property, plant and equipment	702	-
Net cash inflows/(outflows) from operating activities	18,448	20,981

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

28 RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary of Dunedin City Holdings Limited. Dunedin City Holdings Limited is wholly owned by Dunedin City Council.

TRANSACTIONS WITH DUNEDIN CITY COUNCIL

The Company undertakes transactions with Dunedin City Council and other Dunedin City Council controlled entities. During the period, the Company provided services and traded with Dunedin City Council Group in respect of the following transactions:

YEAR ENDED 30 JUNE	2018 \$000	2017 \$000
Purchases of goods and services from Dunedin City Holdings Limited:		
Management fees	200	200
Subvention/tax loss offset payment	512	-
	712	200
Purchases of goods and services from Dunedin City Council:		
Rates and property leases	535	818
Interest	-	4
	535	822
Purchases of goods and services from other Dunedin City Council Group entities:		
Capital work	29,030	26,526
Network management and operation	11,059	22,720
Interest/facility fees	9,843	8,926
Subvention/tax loss offset payments	-	721
Contracting services	6,303	2,257
Management fees	-	120
Accounting, administration and secretarial	-	400
Sundry and consulting	-	77
Lease of meters	84	82
Subvention expense*	-	1,412
Rent	434	-
	56,753	63,421

*The subvention expense of \$1.412 million in 2017 was paid to another company within the Dunedin City Council Group of companies for the purchase of tax losses of \$5.040 million.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

	2018 \$000	2017 \$000
28 RELATED PARTY TRANSACTIONS - continued		
At period end the amounts payable by Aurora Energy to Group entities:		
Dunedin City Council Group entities	268,725	207,487
	268,725	207,487
Sales of services to Dunedin City Council:		
Other	-	4
Interest received	-	6
Contribution in respect of capital works	50	-
	50	10
Sales of services to Dunedin City Council Group entities:		
Rent	26	26
Service failure penalties	32	206
Sales of stock and other	401	88
Tax compensation	440	700
Corporate shared services	1,200	-
	2,099	1,020
At period end, the amounts receivable by Aurora Energy Limited from Dunedin City Council Group entities are:		
Dunedin City Council	82	25
Other Dunedin City Council Group entities:	1,326	790

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

Aurora Energy Limited undertakes transactions with other related parties.

TRANSACTIONS WITH COMPANIES IN WHICH DIRECTORS HAVE AN INTEREST:

Mr S R Thompson is a Director and Shareholder of Passmore Consulting Services Limited. During the financial period covered by this report, services of \$85,500 were purchased from Passmore Consulting Services Limited (2017: \$54,028). No monies were outstanding as at 30 June 2018 (2017: \$5,750).

Mr Thompson was Chairman of Infratec Limited. In the ordinary course of business during the financial period covered by this report, services valued at \$385,800 were purchased from Infratec Limited (2017: \$215,952). No monies were outstanding as at 30 June 2018 (2017: \$146,337).

Mr Thompson is a non beneficiary Trustee of a shareholder in McKenzie Architects Limited. In the ordinary course of business during the financial period covered by this report, services valued at \$9,800 were purchased from McKenzie Architects Limited (2017: \$8,330). No monies were outstanding as at 30 June 2018 (2017: \$1,771).

Mr D J Frow is a Director of ETEL Limited. In the ordinary course of business during the financial period covered by this report, services of \$507,172 were purchased from ETEL Limited (2017: \$227,740). \$52,495 was outstanding as at 30 June 2018 (2017: \$150,104).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

28 RELATED PARTY TRANSACTIONS - continued

TRANSACTIONS WITH COMPANIES IN WHICH DIRECTORS HAVE AN INTEREST:

Mr B J Hall is a Director and Shareholder of Stratview Holdings Limited. During the financial period covered by this report, services of \$45,000 were purchased from Stratview Holdings Limited (2017: nil). No monies were outstanding as at 30 June 2018 (2017: nil).

Mr B J Hall is a Director of ETEL Limited. In the ordinary course of business during the financial period covered by this report, services of \$507,172 were purchased from ETEL Limited (2017: \$227,740). \$52,495 was outstanding as at 30 June 2018 (2017: \$150,104).

Mr B J Hall is a Director of Unison Networks Limited which owns Unison Contracting Limited. In the ordinary course of business during the financial period covered by this report, services of \$3,561,203 were purchased from Unison Contracting Limited (2017: \$1,209,339). \$534,789 was outstanding as at 30 June 2018 (2017: \$446,150).

DIRECTORS' REMUNERATION

The remuneration paid to Directors during the year was:

Stephen R Thompson	\$85,500
David J Frow	\$45,000
Margaret P Devlin	\$45,000
Brenden J Hall	\$45,000
	<hr/>
	\$220,500

KEY MANAGEMENT PERSONNEL REMUNERATION

	2018 \$000	2017 \$000
Short term employment benefits	1,729	-
Post-employment benefits – Employees	67	-
Short term benefits – Directors (as above)	221	158
Termination benefits	-	-
	<hr/>	<hr/>
	2,017	158

During the financial period under review, key management personnel in addition to Directors were directly employed by the Company.

No staff were directly employed by the Company in the 2017 year. In 2017, the services of the Chief Executive and Company Secretary were provided in accordance with an Administration and Financial Services agreement with Delta Utility Services Limited.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

29 FINANCIAL INSTRUMENT RISK

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

INTEREST RATE RISK

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

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

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

	2018 \$000	2017 \$000
Maturing in less than one year	-	-
Maturing between one and five years	-	-
Maturing after five years	50,000	50,000
	50,000	50,000

CREDIT RISK

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

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

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

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

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

	2018 \$000	2017 \$000
Cash and cash equivalents	36	58
Trade and other receivables	13,787	13,176
Short term investments	8	8
Inter Company advances	-	-
	13,831	13,242

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

29 FINANCIAL INSTRUMENT RISK - continued

CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard & Poor's credit ratings (if available) or to historical information about counterparty default rates.

	2018 \$000	2017 \$000
Counterparties with credit ratings		
Cash and cash equivalents AA-	36	58
Trade and other receivables AA-	82	25
Counterparties without credit ratings		
Trade and other receivables Existing counterparties with no defaults in the past	14,228	13,466
Investment Existing counterparties with no defaults in the past	8	8

LIQUIDITY RISK

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

The Company maintains credit management and accounts receivable processes aimed at collecting all trade debtors and other receivable balances in cash by their agreed date(s) for payment.

The following table analyses the exposure of the Company's financial assets and liabilities to liquidity risk as at 30 June 2018.

Contractual obligations in respect of interest expense on term borrowings, have not been included in the liquidity risk table as the term debt does not have a contractual end date and the interest is currently payable on a month-by-month basis. Details of the term loan balance and effective interest rate are included in note 17.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

29 FINANCIAL INSTRUMENT RISK - continued

The following table analyses the exposure of the Company's financial liabilities to liquidity risk as at 30 June 2018:

Maturity Dates	Less than 1 Month \$000	1 to 3 Months \$000	3 Months to 1 Year \$000	1 to 5 Years \$000	More than 5 Years \$000	No Maturity \$000	Total \$000
Financial assets							
Cash and cash equivalents	36	-	-	-	-	-	36
Trade and other receivables	13,787	-	-	-	-	-	13,787
Taxation receivable	-	-	2,168	-	-	-	2,168
Long term investments	-	-	-	-	-	8	8
Other current assets	1,597	-	-	-	-	-	1,597
	15,420	-	2,168	-	-	8	17,596
Financial liabilities							
Trade and other payables	20,796	-	-	-	-	-	20,796
Taxation payable	-	-	-	-	-	-	-
Term borrowings	-	-	-	-	-	254,550	254,550
Cash flow hedge	-	-	-	-	-	3,219	3,219
	20,796	-	-	-	-	257,769	278,565

The following table analyses the exposure of the Company's financial liabilities to liquidity risk as at 30 June 2017:

Maturity Dates	Less than 1 Month \$000	1 to 3 Months \$000	3 Months to 1 Year \$000	1 to 5 Years \$000	More than 5 Years \$000	No Maturity \$000	Total \$000
Financial assets							
Cash and cash equivalents	58	-	-	-	-	-	58
Trade and other receivables	13,176	-	-	-	-	-	13,176
Taxation receivable	-	-	304	-	-	-	304
Long term investments	-	-	-	-	-	8	8
Other current assets	1,583	-	-	-	-	-	1,583
	14,817	-	304	-	-	8	15,129
Financial liabilities							
Trade and other payables	25,282	-	-	-	-	-	25,282
Taxation payable	-	-	-	-	-	-	-
Term borrowings	-	-	-	-	-	191,350	191,350
Cash flow hedge	-	-	-	-	-	3,166	3,166
	25,282	-	-	-	-	194,516	219,798

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

29 FINANCIAL INSTRUMENT RISK - continued

SENSITIVITY ANALYSIS

The table below illustrates the potential profit and loss and equity (excluding retained earnings) impact for the reasonably possible market movements, with all other variables held constant, based on the Company's financial instrument exposures at the balance date.

Based on historic movements and volatilities, market interest rate movements of plus or minus 1% (100bps) have been used in this analysis.

	Fair Value at Balance Date \$000	+100bps Profit \$000	+100bps Equity \$000	-100bps Profit \$000	-100bps Equity \$000
Financial liabilities					
Cash flow hedge instruments	3,219	-	1,576	-	(1,640)
Term borrowings (unhedged)	204,550	(2,046)	-	2,046	-
	207,769	(2,046)	1,576	2,046	(1,640)

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements recognised in the statement of financial position.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (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 data (unobservable inputs).

YEAR ENDED 30 JUNE 2018	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial liabilities/(assets)				
Derivative financial liabilities	-	3,219	-	3,219
	-	3,219	-	3,219
YEAR ENDED 30 JUNE 2017	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial liabilities/(assets)				
Derivative financial liabilities	-	3,166	-	3,166
	-	3,166	-	3,166

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018 – continued

30 SEGMENT REPORTING

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

31 CAPITAL MANAGEMENT STRATEGY

The capital of the Company is its equity, which is comprised of subscribed capital and retained earnings and cash flow hedge reserves. Equity is represented by net assets. The Company manages its capital to ensure that it will be able to continue to operate as a going concern and optimises the balance of debt to equity on a prudent basis in consultation with its Shareholder.

The Directors of the Company perform continual reviews of its operating strategies and financial performance and include in these reviews any strategies required to protect the capital of the Company. The Directors seek to maximise overall returns to the Shareholder of the Company in the medium term and to maintain the Company's financial strength.

The Company is required to provide to its Shareholder an annual Statement of Intent. This Statement of Intent includes information on planned distributions by way of dividend for the following three years.

32 CONTINGENT LIABILITIES

Breach of Default Price-Quality Path Reliability Standards

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

During the 2016/17 financial reporting period, the Commerce Commission initiated an investigation into the Company's breach of regulated network reliability standards in the 2015, 2016 and 2017 disclosure years.

The Company has since also breached its regulated network reliability targets for the 2018 disclosure year, giving rise to a third instance of breaching 2 of any 3 successive years.

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

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

Saddle Hill, Dunedin Fire

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

The Company holds public liability insurance.

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

33 EVENTS AFTER BALANCE DATE

There were no significant post balance date events.

INDEPENDENT AUDITOR'S REPORT



To the readers of Aurora Energy Limited Limited's financial statements and statement of service performance for the year ended 30 June 2018

The Auditor General is the auditor of Aurora Energy Limited (the company). The Auditor General has appointed me, Julian Tan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the statement of service performance of the company on his behalf.

Opinion on the financial statements and the statement of service performance

We have audited:

- the financial statements of the company on pages 42 to 71, that comprise the balance sheet as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on pages 31 to 33.

In our opinion:

- the financial statements of the company:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2018; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards; and
- the statement of service performance of the company presents fairly, in all material respects, the company's achievements measured against the performance targets adopted for the year ended 30 June 2018.

Our audit was completed on 10 September 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the statement of service performance, we comment on other information, and we explain our independence.

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report - continued

Basis of our opinion

We carried out our audit in accordance with the Auditor General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the statement of service performance

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is also responsible on behalf of the company for preparing the statement of service performance that is fairly presented.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare the financial statements and the statement of service performance that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the statement of service performance, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the company or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Energy Companies Act 1992.

Responsibilities of the auditor for the audit of the financial statements and the statement of service performance

Our objectives are to obtain reasonable assurance about whether the financial statements and the statement of service performance, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit carried out in accordance with the Auditor General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and statement of service performance.

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report - continued

For the target information reported in the statement of service performance, our procedures were limited to checking that the information agreed to the company's statement of corporate intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the statement of service performance.

As part of an audit in accordance with the Auditor General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the statement of service performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of the reported service performance information within the company's framework for reporting its performance;
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of service performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the statement of service performance, including the disclosures, and whether the financial statements and the statement of service performance represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report - continued

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 30 and 34 to 40, but does not include the financial statements and the statement of service performance, and our auditor's report thereon.

Our opinion on the financial statements and the statement of service performance does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the statement of service performance, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the statement of service performance or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the company in accordance with the independence requirements of the Auditor General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit, we have carried out assurance engagements pursuant to the Electricity Distribution Information Disclosure Determination 2012 (consolidated in 2015) and the Electricity Distribution Services Default Price-Quality Path Determination 2015, which are compatible with those independence requirements.

Other than the audit and these engagements, we have no relationship with or interests in the company.



Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand





COMPANY DIRECTORY

DIRECTORS

Stephen Thompson (Chair)
David Frow
Margaret Devlin
Brenden Hall

MANAGEMENT

Chief Executive – Richard Fletcher
Chief Financial Officer – Gary Dixon
General Manager Asset Management and Planning – Glenn Coates
General Manager Operations and Service Delivery – John Campbell
General Manager Network Commercial – Alec Findlater
Chief Technology Officer – Mark Corbitt

REGISTERED OFFICE

10 Halsey Street
Dunedin
New Zealand

BANKER

Westpac Banking Corporation

SOLICITOR

Gallaway Cook Allan

AUDITOR

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

TAXATION ADVISOR

Deloitte



BACK COVER