

Annual Report 2013

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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

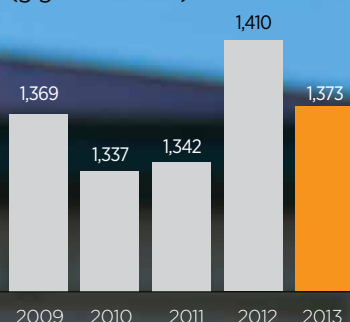
for the year ended 30 June 2013

- Aurora Energy continues to be the main contributor of cash to our shareholder Dunedin City Holdings Limited. This year, we paid equivalent dividends of \$14 million.
- Total dividends paid to the shareholder since Aurora Energy's inception are \$121.8 million
- Revenue increased by \$4.6 million to \$90.6 million
- Assets increased in value by 3 per cent to \$383.3 million
- Energy received into the network was 1,373 gigawatt hours for the year
- Consumer connections increased by 1% to 83,838
- Continued network refurbishment plans, completing the Halfway Bush substation upgrade and progressed rebuild of Roxburgh substation and repairs at Queenstown substation
- Commenced underground 33-kilovolt cable replacement, starting at Anderson's Bay, Dunedin
- Second year of five-year overhead line renewal and vegetation management programme

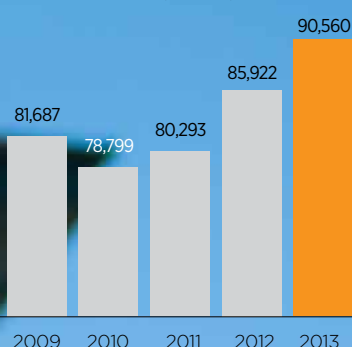
Results At A Glance

Years ended 30 June

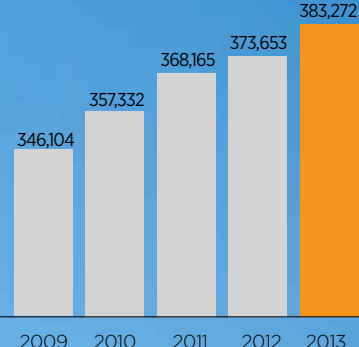
Energy received into network
(gigawatt hours)



Total revenue (\$'000)



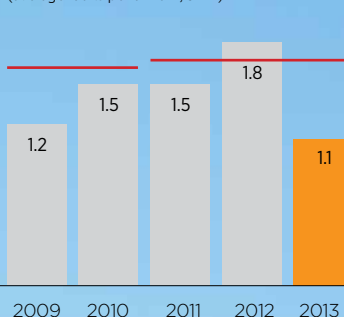
Total assets (\$'000)



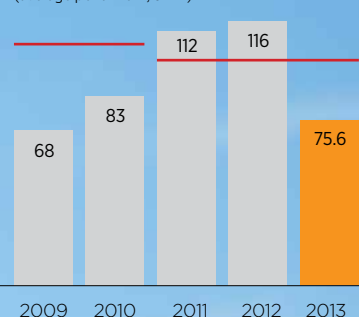
Network Performance

Years ended 31 March

Interruptions
(average faults per annum, SAIFI)



Minutes off
(average per annum, SAIDI)



— Reliability Limit



CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

2013 FINANCIAL RESULTS

We are pleased to present Aurora Energy Limited's twenty third annual report for the financial year ended 30 June 2013 (FY13).

Total revenue increased by 5 per cent to \$90.6 million (FY12: \$85.9 million) with the addition of new consumer connections and reduced transmission charges.

Trading profit before tax and subvention payments increased by 3 per cent to \$19.1 million (FY12: \$18.4 million), and net profit before the after tax value of subvention payments increased to \$13.9 million (FY12: \$13.2 million).

Net profit after tax and subvention payments increased to \$8.6 million (FY12: \$7.9 million), after a pre-tax subvention payment of \$7.3 million (equivalent dividend FY13: \$5.3 million, FY12: \$5.3 million).

Aurora's financial position remains strong. Total assets increased by 3 per cent to \$383.3 million (FY12: \$373.7 million). FY13 year-end term borrowings were \$137.6 million (FY12: \$131.2 million). Capital expenditure was \$18.8 million for FY13 (FY12: \$18.3 million).

DIVIDENDS

Aurora Energy paid dividends to its shareholder, Dunedin City Holdings Limited, that were equivalent to \$14.0 million for the year under review, and 13 per cent higher than for the previous year (FY12: \$12.4 million). Aurora Energy has paid total equivalent dividends of \$121.8 million to its shareholder since its inception in 2003.

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. Regulation by the Electricity Authority determines the pricing and market rules that electricity distributors must follow in charging consumers for supply.

The Commerce Commission review of the regulations governing electricity distribution businesses was settled during the year, including the outcome of various legal challenges to the new rules. The application of these rules

resulted in a half per cent increase in Aurora Energy's allowable revenue, demonstrating that our price setting closely followed the intent of the regulations.

The Commerce Commission has signalled that the significant structural changes to regulations are now in place. There does remain residual uncertainty around how the new regulations will apply in force and the potential for further downside risk for Aurora Energy revenues at the 2015 price reset.

The Commerce Commission also changed its information disclosure requirements. We are now required to report on a wider and more detailed range of operational and performance measures and statistics than before. The processes for reflecting capital expenditure in our Regulatory Asset Base are now more onerous. Our concerns around increasing compliance costs and management effort for Aurora to fulfil these increased disclosure obligations have been borne out.

The Electricity Authority commenced consultation on its review of the decision-making and economic framework for



distribution pricing methodology. The purpose of the review is to confirm whether the current pricing principles and guidelines align with the new Electricity Industry Act 2010.

The Authority's preliminary view is that decision-making about distribution pricing should focus on promotion of efficiency of the electricity industry for the long-term benefit of electricity consumers. On the economic framework, the Authority has suggested that distributors should use pricing methodologies that give preference to market-based distribution charges, where efficient and practicable to do so.

The outcome of the review has the potential to fundamentally change how distribution charges are recovered from consumers and the fairness and efficacy of how costs are apportioned. We do not expect the review to be completed during FY14.

OPERATING PERFORMANCE

Energy received into the network was 1,373 gigawatt hours during FY13, a 2.6 per cent decrease on FY12. Energy received for delivery decreased by 1.4 per cent to 1,331 gigawatt hours in FY13 (FY12: 1,350). Consumer connections increased by 429 to 83,838 (FY12: 82,853), primarily due to new residential connections in the Central Otago area.

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 progress adoption of best-practice asset management methods that will ensure Aurora Energy operates within the internationally recognised PAS 55 framework (Publicly Available Specification for the optimised management of physical assets).

Network performance for FY13 showed a considerable improvement on the prior year. The System Average Interruption Duration Index (SAIDI) measures the average outage duration for

each consumer served. The System Average Interruption Frequency Index (SAIFI) is a measure of the frequency of outages experienced by consumers on an annual basis. The SAIDI and SAIFI performance targets are set by the Commerce Commission with the lower the actual figures are, the better.

For the disclosure year ended 31 March 2013, the SAIDI was 75.6 minutes, a marked improvement on last year's 115.9 minutes and well under the performance target of 98.3 minutes. The SAIFI for FY13 was 1.05, another significant improvement on last year's 1.79 and also comfortably below the target of 1.67. This pleasing result was a combination of relatively benign weather conditions and an early indication of the positive effect of our investments in line reconstruction and vegetation management.

In 2011 and 2012 Aurora Energy breached its quality thresholds. During the year, the Commerce Commission carried out its investigation into the underlying reasons for breaches. At the time of writing, we are awaiting the Commission's final decision on outcomes of the review.



Aurora Energy Scholarships winners Mary Huang (left) of Otago Girls' High School and Ali Macharg (right) of Wakatipu High School.

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 FY13, \$34,247 was paid to electricity retailers in relation to 646 consumers affected by supply interruptions, a significant improvement on FY12 during which we paid \$79,275 in relation to 1,183 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. We received 39 complaints in FY13 and all were handled within the required service levels established by the Commissioner.

NETWORK DEVELOPMENT

We continued to receive asset management and distribution services from Delta. Through our partnership, Aurora Energy has benefitted from continued improvements in Delta's approach to asset management.

The revised Asset Management Plan developed for 2013/14 incorporates the latest in asset

management thinking, aligned to international best practice consistent with the PAS 55 standard.

The Plan sets out Aurora Energy's long term investment programme to ensure network reliability and to accommodate growth in energy demand. In FY13, we continued the preventative maintenance and rebuild programme started in FY12. The programme included vegetation clearance around more than 12 kilometres of overhead power lines and replacement of more than 450 power poles and equipment, primarily in Wanaka and Port Chalmers areas. A total of \$3.9 million of overhead line reconstruction and vegetation management work was completed to improve the reliability of the network.

During FY13, we made \$18.8 million of capital investment including upgrades to the Roxburgh, Queenstown and Halfway Bush (Dunedin) substations and the last stages of undergrounding power lines along Kaikorai Valley Road in Dunedin. We made significant progress on the replacement of 33-kilovolt underground cables to Anderson's Bay, Dunedin to future-proof power supply to the surrounding area.

COMMUNITY SUPPORT

Aurora Energy continued its support of the communities which our networks serve, focusing on youth, education and culture. We continued our support of the Aurora Energy Otago Science and Technology Fair that promotes participation in science and technology by primary and intermediate school students.

The Aurora Energy Scholarships provide two one-year scholarships of \$5,000 for students who are attending a secondary school in Otago and who will be studying full time at the University of Otago. We were delighted to award Mary Huang of Otago Girls' High School and Ali Macharg of Wakatipu High School scholarships this year.

The biennial Festival of Colour brings artistic and cultural experiences from around New Zealand and the world to the Wanaka and Queenstown Lakes communities. Aurora Energy were proud again to be a major sponsor of the festival that showcased 76 performances across 11 venues, including a successful community programme with free events and a school programme taken to more than 2,000 children from Makarora to Queenstown.



GOVERNANCE

Following a governance review by Dunedin City Council of directorships on Council-owned companies, directors Mike Coburn, Dr Norman Evans and Ross Liddell resigned from the Board in October 2012. We thank these directors for their contribution to Aurora Energy during their tenure.

In October 2012, Dave Frow and Dr Ian Parton joined the Board as non-executive directors. Dave has an extensive background in the energy industry and was formerly chief executive of the state-owned enterprise Electricity Corporation of New Zealand (ECNZ). A professional company director, Ian has an extensive background in consulting engineering and was formerly managing director of consulting engineering firm Meritec Group Limited.

OUTLOOK

The Independent Taskforce on Workplace Health and Safety and the Royal Commission on the Pike River Coal Mine Tragedy have called for improvements to New Zealand's approach to workplace safety. Aurora Energy has management control of its

high voltage electricity network and, as principal, ultimate responsibility for the safety of its contractors, public and end-users. Aurora Energy will ensure any new requirements resulting from regulatory change are incorporated into its health and safety management.

As a lifeline utility, Aurora Energy has responsibilities to the community to ensure its network is resilient during civil defence emergencies and that any interruption to supply is minimised. During FY14, Aurora Energy will review the seismic strength and fire and security arrangements of its critical assets to understand the extent of remedial work that may be required. Based on the experience of other networks, we expect that there will be a sizeable investment required to bring critical assets up to new building standards for earthquakes.

Energy demand on Aurora Energy networks has been relatively stable, with most change in demand related to weather events rather than significant consumer demand growth. Given current economic conditions and population forecasts, we expect demand to remain stable.

Over the next three years, our Asset Management Plan provides for a significant increase in capital expenditure of on average 25 per cent per year. The objective is to ensure the future reliability of the network for our consumers and the communities we supply.

Grady Cameron
CHIEF EXECUTIVE

Ray Polson
CHAIRMAN

16 September 2013

TREND STATEMENT

YEARS ENDED 30 JUNE	Note	2013	2012	2011	2010	2009
Energy received into network	GWh	1,373	1,410	1,342	1,337	1,369
Energy received for delivery to consumers	GWh	1,331	1,350	1,314	1,326	1,353
Energy delivery reliability (average time without supply per consumer per annum)	minutes	77.5	123.9	131.8	93.2	65.4
Total revenue	\$000	90,560	85,922	80,293	78,799	81,687
Trading profit before tax (before subvention payments)	\$000	19,077	18,432	18,013	18,828	21,349
EBIT/average funds employed		7.4%	7.4%	7.3%	7.5%	8.2%
Tax- current year provision	\$000	3,325	3,169	5,386	4,284	4,229
- prior year (over)/under provision	\$000	(164)	43	(164)	(2,534)	14
Net profit for the year (before after-tax value of subvention payments)	\$000	13,874	13,178	12,791	16,630	16,604
Net profit for the year (after subvention payments)	1 \$000	8,624	7,928	12,791	15,583	15,431
Cashflow from operating activities	\$000	20,228	21,825	26,134	24,720	27,677
Dividends paid	\$000	8,750	7,104	12,003	13,985	13,204
Equivalent dividends (actual dividends plus after-tax value of subvention payments)	\$000	14,000	12,354	12,003	15,032	14,377
Shareholder's equity	\$000	178,005	177,345	176,512	175,753	174,287
Total assets	\$000	383,272	373,653	368,165	357,332	346,104
Capital Expenditure (net)	\$000	18,841	18,316	22,128	23,246	22,767
Return on average equity (before after-tax value of subvention payments)		7.81%	7.45%	7.26%	9.50%	9.56%
Equity to total assets		46%	47%	48%	49%	50%

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 2013

SPECIFIC OBJECTIVES

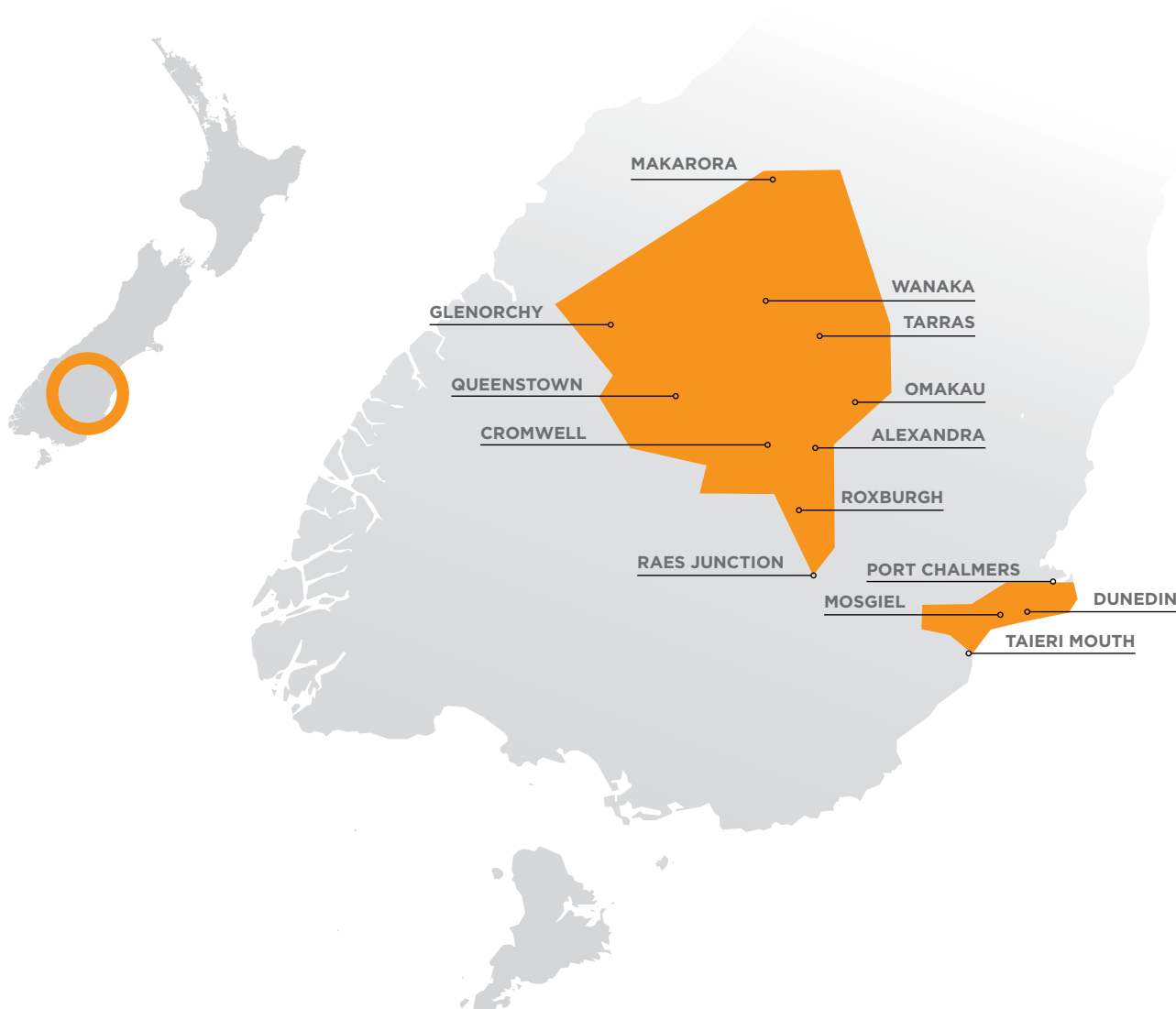
1	To review the Statement of Intent and Strategic Plan for consistency with the objectives of Dunedin City Holdings Limited.	Achieved. The Statement of Intent and Strategic Plan were reviewed and confirmed as being consistent with the objectives of Dunedin City Holdings Limited.																		
2	To 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.	Achieved.																		
		<table><tr><td></td><td>Achieved \$000</td><td>Target \$000</td></tr><tr><td>EBITDA (before subvention payments)</td><td>40,664</td><td>37,793</td></tr><tr><td>Net profit (before subvention payments)</td><td>13,874</td><td>10,815</td></tr><tr><td>Shareholder's funds</td><td>178,005</td><td>174,305</td></tr><tr><td>Equivalent dividends</td><td>14,000</td><td>12,500</td></tr><tr><td>Shareholder's funds to total assets</td><td>46%</td><td>44%</td></tr></table>		Achieved \$000	Target \$000	EBITDA (before subvention payments)	40,664	37,793	Net profit (before subvention payments)	13,874	10,815	Shareholder's funds	178,005	174,305	Equivalent dividends	14,000	12,500	Shareholder's funds to total assets	46%	44%
	Achieved \$000	Target \$000																		
EBITDA (before subvention payments)	40,664	37,793																		
Net profit (before subvention payments)	13,874	10,815																		
Shareholder's funds	178,005	174,305																		
Equivalent dividends	14,000	12,500																		
Shareholder's funds to total assets	46%	44%																		
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.	Achieved. The Company's financial performance is monitored against the projections set in objective 4.																		
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 2013

Number of consumer connections	83,656
Energy received for distribution	1,331 gigawatt hours
Capacity of transformers	897 megavolt amperes
Capacity utilisation	32%
Number of zone substations	37
Number of bulk supply points	5
Length of lines and cables	5,543 kilometres



NETWORK PERFORMANCE

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

12 months ended 31 March		2013	2012	2011	2010	2009
System Physical Measures						
Average length of lines and cables	km	5,543	5,628	5,621	5,600	5,544
Average capacity of distribution transformers	MVA	897	880	877	868	860
Distribution transformer capacity utilisation		32%	33%	31%	33%	32%
Consumer Measures						
Average number of consumer connections		83,656	82,671	81,971	81,129	80,249
System maximum demand	MW	284	290	274	285	275
Energy received for delivery	GWh	1,331	1,396	1,340	1,358	1,357
Average load factor		53%	55%	55%	54%	56%
Average minutes off per fault	CAIDI	69	65 ⁽²⁾	76 ⁽¹⁾	56	55
Average faults per annum	SAIFI	1.1	1.8	1.5	1.5	1.2
Average minutes off per annum	SAIDI	76	116 ⁽²⁾	112 ⁽¹⁾	83	68

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 21 December 2010 was responsible for 12.6 minutes of the SAIDI index and 5 minutes of the CAIDI index in 2011.
- 2 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 2013

The Directors of Aurora Energy Limited are pleased to report on the financial results and associated matters for the year ended 30 June 2013.

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 2013	\$000
Trading profit	19,077
less subvention payment (pre-tax equivalent dividend)	<u>7,292</u>
Operating profit before income tax	11,785
less income tax expense	<u>3,161</u>
Net profit for year	8,624

STATE OF AFFAIRS

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

DIVIDENDS

Total dividends of \$8.750 million were declared and paid for the year ended 30 June 2013. 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 \$14.000 million paid for the year. Equivalent dividends last year amounted to \$12.354 million.

RESERVES

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

	\$000
Cash flow hedge reserve - to (from)	<u>786</u>
Retained earnings - to (from)	<u>(126)</u>

DIRECTORS' REPORT

for the year ended 30 June 2013

REVIEW OF OPERATIONS

The Directors are pleased with the operating results achieved for the year ended 30 June 2013. The net profit before after tax value of subvention payments of \$13.874 million (2012: \$13.178 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 \$5.250 million (2012: \$5.250 million).

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 2013 continued at a level in excess of the net profit achieved. Major projects included the Halfway Bush substation upgrade, commencement of the Roxburgh and Queenstown substation rebuilds, line renewal work, and commencement of the 33 kilovolt cable replacement in Anderson's Bay.

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 in Dunedin on the replacement of underground 33-kilovolt cables and asset renewals, and in Central Otago to service the significant growth expected to return in this area.

The Commerce Commission has determined regulatory starting prices effective 1 April 2013 for the current five-year regulatory period. This resulted in a 0.5 per cent increase in Maximum Allowable Performance for the year ending 31 March 2014.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2013 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 2013 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	\$ 42,840
Stuart J McLauchlan	\$ 25,667
David J Frow	\$ 15,000
Dr Ian M Parton	\$ 15,000
Ross D Liddell	\$ 10,973
Michael O Coburn	\$ 7,000
Dr Norman G Evans	\$ 7,000
	<u>\$ 123,480</u>

DIRECTORS' REPORT

for the year ended 30 June 2013

AUDIT AND RISK COMMITTEE

Stuart McLauchlan, Ray Polson and Ross Liddell were members of the Audit and Risk Committee of the Board during the year. Mr Liddell resigned on 31 October 2012. 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.

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

Long-serving directors Ross Liddell, Michael Coburn and Dr Norman Evans resigned from the Board in October 2013 following a governance review by Dunedin City Council. We thank them for their important contribution to the Company's success.

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 2013

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.

For and on behalf of the Board of Directors



Ray Polson
CHAIRMAN



Stuart McLauchlan
DIRECTOR

16 September 2013

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 – Mactodd Chairman – Ophir Gold Limited Director – Luggate Nominee Limited Director – Marsh Advisory Board Director – Mountainview Holdings Timaru Limited (resigned May 2013)
David J Frow Non-Executive Director	M.Inst.D., F.IPENZ, B.Sc.Eng	October 2012	Director – Bathurst Resources (New Zealand) Limited Director – Delta Investments Limited Director – Delta Utility Services Limited Director – ETEL Limited Director – ETEL Transformers Pty Ltd (Aus) Director – Holmes Fire & Safety Limited Director – Holmes GP Fire Limited Senior Consultant – Strata Energy Consulting
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 – Delta Investments Limited Director – Delta Utility Services Limited Director – Dunedin Casinos Limited Director – Energy Link 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 – University of Otago Foundation Studies Limited Director – University of Otago Holdings Limited Director – USC Investments Limited Director – XRock Automation Pty Limited Partner – G S McLauchlan & Co Pro Chancellor – University of Otago Director – City Forests Limited (resigned 31 October 2012)

INFORMATION ON THE DIRECTORS

Director	Qualifications	Date Appointed	Declarations of Interests
Dr Ian M Parton Non-Executive Director	BE (Hons), PhD, Dist.F.IPENZ, F.Inst.D.	October 2012	Director – Auckland Transport Limited Director – Delta Investments Limited Director – Delta Utility Services Limited Director – Construction Techniques Group Limited Director – Skellerup Holdings Limited Chancellor – University of Auckland
Ross D Liddell Non-Executive Deputy Chairman	BCom, CA (PP), ACIS, AF.Inst.D.	June 1998 Resigned 31 October 2012	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 Director – A B Lime Limited Director – Hunterfields Investments Limited Director – McMahon Investments Limited Deputy Chairman – Delta Utility Services Limited (resigned 31 October 2012)
Michael O Coburn Non-Executive Director	FNZIM, AF.Inst.D.	October 2003 Resigned 31 October 2012	Deputy Chairman – City Forests Limited Director – Arthur Barnett Limited Director – Jack Tewa Foundation Appointer Limited Director – Lake Hayes Estate Limited Director – New Zealand Aquifer Limited Director – New Zealand Land Fund Limited and subsidiaries Director – Ruboc Holdings Limited Shareholder (as Trustee) – Locations Realty Queenstown Limited Trustee – Hayes Trustees Limited Director – Delta Investments Limited (resigned 31 October 2012) Director – Delta Utility Services Limited (resigned 31 October 2012) Director – Lakes Environmental Limited (resigned April 2013)
Dr Norman G Evans Non-Executive Director	DBA, NZCE, M.Inst.D.	July 2005 Resigned 31 October 2012	Chairman – Enabling Pty Limited (Aus) Director – Lifetime Health Diary Limited Director – Halo Investment Management Limited Director – Halo Fund No 1 Limited Director – City Forests Limited (resigned 31 October 2012) Director – Delta Utility Services Limited (resigned 31 October 2012)

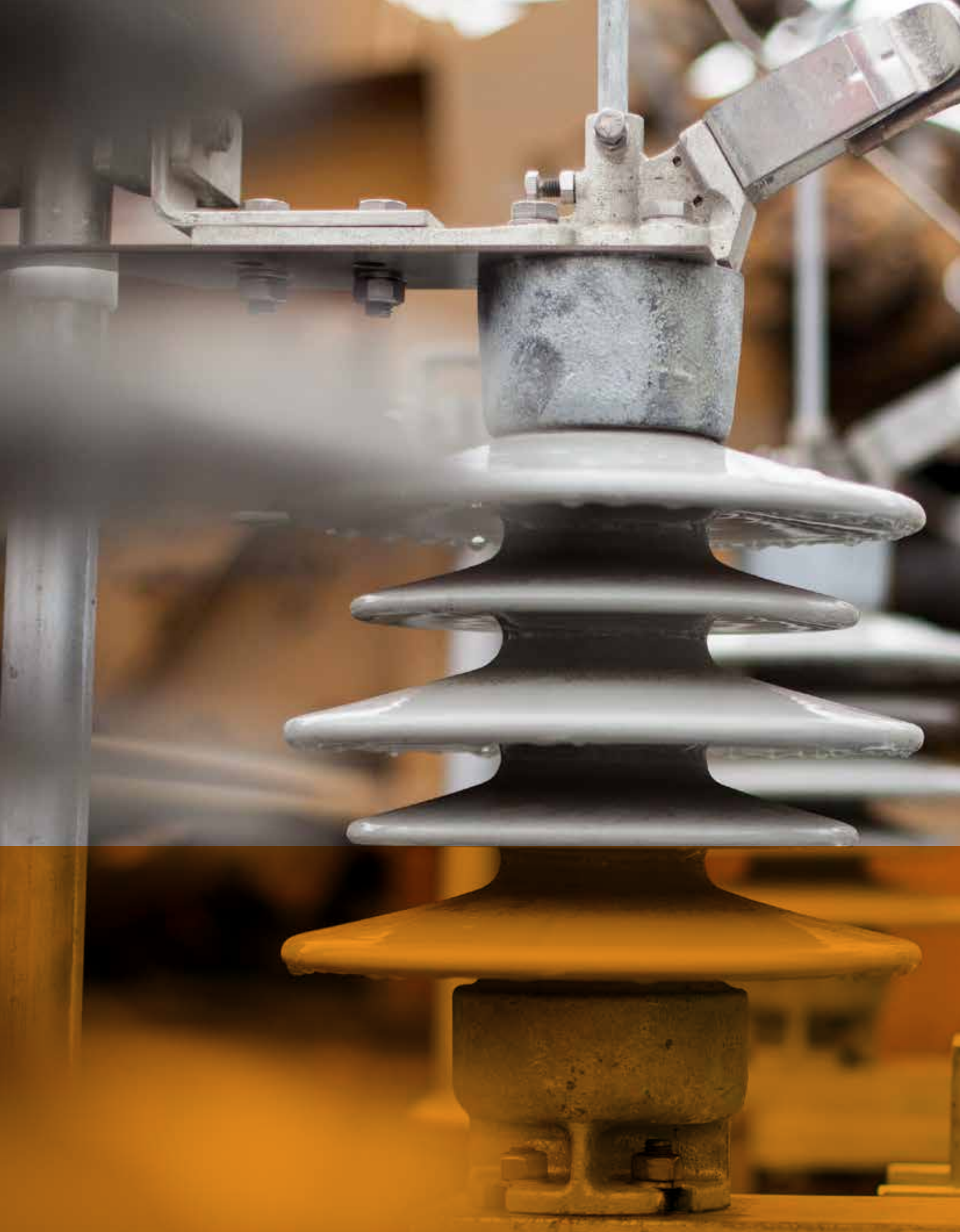


PHOTO: CARDRONA ALPINE RESORT



FINANCIAL STATEMENTS

for the year ended 30 June 2013

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Statement of Comprehensive Income

for the year ended 30 June 2013

	Note	2013 \$000	2012 \$000
Operating revenue	3	90,537	85,914
Financial revenue	4	23	8
Total revenue		90,560	85,922
Less expenses			
Operating expense	5	62,580	58,643
Financial expenses	6	8,903	8,847
Total expenditure		71,483	67,490
Profit before tax and subvention		19,077	18,432
Subvention payment provided		7,292	7,292
Profit before tax		11,785	11,140
Income tax expense	9	3,161	3,212
Net profit/(loss) after tax for the year		8,624	7,928
Other comprehensive income			
Gain/(loss) on cashflow hedges		883	174
Gain/(loss) on terminated cashflow hedges		(97)	(165)
Total other comprehensive income		786	9
Total comprehensive income		9,410	7,937

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 2013

	Note	2013 \$000	2012 \$000
Equity at beginning of the year		177,345	176,512
Recognised income and expense			
Total comprehensive income		9,410	7,937
Less distribution to owner	8	8,750	7,104
Equity at end of the year		178,005	177,345

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

Balance Sheet

as at 30 June 2013

	Note	2013 \$000	2012 \$000
EQUITY			
Share capital	11	10,000	10,000
Cash flow hedge reserve	12	877	91
Retained earnings	13	167,128	167,254
Total equity		178,005	177,345
CURRENT LIABILITIES			
Trade and other payables	14	9,969	9,788
Other current liabilities	15	238	494
Taxation payable		1,882	888
Cashflow hedge instruments	21	0	0
Total current liabilities		12,089	11,170
NON-CURRENT LIABILITIES			
Term borrowings	16	137,600	131,150
Deferred tax liability	17	55,578	53,988
Total non-current liabilities		193,178	185,138
Total liabilities		205,267	196,308
TOTAL EQUITY AND LIABILITIES		383,272	373,653

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

Balance Sheet

as at 30 June 2013 – continued

	Note	2013 \$000	2012 \$000
CURRENT ASSETS			
Cash and cash equivalents	18	68	29
Trade and other receivables	19	10,742	9,754
Inventories	22	8	8
Inter Company advances		1,234	0
Cash flow hedge instruments	21	1,226	0
Total current assets		13,278	9,791
NON-CURRENT ASSETS			
Investments	20	10	10
Deferred tax asset	17	42	69
Property, plant and equipment	23	369,942	363,783
Total non-current assets		369,994	363,862
TOTAL ASSETS		383,272	373,653

For and on behalf of the Board of Directors



Ray Polson
CHAIRMAN



Stuart McLauchlan
DIRECTOR

16 September 2013

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 2013

	Note	2013 \$000	2012 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from			
Receipts from customers		89,758	85,828
Interest and dividends received		23	8
		89,781	85,836
Cash was disbursed to			
Payments to suppliers		50,523	44,323
Interest paid		9,076	9,106
Intra group tax loss/subvention payments made		859	810
Income tax paid		0	2,365
Net GST paid/(received)		569	115
Subvention payment		7,292	7,292
Inter Company advance		1,234	0
		69,553	64,011
Net cash inflows/(outflows) from operating activities	25	20,228	21,825
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from			
Sale of investments		0	0
Sale of property, plant and equipment		0	103
		0	103
Cash was disbursed to			
Purchase of property, plant and equipment		17,889	19,310
		17,889	19,310
Net cash inflows/(outflows) from investing activities		(17,889)	(19,207)

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 2013 – continued

	Note	2013 \$000	2012 \$000
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from			
Proceeds from borrowings		36,794	39,150
		36,794	39,150
Cash was disbursed to			
Repayment of borrowings		30,344	34,850
Dividends paid		8,750	7,104
		39,094	41,954
Net cash inflows/(outflows) from financing activities		(2,300)	(2,804)
Net increase/(decrease) in cash, cash equivalents and bank overdraft		39	(186)
Cash and cash equivalents at beginning of the year		29	215
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	18	68	29

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 2013

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 16 September 2013.

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.

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.

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

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 good 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.

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.

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

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.

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

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.

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

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.

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

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.

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

PROVISIONS

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

CHANGES IN ACCOUNTING POLICIES

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

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

STANDARD

BRIEF OUTLINE

Amendment to NZ IFRS 7
*Financial Instruments:
Disclosures – Offsetting
Financial Assets and
Financial Liabilities*
Adoption date: Year
ended 30 June 2014

These amendments introduce disclosures, which provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position.

NZ IFRS 13 *Fair Value
Measurement*
Adoption date: Year
ended 30 June 2014

NZ IFRS 13 establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by NZ IFRS. NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

STANDARD

Amendments to NZ IFRS arising from the Annual Improvements Project (2009-2011)
Adoption date: Year ended 30 June 2014

BRIEF OUTLINE

The following standards are amended by this standard;

NZ IAS 1 - Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.

NZ IAS 16 - Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

NZ IAS 32 - Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with NZ IAS 12 Income Taxes.

NZ IFRS 9 *Financial Instruments*
Adoption date: Year ended 30 June 2016

NZ IFRS 9 *Financial Instruments* will eventually replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus or deficit.

	2013 \$000	2012 \$000
3 OPERATING REVENUE		
Sales revenue	88,683	83,930
Avoided transmission constraint and loss revenue	1,854	1,984
	90,537	85,914
4 FINANCIAL INCOME		
Interest and dividends received	23	8

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

	2013 \$000	2012 \$000
5 OTHER EXPENSES		
Included in the operating expenses of the Company are the following items:		
Audit fees		
- for audit of financial statements	37	37
- for audit services in relation to regulatory (information disclosure) reporting	13	0
- for audit services in relation to price and quality thresholds and other regulatory reporting	32	14
Total audit fees	82	51
Transmission costs	30,007	26,079
Depreciation	12,684	12,476
Maintenance costs	8,409	7,875
Other contractor costs	890	991
Directors fees	123	157
Bad debts written off	28	33
Lease expense	92	83
Donations	0	2
Increase/(decrease) in provision for doubtful, trade and other receivables	18	48
6 FINANCIAL EXPENSES		
Interest - related parties	9,035	9,084
Interest amortised from cash flow hedge close out	(132)	(237)
Total financial expenses	8,903	8,847
7 LEASE COMMITMENTS		
<i>Non-Cancellable Operating Lease Commitments</i>		
Payable within one year	57	52
Payable between one to five years	107	80
Payable later than five years	96	5
	260	137

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

		2013 \$000	2012 \$000
8 DIVIDENDS			
Interim dividend	December \$0.500/share (\$0.300, 2012)	5,000	3,000
Final dividend	June \$0.375/share (\$0.410, 2012)	3,750	4,104
	\$0.875 per share for 2013 (\$0.710, 2012)	8,750	7,104
9 INCOME TAX			
Operating profit before income tax		11,785	11,140
Tax thereon at 28% (2012: 28%)		3,300	3,119
<i>Plus / (Less) the Tax Effect of Differences</i>			
Revenue not liable for taxation		0	0
Expenditure (deductible)/non-deductible for taxation purposes		25	50
Under/(over) tax provision in prior years		(164)	43
Tax effect of differences		(139)	93
Tax expense		3,161	3,212
<i>Represented by</i>			
Current tax provision		1,954	1,503
Deferred tax provision		1,371	1,666
Under/(over) tax provision in prior years		(164)	43
Income tax		3,161	3,212
Effective tax rate		26.8%	28.8%

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 2013 – continued

	2013	2012
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	0.86	0.79
	2013 \$000	2012 \$000
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	91	82
Net revaluations	1,226	258
Cash flow hedge closed out	(128)	(244)
Deferred tax arising on hedges (note 17)	(312)	(5)
Balance at end of the year	877	91

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 2013 – continued

	2013 \$000	2012 \$000
13 RETAINED EARNINGS		
Balance at beginning of the year	167,254	166,430
Net profit for the year	8,624	7,928
Dividend distributions	(8,750)	(7,104)
Balance at end of the year	167,128	167,254
14 TRADE AND OTHER PAYABLES		
Trade payables	3,240	3,568
Due to related parties - other	6,671	6,162
- Dunedin City Holdings Limited	58	58
	9,969	9,788
The Directors consider that the carrying amount of trade payables approximates their fair value. There are no payables past due.		
15 OTHER CURRENT LIABILITIES		
GST payable	238	494
	238	494
16 TERM BORROWINGS (secured)		
Dunedin City Treasury Limited - related party	137,600	131,150
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 \$140.0 million.		
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	137,600	131,150

The weighted average interest rate for the loan inclusive of any current portion, was 6.39% (2012: 6.51%).

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

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 2013:						
Property, plant and equipment	(52,000)	0	(742)	0	(52,742)	(52,742)
Provisions	(1,919)	0	(531)	40	(2,490)	(2,450)
Revaluations of interest rate swaps	0	(344)	0	0	(344)	(344)
Close out of interest rate swaps	0	32	(32)	2	(2)	0
Balance at end of the year	(53,919)	(312)	(1,305)	42	(55,578)	(55,536)
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)

18 CASH AND CASH EQUIVALENTS

	2013 \$000	2012 \$000
Cash and bank	68	29

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 2013 – continued

	2013 \$000	2012 \$000
19 TRADE AND OTHER RECEIVABLES		
Trade receivables	10,867	9,852
Less estimated impairment	(142)	(125)
	10,725	9,727
Due from related parties		
- Dunedin City Council and Group entities	15	24
- other related parties	2	3
	10,742	9,754
The Directors consider that the carrying amount of the trade and other receivables approximates their fair value.		
Past due, but not impaired, receivables are:		
Age analysis:		
30-60 days	52	51
60-90 days	45	21
90 days plus	227	108
	324	180
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.		
21 CASH FLOW HEDGE INSTRUMENTS		
Interest rate swaps revaluations - receivable	1,226	0
	1,226	0
22 INVENTORIES		
Network spare parts	8	8
	8	8

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

23 PROPERTY, PLANT AND EQUIPMENT

	Land \$000	Buildings \$000	Network \$000	Plant and Equipment \$000	Motor Vehicles \$000	Office Equipment \$000	Optical Fibre Network \$000	Construction in Progress \$000	Total \$000
YEAR ENDED 30 JUNE 2013:									
Cost									
Balance at beginning of year	4,490	11,530	414,871	2,172	191	16	4,915	6,135	444,320
Purchases	439	0	13,572	23	0	0	45	4,764	18,843
Disposal	0	0	0	0	0	0	0	0	0
Transfer	0	0	0	0	0	0	0	0	0
Total cost	4,929	11,530	428,443	2,195	191	16	4,960	10,899	463,163
Accumulated depreciation									
Balance at beginning of year	0	1,228	77,665	1,337	42	15	250	0	80,537
Depreciation	0	130	12,242	150	11	1	150	0	12,684
Disposal	0	0	0	0	0	0	0	0	0
Total accumulated depreciation	0	1,358	89,907	1,487	53	16	400	0	93,221
Balance at end of year	4,929	10,172	338,536	708	138	0	4,560	10,899	369,942
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

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 2013 – continued

	2013 \$000	2012 \$000
24 CAPITAL EXPENDITURE COMMITMENTS		
Capital expenditure contracted for at balance date but not provided for in the financial statements	7,758	8,139
25 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/(loss) for the year	8,624	7,928
<i>Items not involving cash flows</i>		
Depreciation	12,684	12,571
Increase/(decrease) in deferred tax	1,617	1,699
Other non-cash items	786	(9)
Increase/(decrease) in cash flow hedge	(1,226)	(258)
<i>Impact of changes in working capital items</i>		
(Increase)/decrease in trade and other receivables	(988)	(45)
(Increase)/decrease in investments	0	0
Increase/(decrease) in trade and other payables	181	858
Increase (decrease) in provision for tax	994	(1,650)
Increase/(decrease) in other current liabilities	(256)	(169)
(Increase)/decrease in inventories	0	3
(Increase)/decrease in inter Company advance	(1,234)	0
<i>Items classified as investing or financing activities</i>		
Capital creditors in accounts payable	(954)	974
Loss/(gain) on disposal of investments	0	0
Loss/(gain) on disposal of property, plant and equipment	0	(95)
Net cash inflows/(outflows) from operating activities	20,228	21,825

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

26 RELATED PARTY TRANSACTIONS

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

TRANSACTIONS WITH DUNEDIN CITY COUNCIL

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

YEAR ENDED 30 JUNE	2013 \$000	2012 \$000
Purchases of goods and services from Dunedin City Holdings Limited:		
Management fees	200	200
Subvention/tax loss offset payment	0	136
	200	336
Purchases of goods and services from Dunedin City Council:		
Rates and property leases	447	412
Capital work	0	0
	447	412
Purchases of goods and services from other Dunedin City Council Group entities:		
Capital work	14,247	12,440
Network management and operation	15,567	15,644
Interest/facility fees	9,034	9,084
Subvention/tax loss offset payments	859	844
Contracting services	1,310	1,354
Management fees	100	100
Accounting, administration and secretarial	257	243
Sundry and consulting	65	61
Lease of meters	42	41
Subvention expense purchased	7,292	7,292
	48,773	47,103

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.

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

	2013 \$000	2012 \$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	144,271	137,312
	144,329	137,370
Sales of services to Dunedin City Council:		
Headworks fees	0	91
Other	40	29
	40	120
Sales of services to Dunedin City Council Group entities:		
Rent	23	26
Service failure penalties	35	67
Other	22	22
Interest received	14	0
	94	115
At period end, the amounts receivable by Aurora Energy Limited from Dunedin City Council group entities are:		
Dunedin City Council	11	3
Other Dunedin City Council Group entities:	2,464	21

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 Pro Chancellor of the University of Otago. In the ordinary course of business during the financial period covered by this report, services valued at \$29,737 were provided to the University of Otago (2012: \$33,385). \$2,239 was outstanding at 30 June 2013 (2012: \$3,433).

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

27 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:

	2013 \$000	2012 \$000
Maturing in less than one year	0	0
Maturing between one and five years	0	0
Maturing after five years	50,000	0
	50,000	0

CREDIT RISK

Credit risk on liquid funds and cash flow hedge instruments is limited through the counterparties 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.

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

27 FINANCIAL INSTRUMENT RISK - continued

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

	2013 \$000	2012 \$000
Cash and cash equivalents	68	29
Trade and other receivables	10,742	9,754
Short term investments	10	10
Inter company advances	1,234	0
	12,054	9,793

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.

COUNTERPARTIES WITH CREDIT RATINGS

Cash and cash equivalents AA-	68	29
Trade and other receivables AA-	11	3
Counterparties without credit ratings		
Trade and other receivables Existing counterparties with no defaults in the past	10,873	9,876
Investment Existing counterparties with no defaults in the past	10	10

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.

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

27 FINANCIAL INSTRUMENT RISK - continued

The following table analyses the exposure of the Company's financial liabilities to liquidity risk as at 30 June 2013:

	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	68	0	0	0	0	0	68
Trade and other receivables	10,742	0	0	0	0	0	10,742
Short term investments	0	0	0	0	0	0	0
Long term investments	0	0	0	0	0	10	10
Inter Company advance	0	0	1,234	0	0	0	1,234
Cash flow hedge	0	0	1,226	0	0	0	1,226
	10,810	0	2,460	0	0	10	13,280
Financial liabilities							
Trade and other payables	9,969	0	0	0	0	0	9,969
Other current liabilities	238	0	0	0	0	0	238
Taxation payable	0	0	1,882	0	0	0	1,882
Cash flow hedge instruments	0	0	0	0	0	0	0
Term borrowings	0	0	0	0	137,600	0	137,600
	10,207	0	1,882	0	137,600	0	149,689

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

	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

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

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 rate movements of plus or minus 1% (100bps) have been used in this analysis.

	Fair Value at Balance Date \$000	+100bps Profit \$000	Equity \$000	-100bps Profit \$000	Equity \$000
Financial liabilities					
Cash flow hedge instruments	1,226	0	1,798	0	(2,023)
Term borrowings (hedged)	0	0	0	0	0
Term borrowings (unhedged)	37,600	(376)	0	376	0
	38,826	(376)	1,798	376	(2,023)

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).

	2013			
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial liabilities				
Derivative financial liabilities	0	1,226	0	1,226

Notes To The Financial Statements

for the year ended 30 June 2013 – continued

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 2013

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 2013, 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 2013; 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 2013.

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 16 September 2013. 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, in our judgement, are likely to influence readers' 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. Also we did not evaluate the security and controls over the electronic publication of the financial statements and statement of service performance.

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 is also responsible for the publication of the financial statements and statement of service performance, whether in printed or electronic form.

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 External Reporting Board.

In addition to the audit we have carried out assurance assignments for the annual compliance statement and information disclosure regulations, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the company.



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.
Stuart J McLauchlan – BCom, FCA (PP), AF.Inst.D.
David J Frow – M.Inst.D., F.IPENZ, B.Sc.Eng (Appointed 25 October 2012)
Dr Ian M Parton – BE (Hons), PhD, Dist.F.IPENZ, F.Inst.D. (Appointed 25 October 2012)
Ross D Liddell (Deputy Chair) – BCom, CA (PP), ACIS, AF.Inst.D. (Resigned 31 October 2012)
Michael O Coburn – FNZIM, AF.Inst.D. (Resigned 31 October 2012)
Dr Norman G Evans – DBA, NZCE, M.Inst.D. (Resigned 31 October 2012)

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 