Aurora

Annual Report 2012

Contents

What We Do

Aurora Energy's principal activities are the ownership and strategic management of electricity distribution network assets in Dunedin and in Central Otago. Our function is to transport electricity from the national grid to the end-use consumer. Customers are local generators and New Zealand's electricity retailers.

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

Highlights

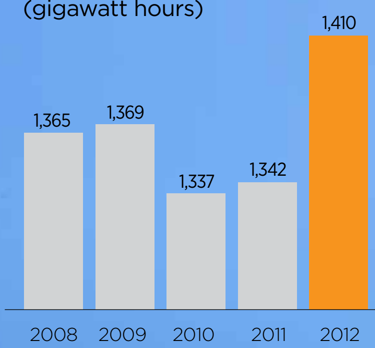
for the year ended 30 June 2012

- Aurora Energy continues to be the main contributor of cash for Dunedin City Holdings Limited. Total equivalent dividends (dividends plus the after tax value of subvention payments) for the past five years are $68.8 million
- Revenue increased by $5.6 million to $85.9 million
- Assets increased in value by 1.5 per cent to $373.7 million
- Energy received into the network increased by 5 per cent to 1,410 gigawatt hours for the year
- Consumer connections increased by 0.8% to 82,853
- Continued network refurbishment plans, completing Frankton and first stage of Halfway Bush substation upgrades
- First year of five-year overhead line renewal programme

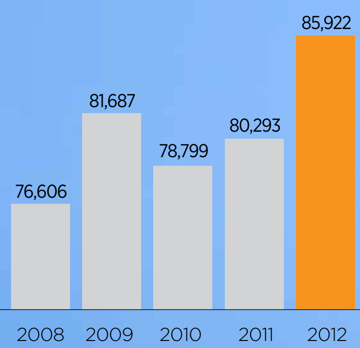
Results At A Glance

for the year ended 30 June 2012

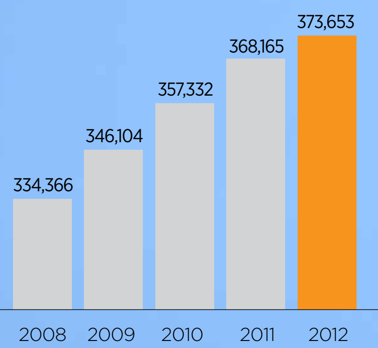
Energy received into network (gigawatt hours)



Total revenue ($000)



Total assets ($000)



CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

2012 FINANCIAL RESULTS

We are pleased to present Aurora Energy Limited's twenty second annual report for the financial year ended 30 June 2012 (FY12).

Steady growth in energy volumes and new consumer connections saw an increase in total revenue to $85.9 million.

Trading profit before tax and subvention payments increased by 2 per cent to $18.4 million (FY11: $18.0 million), and net profit before the after tax value of subvention payments increased to $13.2 million (FY11: $12.8 million). The after tax value of subvention payments was $5.3 million (FY11: nil)

A pre-tax subvention payment of $7.3 million (equivalent dividend: $5.3 million, FY11: Nil) reduced net profit after tax and subvention payments to $7.9 million (FY11: $12.8 million).

Aurora's financial position remains strong. Total assets increased by 1.5 per cent to $373.7 million (FY11: $368.2 million). FY12 year-end term borrowings were $131.2 million (FY11: $126.9 million).

Capital expenditure was impacted by the Government's decision to award the majority of its ultrafast broadband rollout work to Chorus, which meant the planned expansion of our fibre optic network did not proceed. Capital expenditure was $18.3 million for FY12 (FY11: $22.1 million).

DIVIDENDS

Aurora Energy paid dividends to its shareholder, Dunedin City Holdings Limited, that were equivalent to $12.4 million for the year under review, and 3 per cent higher than for the previous year (FY11: $12.0 million). Aurora Energy has paid total equivalent dividends (dividend plus the after tax value of subvention payments) of $68.8 million to its shareholder over the past five years.

The company continues to provide benefits to the communities in which it operates through its ongoing programme of replacement of the overhead electricity distribution infrastructure underground – improving the look of the urban landscape and reducing traffic hazards.

REGULATORY REVIEW

As an electricity network owner, Aurora Energy operates in a highly regulated environment. Regulation by the Commerce Commission sets service level requirements for the business and effectively determines our profitability. During the year, the Commerce Commission continued its review of the regulations governing electricity distribution businesses. The review created a high level of uncertainty during FY12 and continues to create uncertainty in regards to the regulatory framework that will be applied in the future.

The Commerce Commission reviewed key aspects of how Price-Quality regulations are implemented including the Starting Price Adjustment calculation and the nature and extent of information disclosure.

The Starting Price Adjustment process is the means by which the allowable notional revenue that an energy distribution business can charge annually throughout the five year regulatory period is calculated. The outcome of that calculation has the potential to increase or decrease allowable revenues. This in turn affects the price we are able to charge customers for energy transported through our networks. Depending on the level at which allowable revenue is set, energy distribution businesses may be required to forego future revenues, or be able to recoup under-recovered past investments through future pricing. The Commerce Commission issued draft decisions post-balance date in August 2012. The final outcome of the process has been delayed by court challenges and appeals and at the time of writing had yet to be resolved.

The Commerce Commission has proposed changes to information disclosure that would in future require an increasingly wide and detailed range of operational and performance measures and statistics to be reported by energy distribution businesses. One significant impact would be how the costs of construction and maintenance are reflected in our Regulatory Asset Base that determines Aurora Energy's regulated return on investment. In particular, the review could affect the degree to which capital works undertaken by external contractors are fully reflected in the Regulatory Asset Base. A further outcome could be an increase in compliance costs and management effort for Aurora to fulfil these increased disclosure obligations.

We remain concerned that ongoing regulatory change does little to remove uncertainty and

instability for the electricity distribution sector. The unintended effect of regulatory volatility and increased compliance is to undermine long term planning and capital investment. The changes shift focus onto regulatory compliance and away from network improvements and progressing capital reinvestment. Given the already high degree of transparency and disclosure that exists under the existing regulatory regime, it is questionable whether the proposed increased disclosure and compliance requirements will make a material improvement for stakeholders and consumers.

OPERATING PERFORMANCE

Energy received into the network was 1,410 gigawatt hours during FY12, a 5 per cent increase on FY11 and the first time energy use has exceeded the 1,400 gigawatt hour level. Energy received for delivery increased by 3 per cent to 1,350 gigawatt hours in FY12 (FY11: 1,314). Consumer connections increased by 628 to 82,853 (FY11: 82,225), representing a slowdown in the rate of new connections in line with economic conditions.

The management of Aurora Energy's network assets is carried out by infrastructure specialist Delta Utility Services Limited under a fixed-price, performance-based agreement for ten years from July 2007. We are pleased to see Delta continue its focus on best-practice asset management approach including investment in its organisational capacity.

Network performance for FY12 showed an improvement on the prior year. The System Average Interruption Duration Index (SAIDI) measures the average outage duration for each consumer served. The lower the SAIDI figure, the better. The SAIDI for FY12 was 123.9 minutes, an improvement on last year's 131.8 minutes, but exceeding the performance target of 98.3 minutes. The performance level was affected by an extreme wind event in Central Otago on Labour Day 2011 that caused a combined interruption of 32.6 minutes. Excluding that extreme event, SAIDI was 91.3 minutes.

Under our supply agreements, we are required to compensate customers affected by delays in the restoration of electricity supply following an extended outage, where the delay is a result of factors within Aurora Energy's reasonable control. In FY12, $79,275 was paid to electricity retailers in relation to 1,183 consumers affected by supply interruptions, a significant improvement on FY11 during which we paid $143,366 in relation to 1,897 consumers affected.

We continue to participate in the Electricity and Gas Complaints Commissioner scheme and receive useful feedback on our performance as a network operator.

NETWORK DEVELOPMENT

Our Asset Management Plan sets out Aurora Energy's long term investment programme to ensure network reliability and to accommodate growth in energy demand. In Dunedin, investment is focused on asset renewal of ageing infrastructure, and in Central Otago on both meeting demand growth and asset renewal. In FY12, we completed the rebuild of the Frankton zone substation that serves 3,580 end-consumers, replacing 50-year-old equipment. We also completed the first stages of the Halfway Bush substation transformer replacement in Dunedin.

During FY12, Aurora Energy commenced a significant, five-year investment programme to upgrade 11,000 volt overhead electricity supply lines across both networks. Upgrades were carried out in Central Otago at Roxburgh, Wanaka and Hawea and in Dunedin at North East Valley, Port Chalmers and East Taieri.

Aurora Energy owns a fibre optic network in Dunedin. During FY12, we added 13 new customer connections to that network. Following the Government's decision to award the Dunedin and Queenstown ultrafast broadband rollout contracts to Chorus in May 2011, we re-evaluated future network development plans in our network areas. We monitored the emerging situation during FY12 and will continue to do so as the new fibre networks are rolled out in the coming years.

COMMUNITY SUPPORT

Aurora Energy continued its support of the communities which our networks serve, focusing on youth, education and culture. Sponsorships during the year included regional sponsorship of school science and technology fairs and scholarships to support local students in further education.

We proudly assisted the Otago Clean Air project in its efforts to improve air quality in Central Otago, and the Otago Healthy Homes project with insulation upgrades of houses in Dunedin. Warmer, drier homes are healthier homes, especially important for those with respiratory illnesses and those living in southern climates with their colder winters.

GOVERNANCE

Long-serving director Paul Hudson resigned from the Board in March 2012 following a governance review by Dunedin City Council which recommended that elected Councillors should not hold directorships on Council-owned companies. We thank Paul Hudson for his important contribution to Aurora Energy's success, including our expansion into Central Otago following acquisition of the Central Electric network in 1999, becoming New Zealand's then fifth largest electricity distribution business.

OUTLOOK

Energy demand on Aurora Energy networks has been relatively stable over time. Looking ahead, there is potential for a modest improvement in demand growth compared to recent years as economic conditions slowly recover following the global financial crisis.

The key determinant of our future profitability and ability to make future capital reinvestment remains the outcome of the regulatory reviews outlined above.

In the near-term, we plan to continue investing in our networks with the goal of providing secure and reliable infrastructure to local communities and to support economic activity. Where future opportunities for investment in energy infrastructure arise, we will assess these against strategic objectives and desired risk profile.

Grady Cameron
CHIEF EXECUTIVE

Ray Polson
CHAIRMAN

26 September 2012

TREND STATEMENT

YEARS ENDED 30 JUNE	Note		2012	2011	2010	2009	2008
Energy received into network		GWh	1,410	1,342	1,337	1,369	1,365
Energy received for delivery to customers		GWh	1,350	1,314	1,326	1,353	1,354
Energy delivery reliability (average time without supply per customer per annum)		minutes	123.9	131.8	93.2	65.4	134.4
Total Revenue		$000	85,922	80,293	78,799	81,687	76,606
Trading profit before tax (before subvention payments)		$000	18,432	18,013	18,828	21,349	20,661
EBIT/average funds employed			7.4%	7.3%	7.5%	8.2%	8.1%
Tax– current year provision		$000	3,169	5,386	4,284	4,229	3,770
– prior year (over)/under provision		$000	43	(164)	(2,534)	14	(33)
Net profit for the year (before after-tax value of subvention payments)		$000	13,178	12,791	16,630	16,604	16,376
Net profit for the year (after subvention payments)	1	$000	7,928	12,791	15,583	15,431	15,262
Cashflow from operating activities		$000	21,825	26,134	24,720	27,677	23,598
Dividends paid		$000	7,104	12,003	13,985	13,204	13,940
Equivalent dividends (actual dividends plus after-tax value of subvention payments)		$000	12,354	12,003	15,032	14,377	15,054
Shareholder's equity		$000	177,345	176,512	175,753	174,287	173,001
Total assets		$000	373,653	368,165	357,332	346,104	334,366
Capital Expenditure (net)		$000	18,316	22,128	23,246	22,767	15,474
Return on average equity (before after-tax value of subvention payments)			7.45%	7.26%	9.50%	9.56%	9.49%
Equity to total assets			47%	48%	49%	50%	52%

NOTE:

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

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2012

SPECIFIC OBJECTIVES	OUTCOMES
1 To review the Statement of Intent and Strategic Plan for consistency with the objectives of Dunedin City Holdings Limited.	Achieved. The Statement of Intent and Strategic Plan were reviewed and confirmed as being consistent with the objectives of Dunedin City Holdings Limited.
2 To review the operating activities of the Company for compliance with the goals and objectives stated in the Statement of Intent and Strategic Plan.	Achieved. The operating activities are in accordance with the goals and objectives stated in the Statement of Intent and Strategic Plan.
3 To report all matters of substance to the Shareholder.	Achieved. Matters of substance were reported to the Shareholder within the required timeframe.
4 To achieve all financial projections.	Not All Achieved.

	Achieved $000	Target (As at May 11) $000
EBITDA (before subvention payments)	39,755	42,803
Net profit (before subvention payments)	13,178	14,967
Shareholder’s funds	177,345	178,453
Equivalent dividends	12,354	12,172
Shareholder’s funds to total assets	47%	46%

SPECIFIC OBJECTIVES	OUTCOMES
5 To obtain ownership or management of an additional group of utility assets.	Not Achieved. The Company will continue to pursue opportunities if and when they arise. No such opportunities have been identified during this financial year.
6 To monitor the economic value added by the Company and to monitor financial performance against rates of return established by Dunedin City Holdings Ltd.	Not Achieved.

	Achieved $000	Target $000
	6,621	7,195

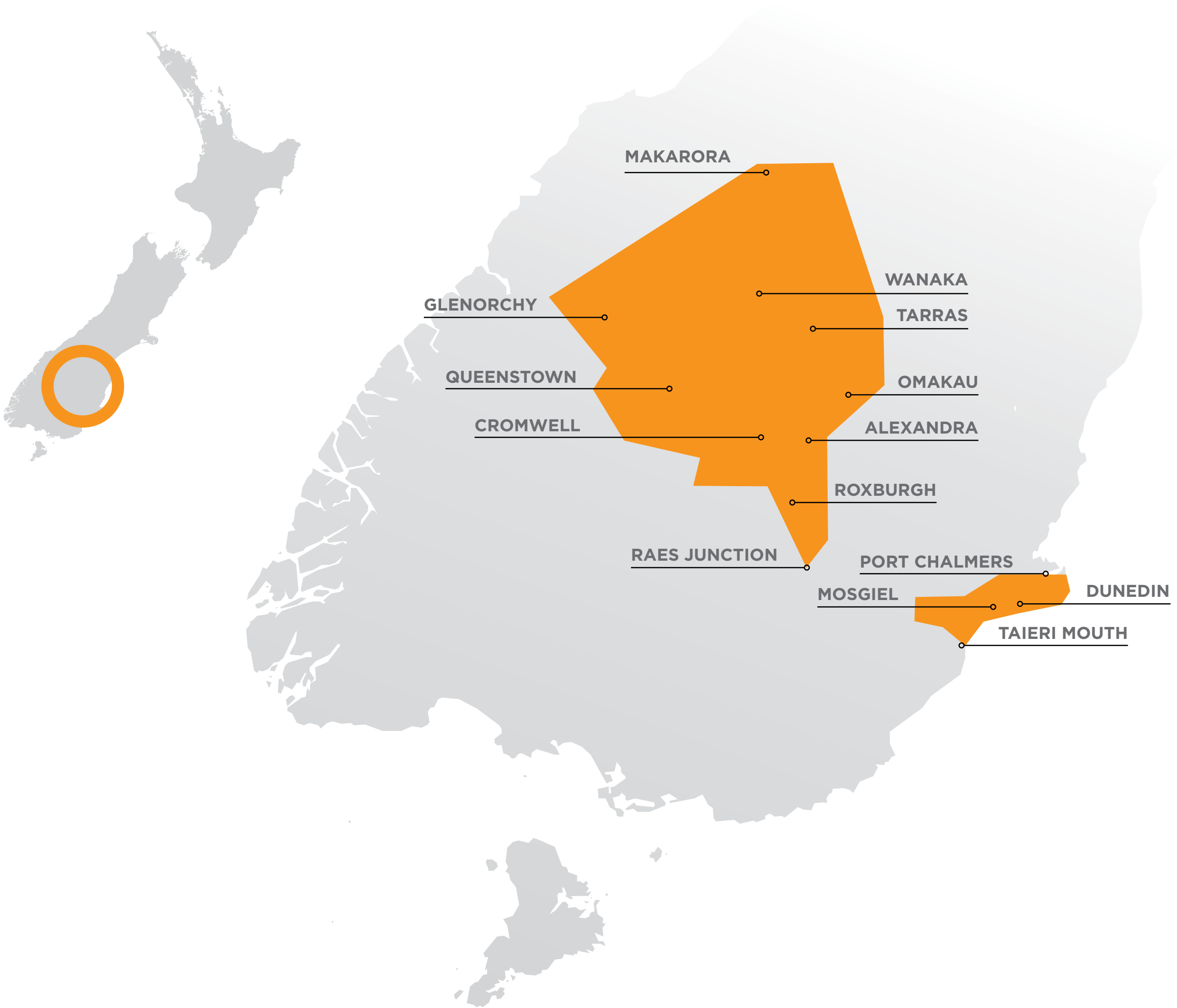
SPECIFIC OBJECTIVES	OUTCOMES
7 To ensure that the reporting requirements of the Company and Shareholder are met.	Achieved. Company reporting was undertaken within the timeframes as stated in the Statement of Intent.
8 To maximise the utilisation of electricity distribution assets while ensuring that reliability meets the needs of users.	Achieved. The distribution assets are constantly monitored to ensure that maximum utilisation is achieved within the bounds of safety and reliability.
9 No transgression of the environmental and resource law occurs.	Achieved. No notification of any breaches of any resource laws has been received.
10 To undertake appropriate under-grounding of overhead lines.	Achieved. Under-grounding projects were undertaken in the City of Dunedin.
11 To undertake a review of activities for the purposes of being a good corporate citizen.	Achieved. The Company continually reviews its activities which include sponsoring cultural and education events and the under-grounding of overhead lines for environmental purposes.

NETWORK OVERVIEW

ELECTRICITY DISTRIBUTION NETWORK AT A GLANCE

for the year ended 31 March 2012

Number of consumer connections	82,908
Energy received for distribution	1,396 gigawatt hours
Capacity of transformers	880 MVA
Capacity utilisation	33%
Number of zone substations	37
Number of bulk supply points	5
Length of lines and cables	5,628 kilometres



NETWORK PERFORMANCE

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

Statistics for the 12 months ended 31 March		2012	2011	2010	2009	2008
System Physical Measures						
Average length of lines and cables	km	5,628	5,621	5,600	5,544	5,436
Average capacity of distribution transformers	MVA	880	877	868	860	840
Distribution transformer capacity utilisation		33%	31%	33%	32%	34%
Consumer Measures						
Average number of consumer connections		82,671	81,971	81,129	80,249	79,076
System maximum demand	MW	290	274	285	275	283
Energy received for delivery	GWh	1,396	1,340	1,358	1,357	1,361
Average load factor		55%	55%	54%	56%	55%
Average minutes off per fault	CAIDI	65[C]	76[B]	56	55	77[A]
Average faults per annum	SAIFI	1.8	1.5	1.5	1.2	1.8
Average minutes off per annum	SAIDI	116[C]	112[B]	83	68	140[A]

NOTES:

CAIDI - Consumer Average Interruption Duration Index

SAIFI - System Average Interruption Frequency Index

SAIDI - System Average Interruption Duration Index

A An extreme weather event in Central Otago on 11 August 2007 was responsible for 52.2 minutes of the SAIDI index and 26 minutes of the CAIDI index in 2008.

B An extreme weather event in Dunedin on 21 December 2010 was responsible for 12.6 minutes of the SAIDI index and 5 minutes of the CAIDI index in 2011.

C Extreme weather events in Dunedin on 12 May 2011 and in Central Otago on 25 October 2011 were responsible for 23.9 minutes of the SAIDI index and 3 minutes of the CAIDI index in 2012.

DIRECTORS' REPORT

for the year ended 30 June 2012

The Directors of Aurora Energy Limited are pleased to report on the financial results and associated matters for the year ended 30 June 2012.

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 2012	$000
Trading profit	18,432
less subvention payment (pre-tax equivalent dividend)	(7,292)
Operating profit before income tax	11,140
less income tax expense	3,212
Net profit for year	7,928

STATE OF AFFAIRS

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

DIVIDENDS

Total dividends of $7.104 million were declared and paid for the year ended 30 June 2012. In addition, a subvention payment of $7.292 million was paid to a member of the Dunedin City Council group of companies. The dividend equivalent of this subvention payment is $5.250 million, giving total equivalent dividends of $12.354 million paid for the year. Equivalent dividends last year amounted to $12.003 million.

RESERVES

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

	$000
Cash flow hedge reserve - to (from)	9
Retained earnings - to (from)	824

DIRECTORS' REPORT

for the year ended 30 June 2012

REVIEW OF OPERATIONS

The Directors are pleased with the operating results achieved for the year ended 30 June 2012.

The net profit before after tax value of subvention payments of $13.18 million (2011: $12.79 million) was a strong result in a year which saw a continuation of the slowdown in growth in Central Otago. The after tax value of subvention payments was $5.3 million (2011: nil). The nature of electricity distribution assets is such that significant and ongoing capital expenditure is required to sustain reliability and provide for growth well in advance of resulting revenue increases. The investment in capital assets to expand and strengthen the distribution network during 2012 continued at a level in excess of the net profit achieved. Major projects included the refurbishment of transformers at the Halfway Bush station, line renewal work, and the replacement of the Dunedin ripple injection equipment.

The economic slowdown currently being experienced is expected to have a short time-frame, relative to the life of electricity distribution assets, and considerable planning is ongoing to identify areas where the network needs to be strengthened. Further major capital expenditure is planned for Central Otago to service the significant growth expected to return in this area.

The Commerce Commission is currently determining regulatory starting prices which are expected to be effective from 1 April 2013 for the current five-year regulatory period. This may affect future profitability and cashflow.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2012 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 2012 or existed at that date are disclosed in the related parties section of this report.

DIRECTORS' REMUNERATION

The remuneration paid to Directors during the year was:

Raymond S Polson	$ 43,266
Ross D Liddell	$ 32,918
Michael O Coburn	$ 21,000
Dr Norman G Evans	$ 21,000
Paul R Hudson	$ 15,750
Stuart J McLauchlan	$ 23,000
	$ 156,934

DIRECTORS' REPORT

for the year ended 30 June 2012

AUDIT COMMITTEE

Messrs Liddell, Polson and McLauchlan comprised the Audit and Risk Committee of the Board during the year. The Audit and Risk Committee has the responsibility for agreeing the arrange-ments 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.

EMPLOYEES' REMUNERATION

No staff are employed by Aurora Energy Limited. The management of the Company is currently carried out under contract by Delta Utility Services Limited.

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' 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.

CHANGE OF DIRECTORS

Mr Paul Hudson resigned from the Board in March 2012. The company acknowledges the substantial contribution made by Mr Hudson, during his more than 12 year tenure as a Director.

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.

DIRECTORS' REPORT

for the year ended 30 June 2012

EVENTS SUBSEQUENT TO BALANCE DATE

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

On behalf of the Directors

Ray Polson
CHAIRMAN

Ross Liddell
DEPUTY CHAIRMAN

26 September 2012

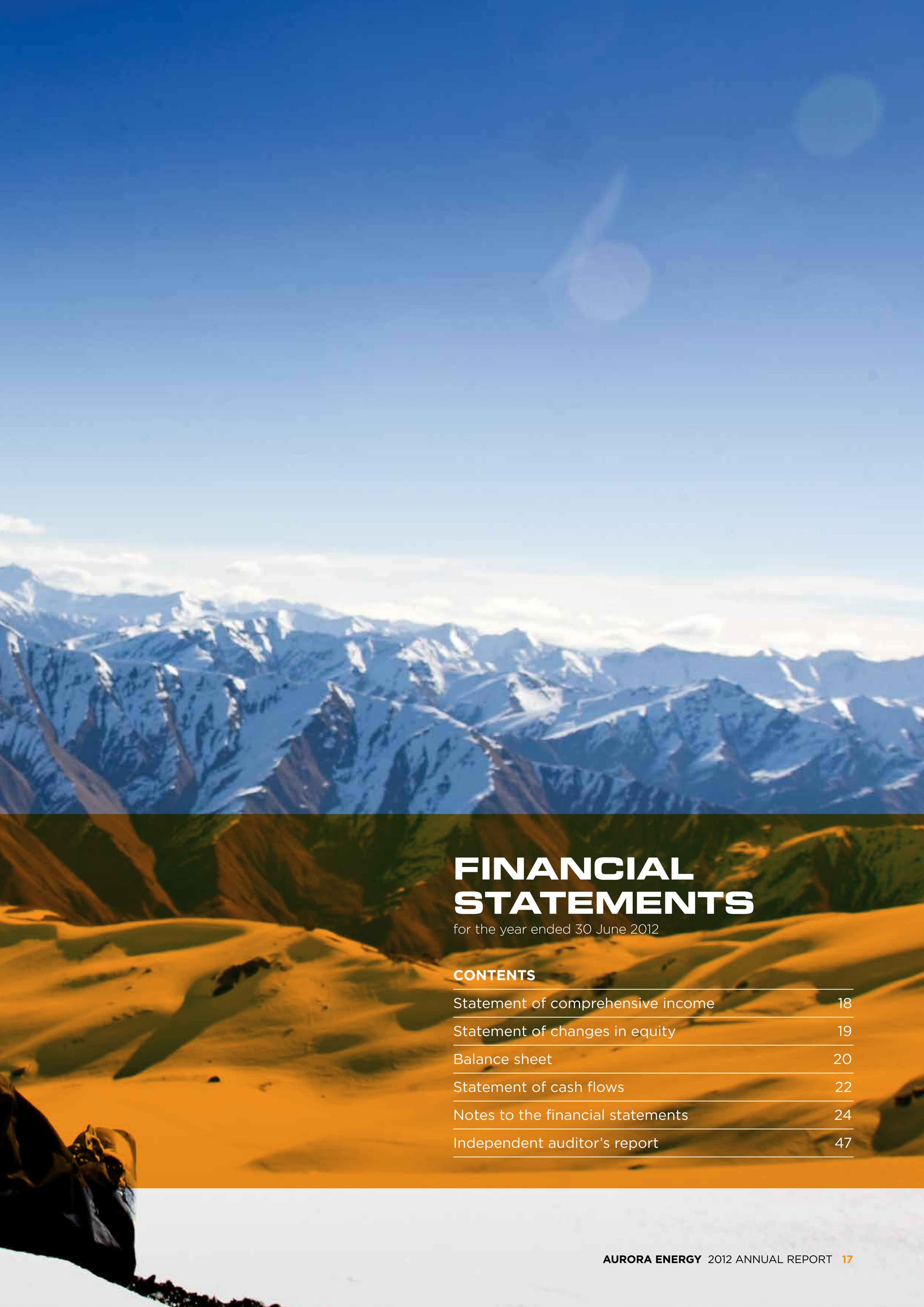
INFORMATION ON THE DIRECTORS

Director	Qualifications	Date Appointed	Declarations of Interests
Raymond S Polson Non-Executive Chairman	BCom, FCA, AF.Inst.D.	October 1994	Chairman – Delta Investments Limited Chairman – Delta Utility Services Limited Chairman – Macalister Todd Phillips Chairman – Ophir Gold Limited Chairman – Selwyn Plantation Board Limited Director – Luggate Nominee Limited Director – Marsh Advisory Board
Ross D Liddell Non-Executive Deputy Chairman	BCom, CA (PP), ACIS, AF.Inst.D.	June 1998	Chairman – Browns Barkly Limited Chairman – City Forests Limited Chairman – Dunedin City Treasury Limited Chairman – James Maurice Properties Limited Chairman – Palmer & Son Limited Chairman – Palmer MH Limited Chairman – Palmers Mechanical Limited Chairman – Viblock Limited Chairman – Victory Lime 2000 Limited Deputy Chairman – Delta Utility Services Limited Director – A B Lime Limited Director – Hunterfields Investments Limited Director – McMahon Investments Limited Director – Blackhead Quarries Ltd (resigned 31 October 2011) Director – Dunedin City Holdings Limited (resigned 31 October 2011)
Michael O Coburn Non-Executive Director	FNZIM, AF.Inst.D.	October 2003	Deputy Chairman – City Forests Limited Director – Arthur Barnett Limited Director – Delta Investments Limited Director – Delta Utility Services Limited Director – Jack Tewa Foundation Appointer Limited Director – Lake Hayes Estate Limited Director – Lakes Environmental Limited Director – New Zealand Aquifer Limited Director – New Zealand Land Fund Limited and subsidiaries Director – Ruboc Holdings Limited Shareholder – Locations Realty Queenstown Limited Trustee – Hayes Trustees Limited Director – Dunedin City Holdings Limited (resigned 31 October 2011) Director – Islington Park Limited (resigned 6 March 2012)

INFORMATION ON THE DIRECTORS

Director	Qualifications	Date Appointed	Declarations of Interests
Dr Norman G Evans Non-Executive Director	DBA, NZCE, M.Inst.D.	July 2005	Chairman – Enabling Pty Limited (Australia) Director – City Forests Limited Director – Delta Utility Services Limited Director – Lifetime Health Diary Limited Director – Halo Investment Management Limited Director – Halo Fund No 1 Limited Director – Dunedin City Holdings Limited (resigned 31 October 2011) Director – Enabling NZ Limited (resigned 5 September 2011)
Paul R Hudson Non Executive Director	JP, BCom, CA	November 1999 Resigned 31 March 2012	Councillor – Dunedin City Council Chairman – Dunedin City Holdings Limited (resigned 31 October 2011) Director – City Forests Limited (resigned 31 March 2012) Director – Delta Utility Services Limited (resigned 31 March 2012)
Stuart J McLauchlan Non-Executive Director	BCom, FCA (PP), AF.Inst.D.	June 2007	Chairman – Dunedin International Airport Limited Chairman – NZ Sports Hall of Fame Chairman – Pharmac Chairman – Scott Technology Limited Chairman – UDC Finance Limited Director – AD Instruments Pty Limited Director – Cargill Hotel 2002 Limited Director – City Forests Limited Director – Delta Investments Limited Director – Delta Utility Services Limited Director – Dunedin Casinos Limited Director – HTS 110 Limited Director – Lund South Limited Director – Otago & Southland Employers Association Director – Roxdale Foods Limited Director – Scenic Circle Hotels Limited and subsidiaries Director – South Canterbury Finance subsidiaries Director – University of Otago Foundation Studies Limited Director – USC Investments Limited Director – XRock Automation Pty Limited Partner – G S McLauchlan & Co Pro Chancellor – University of Otago Director – Dunedin City Holdings Limited (resigned 31 October 2011) Director – Islington Park Limited (resigned 6 March 2012)

PHOTO: CARDRONA ALPINE RESORT



FINANCIAL STATEMENTS

for the year ended 30 June 2012

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Statement of Comprehensive Income

for the year ended 30 June 2012

	Note	2012 $000	2011 $000
Operating revenue	3	85,914	80,269
Financial revenue	4	8	24
Total revenue		85,922	80,293
Less expenses			
Operating expense	5	58,643	53,847
Financial expenses	6	8,847	8,433
Total expenditure		67,490	62,280
Profit before tax and subvention		**18,432**	**18,013**
Subvention payment provided		7,292	0
Profit before tax		**11,140**	**18,013**
Income tax expense	9	3,212	5,222
Net profit/(loss) after tax for the year		**7,928**	**12,791**
Other comprehensive income			
Gain/(loss) on cashflow hedges		174	143
Gain/(loss) on terminated cashflow hedges		(165)	(172)
Total other comprehensive income		9	(29)
Total comprehensive income		7,937	12,762

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 2012

	Note	2012 $000	2011 $000
Equity at beginning of the year		176,512	175,753
Recognised income and expense			
Total comprehensive income		7,937	12,762
Less distribution to owner	8	7,104	12,003
Equity at end of the year		177,345	176,512

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

Balance Sheet

as at 30 June 2012

	Note	2012 $000	2011 $000
EQUITY			
Share capital	11	10,000	10,000
Cash flow hedge reserve	12	91	82
Retained earnings	13	167,254	166,430
Total equity		177,345	176,512
CURRENT LIABILITIES			
Trade and other payables	14	9,788	8,930
Other current liabilities	15	494	663
Taxation payable		888	2,538
Cashflow hedge instruments	21	0	25
Total current liabilities		11,170	12,389
NON-CURRENT LIABILITIES			
Term borrowings	16	131,150	126,850
Deferred tax liability	17	53,988	52,414
Total non-current liabilities		185,138	179,264
Total liabilities		196,308	191,653
TOTAL EQUITY AND LIABILITIES		373,653	368,165

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

Balance Sheet

as at 30 June 2012 – continued

	Note	2012 $000	2011 $000
CURRENT ASSETS			
Cash and cash equivalents	18	29	215
Trade and other receivables	19	9,754	9,709
Inventories	22	8	11
Total current assets		9,791	9,935
NON-CURRENT ASSETS			
Investments	20	10	10
Deferred tax asset	17	69	194
Property, plant and equipment	23	363,783	358,026
Total non-current assets		363,862	358,230
TOTAL ASSETS		373,653	368,165

For and on behalf of the Board of Directors

Ray Polson
CHAIRMAN

Ross Liddell
DEPUTY CHAIRMAN

26 September 2012

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 2012

	Note	2012 $000	2011 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM			
Receipts from customers		85,828	80,048
Interest and dividends received		8	5
		85,836	80,053
CASH WAS DISBURSED TO			
Payments to suppliers		44,323	43,233
Interest paid		9,106	8,551
Intra group tax loss/subvention payments made		810	(376)
Income tax paid		2,365	2,750
Net GST paid/(received)		115	(239)
Subvention payment		7,292	0
		64,011	53,919
Net cash inflows/(outflows) from operating activities	25	21,825	26,134
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM			
Sale of investments		0	1
Sale of property, plant and equipment		103	128
		103	129
CASH WAS DISBURSED TO			
Purchase of property, plant and equipment		19,310	22,162
		19,310	22,162
Net cash inflows / (outflows) from investing activities		(19,207)	(22,033)

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 2012 - continued

	Note	2012 $000	2011 $000
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM			
Proceeds from borrowings		39,150	42,600
		39,150	42,600
CASH WAS DISBURSED TO			
Repayment of borrowings		34,850	34,550
Dividends paid		7,104	12,003
		41,954	46,553
Net cash inflows / (outflows) from financing activities		(2,804)	(3,953)
Net increase / (decrease) in cash, cash equivalents and bank overdraft		(186)	148
Cash and cash equivalents at beginning of the year		215	67
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	18	29	215

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 2012

1 REPORTING ENTITY

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

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

The Company, incorporated in New Zealand under the Companies Act 1993, is a wholly owned subsidiary of Dunedin City Holdings Limited. Dunedin City Holdings Limited is wholly owned by Dunedin City Council.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

These annual financial statements have been prepared 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 29 August 2012.

BASIS OF ACCOUNTING

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

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

REVENUE RECOGNITION

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

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

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

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

LEASING

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

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

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

BORROWING COSTS

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

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

GOODS AND SERVICES TAX (GST)

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

2 SIGNIFICANT ACCOUNTING POLICIES - continued

TAXATION

The tax expense comprises both current tax and deferred tax.

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable profit, and is accounted for using the balance sheet liability method.

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

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

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

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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 de-recognition 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises 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.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

FINANCIAL INSTRUMENTS

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

TRADE AND OTHER RECEIVABLES

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

INVESTMENTS

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

2 SIGNIFICANT ACCOUNTING POLICIES - continued

TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

BORROWINGS

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

CASH FLOW HEDGE INSTRUMENTS AND HEDGE ACCOUNTING

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

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

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Any financial derivatives or cash flow hedge instruments embedded in other financial instruments or other host contracts are treated as separate instruments when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

PROVISIONS

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

CHANGES IN ACCOUNTING POLICIES

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

The Group has adopted the following revisions to accounting standards during the financial year, which have had only a disclosure effect:

- Amendments to NZ IAS 1 Presentation of Financial Statements. The amendments introduce a requirement to present, either in the statement of changes in equity or the notes, for each component of equity, an analysis of other comprehensive income by item.
- FRS-44 New Zealand Additional Disclosures and Amendments to NZ IFRS to harmonise with IFRS and Australian Accounting Standards (Harmonisation Amendments) – The purpose of the new standard and amendments is to harmonise Australian and New Zealand accounting standards with source IFRS and to eliminate many of the differences between the accounting standards in each jurisdiction. The main effect of the amendments on the company is that certain information about property valuations is no longer required to be disclosed.
- Amendments to NZ IFRS 7 Financial Instruments: Disclosures - The amendment reduces the disclosure requirements relating to credit risk.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new accounting standard that is relevant to the Company, NZ IFRS 9 "Financial Instruments", has been issued but as it is not yet compulsory, has not been adopted. NZ IFRS 9 will replace NZ IAS 39 "Financial Instrument: Recognition and Measurement". NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the income statement. The new standard is required to be adopted for the year ended 30 June 2014. The Company has not yet assessed the effect of the new standard and does not expect to early adopt.

	2012 $000	2011 $000
3 OPERATING REVENUE		
Sales revenue	83,930	78,955
Avoided transmission constraint and loss revenue	1,984	1,314
	85,914	80,269
4 FINANCIAL INCOME		
Interest and dividends received	8	24

	2012 $000	2011 $000
5 OTHER EXPENSES		
Included in the operating expenses of the Company are the following items:		
Audit fees		
- for audit of financial statements	37	35
- for audit services in relation to regulatory (information disclosure) reporting	0	13
- for audit services in relation to price and quality thresholds and other regulatory reporting	14	29
Total audit fees	51	77
Transmission costs	26,079	21,637
Depreciation	12,476	11,849
Maintenance costs	7,875	7,868
Other contractor costs	991	1,002
Directors fees	157	165
Bad debts written off	33	50
Lease expense	83	81
Donations	2	0
Increase/(decrease) in provision for doubtful, trade and other receivables	48	8
6 FINANCIAL EXPENSES		
Interest - related parties	9,084	8,670
Interest amortised from cash flow hedge close out	(237)	(237)
Total financial expenses	8,847	8,433
7 LEASE COMMITMENTS		
Non-Cancellable Operating Lease Commitments		
Payable within one year	52	58
Payable between one to five years	80	138
Payable later than five years	5	6
	137	202

Notes To The Financial Statements

for the year ended 30 June 2012

	2012 $000	2011 $000
8 DIVIDENDS		
Interim dividend December $0.300/share ($0.500, 2011)	3,000	5,000
Final dividend June $0.410/share ($0.700, 2011)	4,104	7,003
$0.710 per share for 2012 ($1.200, 2011)	7,104	12,003
9 INCOME TAX		
Operating profit before income tax	11,140	18,013
Tax thereon at 28% (2011: 30%)	3,119	5,404
Plus / (Less) the Tax Effect of Differences		
Revenue not liable for taxation	0	0
Expenditure (deductible)/non-deductible for taxation purposes	50	203
Under/(over) tax provision in prior years	43	(248)
Deferred tax adjustment arising from tax rate change	0	(137)
Tax effect of differences	93	(182)
Tax expense	3,212	5,222
Represented by		
Current tax provision	1,503	3,653
Deferred tax provision	1,666	1,954
Under/(over) tax provision in prior years	43	(248)
Net deferred tax adjustment arising from tax rate change	0	(137)
Income tax	3,212	5,222
Effective tax rate	28.8%	29.0%

Notes To The Financial Statements

for the year ended 30 June 2012

	2012 $000	2011 $000

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.

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	2012	2011
Weighted average number of ordinary shares	10,000,000	10,000,000
Basic earnings per share in dollars	0.79	1.28

11 EQUITY - Share Capital

	2012 $000	2011 $000
Issued capital - 10,000,000 ordinary shares	10,000	10,000

12 CASH FLOW HEDGE RESERVE

	2012 $000	2011 $000
Balance at beginning of the year	82	111
Net revaluations	258	195
Cash flow hedge closed out	(244)	(239)
Deferred tax arising on hedges (note 17)	(5)	15
Balance at end of the year	91	82

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.

Notes To The Financial Statements

for the year ended 30 June 2012

	2012 $000	2011 $000
13 RETAINED EARNINGS		
Balance at beginning of the year	166,430	165,642
Net profit for the year	7,928	12,791
Dividend distributions	(7,104)	(12,003)
Balance at end of the year	167,254	166,430
14 TRADE AND OTHER PAYABLES		
Trade payables	3,568	2,679
Due to related parties - other	6,162	6,193
- Dunedin City Holdings Ltd	58	58
	9,788	8,930

The Directors consider that the carrying amount of trade payables approximates their fair value.

	2012 $000	2011 $000
15 OTHER CURRENT LIABILITIES		
GST payable	494	663
	494	663
16 TERM BORROWINGS (secured)		
Dunedin City Treasury Ltd - related party	131,150	126,850

The term borrowings are secured by a General Security Agreement over all the assets of the Company. Currently, the Company has a facility available of $140,000,000

	2012 $000	2011 $000
The repayment periods on the term borrowings are:		
Repayable between one to two years	0	0
Repayable between two to five years	0	0
Repayable later than five years	131,150	126,850

The weighted average interest rate for the loan inclusive of any current portion, was 6.51% (2011 : 6.83%).

Notes To The Financial Statements

for the year ended 30 June 2012

17 DEFERRED TAX

	Opening Balance Sheet $000	Charged to Equity $000	Charged to Income $000	Closing Balance Sheet Assets $000	Closing Balance Sheet Liabilities $000	Closing Balance Net $000
YEAR ENDED 30 JUNE 2012:						
Property, plant and equipment	(51,208)	0	(792)	0	(52,000)	(52,000)
Provisions	(1,084)	0	(835)	35	(1,954)	(1,919)
Revaluations of interest rate swaps	72	(72)	0	0	0	0
Close out of interest rate swaps	0	67	(67)	34	(34)	0
Balance at end of the year	(52,220)	(5)	(1,694)	69	(53,988)	(53,919)
YEAR ENDED 30 JUNE 2011:						
Property, plant and equipment	(50,462)	0	(746)	0	(51,208)	(51,208)
Provisions	(165)	0	(919)	21	(1,105)	(1,084)
Revaluations of interest rate swaps	128	(56)	0	72	0	72
Close out of interest rate swaps	0	71	(71)	101	(101)	0
Balance at end of the year	(50,499)	15	(1,736)	194	(52,414)	(52,220)

18 CASH AND CASH EQUIVALENTS

	2012 $000	2011 $000
Cash and bank	29	215

Cash and short-term deposits comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Short term deposits are made at call deposit rates.

Notes To The Financial Statements

for the year ended 30 June 2012

	2012 $000	2011 $000
19 TRADE AND OTHER RECEIVABLES		
Trade receivables	9,852	9,682
Less estimated impairment	(125)	(77)
	9,727	9,605
Due from related parties		
• Dunedin City Council and Group entities	24	104
• other related parties	3	0
	9,754	9,709

The Directors consider that the carrying amount of the trade and other receivables approximates their fair value.

	2012 $000	2011 $000
20 INVESTMENTS		
Investments – listed companies	10	10
	10	10

Investments – listed companies

The Company has acquired small shareholdings in several listed electricity-sector companies. These holdings are considered long-term.

	2012 $000	2011 $000
21 CASH FLOW HEDGE INSTRUMENTS		
Interest rate swaps revaluations - payable	0	(258)
	0	(258)
22 INVENTORIES		
Network spare parts	8	11
	8	11

Notes To The Financial Statements

for the year ended 30 June 2012

23 PROPERTY, PLANT AND EQUIPMENT

	Land $000	Buildings $000	Network $000	Plant Equipment $000	Motor Vehicles $000	Office Equipment $000	Optical Fibre Network $000	Construction in Progress $000	Total $000
YEAR ENDED 30 JUNE 2012:									
Cost									
Balance at beginning of year	4,224	11,530	397,181	2,148	191	16	4,497	6,443	426,230
Purchases	296	0	17,908	24	0	0	110	0	18,338
Disposal	(30)	0	(218)	0	0	0	0	0	(248)
Transfer	0	0	0	0	0	0	308	(308)	0
Total cost	4,490	11,530	414,871	2,172	191	16	4,915	6,135	444,320
Accumulated depreciation									
Balance at beginning of year	0	1,098	65,785	1,174	31	14	102	0	68,204
Depreciation	0	130	11,947	163	11	1	148	0	12,400
Disposal	0	0	(67)	0	0	0	0	0	(67)
Total accumulated depreciation	0	1,228	77,665	1,337	42	15	250	0	80,537
Balance at end of year	4,490	10,302	337,206	835	149	1	4,655	6,135	363,783
Year ended 30 June 2011:									
Cost									
Balance at beginning of year	4,224	11,530	377,202	2,109	191	16	903	7,873	404,048
Purchases	0	0	20,031	39	0	0	2,327	0	22,397
Disposal	0	0	(215)	0	0	0	0	0	(215)
Transfer	0	0	163	0	0	0	1,267	(1,430)	0
Total cost	4,224	11,530	397,181	2,148	191	16	4,497	6,443	426,230
Accumulated depreciation									
Balance at beginning of year	0	968	54,420	1,002	20	11	20	0	56,441
Depreciation	0	130	11,436	172	11	3	82	0	11,834
Disposal	0	0	(71)	0	0	0	0	0	(71)
Total accumulated depreciation	0	1,098	65,785	1,174	31	14	102	0	68,204
Balance at end of year	4,224	10,432	331,396	974	160	2	4,395	6,443	358,026

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 2012

	2012 $000	2011 $000
24 CAPITAL EXPENDITURE COMMITMENTS		
Capital expenditure contracted for at balance date but not provided for in the financial statements	8,139	5,552
25 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/(loss) for the year	7,928	12,791
Items not involving cash flows		
Depreciation	12,571	11,977
Increase/(decrease) in deferred tax	1,699	1,721
Other non-cash items	9	(29)
Increase/(decrease) in cash flow hedge	(258)	(195)
Impact of changes in working capital items		
(Increase)/decrease in trade and other receivables	(45)	(372)
(Increase)/decrease in investments	0	1
Increase/(decrease) in trade and other payables	858	(921)
Increase (decrease) in provision for tax	(1,650)	1,095
Increase/(decrease) in other current liabilities	(169)	429
(Increase)/decrease in inventories	3	0
Items classified as investing or financing activities		
Capital creditors in accounts payable	974	(234)
Loss / (Gain) on disposal of investments	0	(1)
Loss / (Gain) on disposal of property, plant and equipment	(95)	(128)
Net cash inflows / (outflows) from operating activities	21,825	26,134

Notes To The Financial Statements

for the year ended 30 June 2012

26 RELATED PARTY TRANSACTIONS

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

TRANSACTIONS WITH DUNEDIN CITY COUNCIL

The Company undertakes transactions with Dunedin City Council and other Dunedin City Council controlled entities. These transactions are made on commercial terms and conditions at market rates. During the period, the Company provided services and traded with Dunedin City Council Group in respect of the following transactions:

YEAR ENDED 30 JUNE	2012 $000	2011 $000
Purchases of goods and services from Dunedin City Holdings Limited:		
Subvention payments provided for	0	0
Management fees	200	200
Subvention/tax loss offset payment	136	0
	336	200
Purchases of goods and services from Dunedin City Council:		
Rates and property leases	412	379
Capital work	0	796
	412	1,175
Purchases of goods and services from other Dunedin City Council Group entities:		
Capital work	12,440	14,668
Network management and operation	15,644	14,988
Interest/facility fees	9,084	8,670
Subvention/tax loss offset payments	844	0
Contracting services	1,354	1,357
Management fees	100	90
Accounting, administration and secretarial	243	192
Sundry and consulting	61	113
Lease of meters	41	39
Subvention expense purchased	7,292	0
	47,103	40,117

The subvention expense of $7.292 million was made to another company within the Dunedin City Council group of companies for the purchase of tax losses of $7.292 million.

	2012 $000	2011 $000
26 RELATED PARTY TRANSACTIONS - continued		
At period end the amounts payable by Aurora to group entities:		
Dunedin City Holdings Limited	58	58
Other Dunedin City Council Group entities	137,312	133,300
	137,370	133,358
Sales of services to Dunedin City Council:		
Headworks fees	91	478
Other	29	113
	120	591
Sales of services to Dunedin City Council Group entities:		
Shut-down charges	0	13
Rent	26	26
Service failure penalties	67	129
Headworks	0	0
Other	22	19
	115	187
At period end, the amounts receivable by Aurora Energy Limited from Dunedin City Council group entities are:		
Dunedin City Council	3	36
Other Dunedin City Council Group entities:	21	68

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 in the normal course of business and on an arm's length commercial basis.

TRANSACTIONS WITH COMPANIES IN WHICH DIRECTORS HAVE AN INTEREST:

Mr S J McLauchlan is a Director of Lund South Limited. Lund South Limited was a party to the prior year construction of the Commonage zone substation and the refurbishment of the Ward Street zone substation. In the ordinary course of business during the financial period covered by this report, no services were provided by Lund South Limited (2011: $13,322). No monies were owing to Lund South Limited at the end of the year (2011: nil).

26 RELATED PARTY TRANSACTIONS - continued

Mr S J McLauchlan is Pro Chancellor of the University of Otago. In the ordinary course of business during the financial period covered by this report, services valued at $33,385 were provided to the University of Otago (2011: $60,271). $3,433 was outstanding at 30 June 2012 (2011: $3,433).

Mr McLauchlan is a Director of Scenic Circle Hotels Limited. During the financial period covered by this report. No services were purchased from Scenic Circle Hotels Limited (2011: $240). No monies were owing to Scenic Circle Hotels Limited at the end of the year (2011: nil).

27 FINANCIAL INSTRUMENT RISK

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

INTEREST RATE RISK

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

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

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

	2012 $000	2011 $000
Maturing in less than one year	0	10,000
Maturing between one and five years	0	0
Maturing after five years	0	0
	0	10,000

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.

27 FINANCIAL INSTRUMENT RISK - continued

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:

		2012 $000	2011 $000
Cash and cash equivalents		29	215
Trade and other receivables		9,754	9,709
Short term investments		10	10
		9,793	9,934
Past due, but not impaired, receivables are:			
Past due receivables			
Age analysis:	30-60 days	51	21
	60-90 days	21	50
	90 days plus	108	119
		180	190

LIQUIDITY RISK

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

The following table analyses the exposure of the Company's financial liabilities to liquidity risk as at 30 June 2012:

27 FINANCIAL INSTRUMENT RISK - continued

	Maturity Dates Less than 1 Month $000	1 to 3 Months $000	3 Months to 1 Year $000	1 to 5 Years $000	More than 5 Years $000	No Maturity $000	Total $000
Financial assets							
Cash and cash equivalents	29	0	0	0	0	0	29
Trade and other receivables	9,754	0	0	0	0	0	9,754
Short term investments	0	0	0	0	0	0	0
Long term investments	0	0	0	0	0	10	10
	9,783	0	0	0	0	10	9,793
Financial liabilities							
Trade and other payables	9,788	0	0	0	0	0	9,788
Other current liabilities	494	0	0	0	0	0	494
Taxation payable	888	0	0	0	0	0	888
Cash flow hedge instruments	0	0	0	0	0	0	0
Term borrowings	0	0	0	0	131,150	0	131,150
	11,170	0	0	0	131,150	0	142,320

The following table analyses the exposure of the Company's financial liabilities to liquidity risk as at 30 June 2011:

	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	215	0	0	0	0	0	215
Trade and other receivables	9,709	0	0	0	0	0	9,709
Short term investments	0	0	0	0	0	0	0
Long term investments	0	0	0	0	0	10	10
	9,924	0	0	0	0	10	9,934
Financial liabilities							
Trade and other payables	8,930	0	0	0	0	0	8,930
Other current liabilities	663	0	0	0	0	0	663
Taxation payable	2,538	0	0	0	0	0	2,538
Cash flow hedge instruments	0	0	258	0	0	0	258
Term borrowings	0	0	0	0	126,850	0	126,850
	12,131	0	258	0	126,850	0	139,239

27 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 rates 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	0	0	0	0	0
Term borrowings (hedged)	0	0	0	0	0
Term borrowings (unhedged)	26,150	262	0	(262)	0
	26,150	262	0	(262)	0

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements recognised in the statement of financial position.

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

Level 1 Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

Level 3 Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2012 Level 1 $000	2012 Level 2 $000	2012 Level 3 $000	2012 Total $000
Financial liabilities				
Derivative financial liabilities	0	0	0	0

28 SEGMENT REPORTING

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

29 CAPITAL MANAGEMENT STRATEGY

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

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

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

31 EVENTS AFTER BALANCE DATE

There were no significant events after balance date.

Independent Auditor's Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of
Aurora Energy Limited's
financial statements and statement of service performance
for the year ended 30 June 2012

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

We have audited:

- the financial statements of the company on pages 18 to 46, that comprise the balance sheet as at 30 June 2012, 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 page 7.

Opinion

Financial statements and the statement of service performance

In our opinion:

- the financial statements of the company on pages 18 to 46:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the company's:
    - financial position as at 30 June 2012; and
    - financial performance and cash flows for the year ended on that date;
- the statement of service performance of the company on page 7:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company's achievements measured against the performance targets adopted for the year ended 30 June 2012.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 26 September 2012. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement,

Independent Auditor's Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments; we consider internal control relevant to the preparation of the company's financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control 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.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company's financial position, financial performance and cash flows; and
- give a true and fair view of its service performance achievements.

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

The Board of Directors' responsibilities arise from the Energy Companies Act 1992 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 45(1) of the Energy Companies Act 1992.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

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

Ian Lothian

Ian Lothian
Audit New Zealand
On behalf of the Auditor General
Christchurch, New Zealand

Company Directory

DIRECTORS

Raymond S Polson (Chair) – BCom, FCA, AF.Inst.D.
Ross D Liddell (Deputy Chair) – BCom, CA (PP), ACIS, AF.Inst.D.
Michael O Coburn – FNZIM, AF.Inst.D.
Dr Norman G Evans – DBA, NZCE, M.Inst.D.
Stuart J McLauchlan – BCom, FCA (PP), AF.Inst.D.

CHIEF EXECUTIVE

Grady Cameron - BE, MEM

COMPANY SECRETARY

Gary G Dixon - BCom, CA

REGISTERED OFFICE

10 Halsey Street
Dunedin
New Zealand

BANKER

Westpac Banking Corporation

SOLICITOR

Gallaway Cook Allan

AUDITOR

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

TAXATION ADVISOR

Deloitte

Aurora