Annual Report 2014

Aurora

Contents

Highlights

for the year ended 30 June 2014

- Aurora Energy continues to be the main contributor of cash to our shareholder Dunedin City Holdings Limited. This year, we paid equivalent dividends of $10 million
- Total equivalent dividends paid to the shareholder since Aurora Energy's inception are $131.8 million
- Revenue increased by $2.3 million to $92.9 million
- Assets increased in value by 2 per cent to $390.8 million
- Energy received into the network was 1,351 gigawatt hours for the year
- Consumer connections increased by 1% to 84,557
- Revised 10-year asset management plan to increase maintenance and renewal capital on Dunedin network and growth capital for new connections on Central Otago network
- Continued network refurbishment plans, completing the Roxburgh substation rebuild and replacement of 33-kilovolt underground cables in Anderson's Bay, Dunedin
- Replaced 11-kilovolt switchgear at the Queenstown substation, following fire damage
- Commenced major, five-year project to modernise and upgrade our network management, control and communication systems
- Completed conversion of overhead electricity lines to underground cables in Cardrona, Queenstown Lakes for improved look and safety
- Completed pole replacement and vegetation projects in Port Chalmers and Halfway Bush, Dunedin and Omakau, Central Otago

What We Do

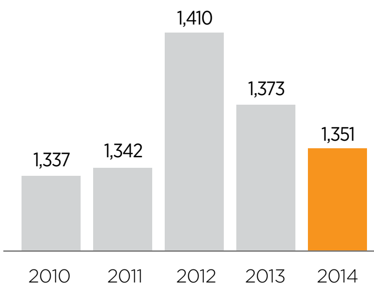
Aurora Energy's principal activities are the ownership and strategic management of electricity distribution network assets in Dunedin and in Central Otago. Our function is to transport electricity from the national grid to the end-use consumer. Customers are local generators and New Zealand's electricity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

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

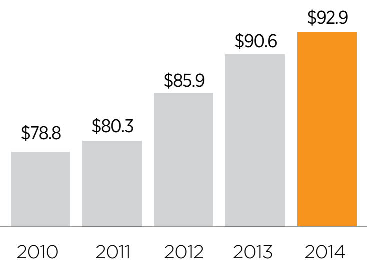
Results At A Glance

Years ended 30 June

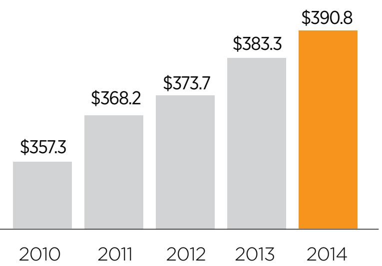
Energy received into network (gigawatt hours)



Total revenue ($m)



Total assets ($m)

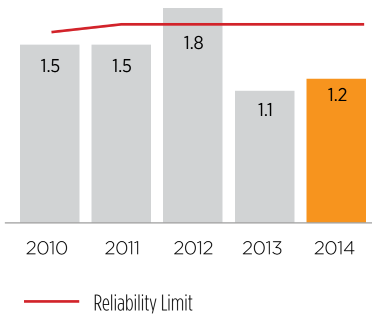


Network Performance

Years ended 31 March

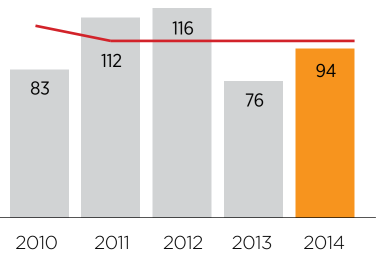
Interruptions

(average faults per annum, SAIFI)



Minutes off

(average per annum, SAIDI)



CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

for the year ended 30 June 2014

Aurora Energy provides the infrastructure to carry electricity from the national grid to homes, schools, farms and businesses in Dunedin, Central Otago and Queenstown Lakes. We invest in long term assets to provide the reliable electricity supply necessary for economic activity and social wellbeing.

Infrastructure networks tend to follow cycles of build and maintenance. Ageing assets are common across the New Zealand electricity supply sector as assets installed in the network builds of the 1950s and 60s near the end of their useful life. The Aurora Energy network is no exception and this year we entered a phase of increased investment and expenditure to replace and upgrade older assets, primarily in Dunedin, and to build new assets to cater for growth in electricity demand, primarily in Central Otago.

2014 FINANCIAL RESULTS

For the financial year ended 30 June 2014 (FY14), total revenue increased by 3 per cent to $92.9 million (FY13: $90.6 million) reflecting a combination of growth in consumer connections and the recovery of higher transmission charges in the fourth quarter, offset by lower energy demand throughout the year.

Trading profit before tax and subvention payments decreased by 6 per cent to $18.0 million (FY13: $19.1 million), and net profit before the after tax value of subvention payments was $12.9 million (FY13: $13.9 million).

Net profit after tax and subvention payments was $7.7 million (FY13: $8.6 million), after a pre-tax subvention payment of $7.3 million (equivalent dividend FY14: $5.3 million, FY13: $5.3 million).

Aurora Energy's financial position remains strong. Total assets increased by 2 per cent to $390.8 million (FY13: $383.3 million). FY14 year-end term borrowings were $138.8 million (FY13: $137.6 million). Capital expenditure increased by 13 per cent to $21.3 million (FY13: $18.8 million).

DIVIDENDS

Aurora Energy paid dividends to its shareholder, Dunedin City Holdings Limited, that were equivalent to $10.0 million for the year under review, $4 million lower than for the previous year (FY13: $14.0 million). Aurora Energy has paid total equivalent dividends of $131.8 million to its shareholder since its inception in 2003.

REGULATORY REVIEW

As an electricity distributor, Aurora Energy operates in a highly regulated environment. The Commerce Commission sets the limits on maximum price and targets and incentives for service quality. The Electricity Authority determines the pricing structure and market rules that electricity distributors must follow in charging consumers for supply.

The Commerce Commission's price-quality path regulation operates in five-year regulatory control periods. During FY14, the Commerce Commission developed the economic models it proposes to use in determining the price limits and quality targets it will apply to the next five-year regulatory period from 1 April 2015. The Commission's draft default price-quality paths were released for consultation in July 2014, and a final determination is scheduled for November 2014.

The draft default price-quality paths have signalled a reduction in the price limit for Aurora Energy of 6.5 per cent that, if confirmed, would see a material reduction in allowable revenue. We will be providing feedback during the consultation phase to ensure that the assumptions used by the Commerce Commission in its modelling adequately account for local circumstances, in particular local demand projections, network age and configuration, and support the transition to the smart grid of the future.

In addition to the regulatory price-quality resets, the Commerce Commission has proposed to amend the way it calculates a normal or expected rate of return on capital for regulated suppliers that, if implemented, would place further downward pressure on Aurora Energy's earnings.

In June 2014, the Commerce Commission notified the outcome of its review of Aurora Energy's breach of network reliability standards in the 2011 and 2012 disclosure years. The Commerce Commission issued a warning, but chose not to seek a penalty, noting that "there was no serious fault on Aurora's part". The two breaches were both triggered by extreme weather events. Aurora Energy has achieved the network reliability standards for each of the two subsequent periods of 2013 and 2014.

Network reliability is a central focus of Aurora Energy's ongoing investment and improvement programmes. The Commission noted our positive response to the report of its engineering advisor and that we had initiated the work streams set out in Aurora Energy's asset management plan, that are aimed at addressing the concerns that were raised.

During the year, the Electricity Authority completed its review of electricity distributors' pricing methodologies. The report highlighted Aurora Energy's pricing methodology as exemplar on the basis that it was a well-structured and well-written methodology, and the material was presented in a logical manner. The Commission made relatively minor suggestions for improvement. We will assess the cost-benefit of those recommendations, recognising that they are based on a degree of economic precision that may be cost-prohibitive to achieve.

The Authority has signalled that it intends to conduct a wider review of distributor contract arrangements in the next one to two years. While specific details were not available at the time of writing, this indicates that the regulatory landscape is continuing to evolve, and hence there is a continuing level of attendant risk and uncertainty for investors.

OPERATING PERFORMANCE

Energy received into the network was 1,351 gigawatt hours during FY14, a 1.6 per cent decrease on FY13. Energy received for delivery decreased by 1.4 per cent to 1,313 gigawatt hours in FY14 (FY13: 1,331). Consumer connections increased by 719 to 84,557 (FY13: 83,838), 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.

Network performance for the disclosure year ended 31 March 2014 (DY14) was within the performance targets set by the Commerce Commission. The lower the actual figures are, the better the performance.

The System Average Interruption Duration Index (SAIDI) measures the average annual outage duration for each consumer supplied. The SAIDI for DY14 was 94.5 minutes, compared with 75.6 minutes for the previous year, and under the performance target of 98.3 minutes (compliance achieved).

The System Average Interruption Frequency Index (SAIFI) measures the average annual number of power interruptions, for each consumer supplied. The SAIFI for DY14 was 1.21, similar to last year's 1.05 and under the target of 1.67 (compliance achieved).

These compliant network reliability outcomes resulted from a combination of normal weather conditions and the positive effect of our investments into line upgrades and vegetation management.

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 FY14, $101,186 was paid to electricity retailers in relation to 1,816 consumers affected by supply interruptions, a significant increase on FY13 during which we paid $34,247 in relation to 646 consumers affected. The increase reflects a return to more normal weather patterns during FY14, following the relatively benign conditions of the preceding year.

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 40 complaints in FY14 and all were handled within the required service levels established by the Commissioner.

NETWORK INVESTMENT

This year, Aurora Energy revised its ten-year asset management plan to increase maintenance and renewal investment on the Dunedin network, and to provide for an increase in the network growth associated with new connections on the Central Otago network. Over the next decade, Aurora Energy is planning to make significant lifecycle asset investments, with $202 million of expenditure projected in the first five years and $156 million in the five years after that. This next phase of asset renewal will address the changing risk profile associated with aged assets and will improve the future consumer experience through enhanced reliability.

The plans include a particular emphasis on preventative maintenance (particularly vegetation control to clear trees away from overhead lines), and condition and age based replacement of substations, poles and underground cables.

In FY14, a total of $5.3 million of overhead line reconstruction and vegetation management work was completed to improve the reliability of the network, primarily in Port Chalmers and Halfway Bush, Dunedin and Omakau, Central Otago.

We invested $21.3 million in capital projects in FY14 including the completion of upgrades to the Roxburgh and Queenstown substations and the replacement of 33-kilovolt underground cables in Anderson's Bay, Dunedin, to future-proof power supply to the surrounding area. We completed

the conversion of overhead electricity lines to underground cables in Cardrona, Wanaka for improved aesthetics and safety.

We began a major, five-year project to modernise and upgrade our network management, control and communication systems. The technology upgrade to our core systems will support future management of the distribution network, upgrade our communications systems, improve outage management and reporting and ensure we have a platform capable of integrating new technologies and the future growth in distributed generation. As part of this project, in FY14 we commenced communications upgrades at the South Dunedin grid exit point and in Cromwell, Central Otago.

SMART GRID

Electricity supply systems are entering the digital age where electricity and data converge. The smart grid is an electricity system that can intelligently integrate the actions of all connected users. It provides a platform for a wide range of future technology developments, including greater use of data, two-way communications, automation, distributed generation, electric vehicle integration and consumer centric technology.

Aurora Energy is involved in the recently established Smart Grid Forum, set up to share information and provide advice about the challenges and opportunities for deployment of a smart grid in New Zealand. The Forum was initiated by the Ministry of Business, Innovation and Employment, with the support of the Electricity Networks Association to bring together relevant parties along the supply chain.

In New Zealand, we are already seeing more two-way power flow with increasing use of distributed generation from solar cells and wind generation. Along with other electricity networks, we face the challenge of maintaining safety and reliability in this changing environment where existing systems are being required to handle new demands.

Future smart technology offers benefits for network management and consumers. New smart metering systems give access to more detailed information on usage or faults, allowing issues to be rectified more quickly and efficiently. Smart grid technologies can provide consumers with access to real-time price information for their electricity use, help integrate new sources of power, and allow the more efficient use of both existing infrastructure and energy.

COMMUNITY SUPPORT

Our main contribution to the community is providing reliable electricity supplies. In addition, we directly support the communities we serve, focusing on the areas of youth, education and culture.

For the ninth year, we continued our support of the Aurora Energy Otago Science and Technology Fair, promoting participation in science and technology by primary and intermediate school students. The 2013 Fair saw more than 320 students compete from 27 schools across the Otago region. Dunedin secondary school student, Meran Campbell-Hood, went on to take out an award from the Royal Society of New Zealand's "Realise a Dream" competition and represent New Zealand at the Youth ANZAAS science forum in Melbourne. We are pleased to create pathways for young Otago students to explore creative thinking and encourage careers in science and technology.

GOVERNANCE

We thank our long standing Chair, Ray Polson, who stepped down from the Board in November. Ray has made a major contribution to the company and to Dunedin in both business and the wider community. Ray can feel rightly proud of his leadership in the development of Aurora Energy, as Chair of its predecessor company Dunedin Electricity Limited from 1994, and in overseeing the expansion into Central Otago in 1999. Dr Ian Parton, who commenced as a non-executive director in October 2012, has been appointed as the new Chair of the Board.

Trevor Kempton joined the Board as a non-executive director in October 2013. Trevor is a professional engineer with 40 years' experience in civil and environmental engineering, project management, construction and business. He was formerly managing director of Naylor Love Construction until his retirement in 2010 and is in his second term as an Otago Regional Councillor.

We note with sadness the recent death of former director Ross Liddell. He joined the Board of the company in October 1994 and served continuously until 2012, during a period of significant growth.

SAFETY AND RISK

Aurora Energy has management control of its high voltage electricity network and, as principal duty holder, has responsibility for the safety of its contractors, public and end-users. In May 2014, the Board constituted a new Health and Safety Committee, which met twice during the year. The Committee has formal terms of reference that are consistent with the Institute of Directors in New Zealand guidelines for health and safety leadership. Aurora Energy has maintained compliance with its public safety obligations under the Electricity Act 1992.

During FY14, we carried out external reviews of the seismic resilience and fire and security arrangements of Aurora Energy's critical assets. The recommendations from these reviews will serve to establish priorities for any works required to bring existing assets up to current building standards for earthquakes and fire, and to comply with the updated specifications for new plant.

Lifeline services, such as telecommunications, transport, water and energy supply are critical to a community's ability to recover from a major natural disaster. Aurora Energy, along with other regional lifeline organisations, participated in the Otago Lifelines project to assess the hazard-related risk of the region's most critical assets and potential mitigation measures to improve community resilience.

The project report identified some areas where the region could improve its effectiveness in response and recovery, including fuel management, helicopter reconnaissance, emergency generator management and communications protocols and systems. A further benefit of this forum has been to strengthen cooperation among the local lifeline organisations with primary responsibility for infrastructure resilience and disaster response.

OUTLOOK

In the short to medium term, we expect overall energy demand to remain stable or increase modestly across the Aurora Energy network. There is a current trend of declining energy use per domestic consumer, however this is being offset to some extent by increasing demand from new irrigation based initiatives.

At the time of writing, the Commerce Commission was in consultation on the default price-quality paths that will apply to the next five-year regulatory period from 1 April 2015. The draft determination proposes a reduction in regulated revenues of 6.5 per cent. The actual position will be known once the Commerce Commission releases its final determination in November 2014.

Aurora Energy's line charges are based on energy demands and the investments required to ensure there is capacity to deliver a reliable energy supply to all consumers. Significantly, the balance of energy and capacity demand growth is markedly different between the Central Otago and Dunedin network areas. In Central Otago, energy demand is growing due to such factors as dairy farm conversions, commercial development in the mainly tourist-related industries and residential subdivisions. In Dunedin, energy demand is stable or declining as a result of relatively static population and economic activity levels.

The company is working to avoid capacity constraints associated with irrigation projects in the Upper Clutha area, where further investment in sub-transmission and zone substation assets is required. Otherwise, capital requirements are dominated by the need for the renewal of aged asset categories, including the overhead distribution network and sub-transmission cables.

Over the next five years, our asset management plan provides for a step-up in both operating and capital expenditures to secure the future reliability of the network for our consumers and the communities we supply. This investment will support the maintenance of current reliability targets, an improvement in the overall asset condition profile and a reduction in network-related risk.

Looking further out, increasing energy efficiency and distributed generation will present a challenge to the conventional pricing models of electricity network businesses, which tend to rely heavily on energy usage as a revenue determinant. In part, these approaches are underpinned by regulation.

Recent analysis has confirmed a sustained downwards trend in standard domestic consumption as a percentage of total energy consumption, a trend that is relatively consistent throughout New Zealand. As we gradually transition to the future smart grid, new technologies and new energy sources have the potential to disrupt the traditional network model and will likely cause a rethink on how the predominantly fixed costs of network operation and ownership are fairly recovered across diverse consumer groups.

Grady Cameron
CHIEF EXECUTIVE

Ian Parton
CHAIRMAN

2 September 2014

TREND STATEMENT

YEARS ENDED 30 JUNE	Note		2014	2013	2012	2011	2010
Energy received into network		GWh	1,351	1,373	1,410	1,342	1,337
Energy received for delivery to consumers		GWh	1,313	1,331	1,350	1,314	1,326
Energy delivery reliability (average time without supply per consumer per annum)		Minutes	123.6	77.5	123.9	131.8	93.2
Total revenue		$000	92,895	90,560	85,922	80,293	78,799
Trading profit before tax (before subvention payments)		$000	18,024	19,077	18,432	18,013	18,828
EBIT/average funds employed			7.1%	7.4%	7.4%	7.3%	7.5%
Tax – current year provision		$000	3,037	3,325	3,169	5,386	4,284
– prior year (over)/under provision		$000	45	(164)	43	(164)	(2,534)
Net profit for the year (before after-tax value of subvention payments)		$000	12,900	13,874	13,178	12,791	16,630
Net profit for the year (after subvention payments)	1	$000	7,650	8,624	7,928	12,791	15,583
Cashflow from operating activities		$000	24,278	20,228	21,825	26,134	24,720
Dividends paid		$000	4,750	8,750	7,104	12,003	13,985
Equivalent dividends (actual dividends plus after-tax value of subvention payments)		$000	10,000	14,000	12,354	12,003	15,032
Shareholder's equity		$000	180,983	178,005	177,345	176,512	175,753
Total assets		$000	390,814	383,272	373,653	368,165	357,332
Capital Expenditure (net)		$000	21,260	18, 841	18,316	22,128	23,246
Return on average equity (before after-tax value of subvention payments)			7.19%	7.81%	7.45%	7.26%	9.50%
Equity to total assets			46%	46%	47%	48%	49%

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 2014

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.

Not All Achieved

	Achieved $000	Target $000
EBITDA (before subvention payments)	40,748	43,429
Net profit (before subvention payments)	12,900	14,898
Shareholder's funds	180,983	182,203
Equivalent dividends	10,000	10,000
Shareholder's funds to total assets	46.3%	45.8%

5 To pursue ownership or management of an additional group of utility assets.

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 and Cardrona Valley.

11 To undertake a review of activities for the purposes of being a good corporate citizen.

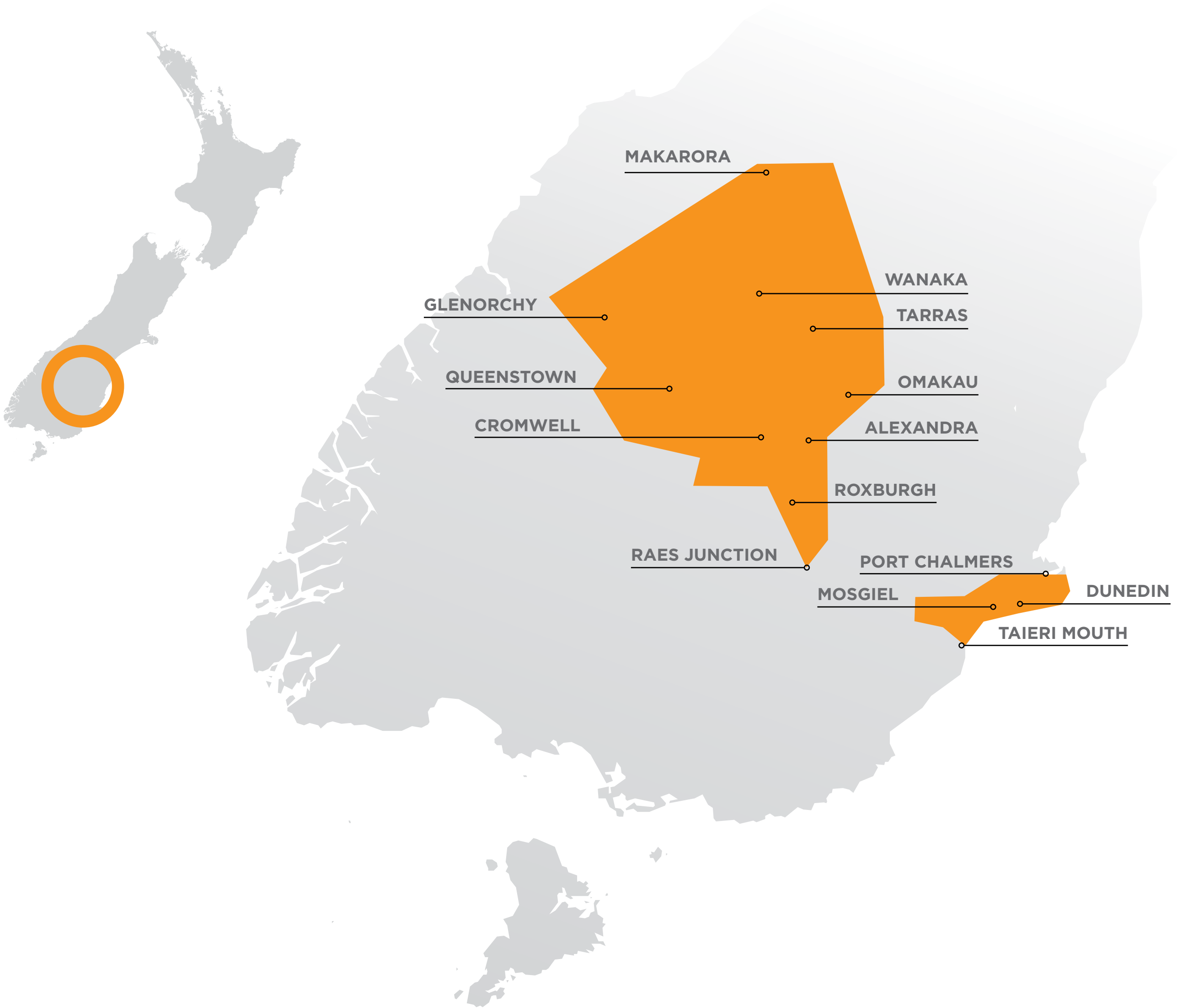
Achieved
The Company continually reviews its activities which include sponsoring cultural and education events and the under-grounding of overhead lines for environmental purposes.

NETWORK OVERVIEW

ELECTRICITY DISTRIBUTION NETWORK AT A GLANCE

for the year ended 31 March 2014

Number of consumer connections	84,362
Energy received for distribution	1,321 gigawatt hours
Capacity of transformers	910 megavolt amperes
Capacity utilisation	31%
Number of zone substations	37
Number of bulk supply points	5
Length of lines and cables	5,796 kilometres



NETWORK PERFORMANCE

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

12 months ended 31 March		2014	2013	2012	2011	2010
System Physical Measures						
Average length of lines and cables	km	5,796	5,543	5,628	5,621	5,600
Average capacity of distribution transformers	MVA	910	897	880	877	868
Distribution transformer capacity utilisation		31%	32%	33%	31%	33%
Consumer Measures						
Number of consumer connections		84,362	83,656	82,908	82,368	81,573
System maximum demand	MW	279	284	290	274	285
Energy received for delivery	GWh	1,321	1,331	1,396	1,340	1,358
Average load factor		54%	53%	55%	55%	54%
Average minutes off per fault	CAIDI	78	69	65(2)	76(1)	56
Average faults per annum	SAIFI	1.2	1.1	1.8	1.5	1.5
Average minutes off per annum	SAIDI	94	76	116(2)	112(1)	83

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 2014

The Directors of Aurora Energy Limited are pleased to report on the financial results and associated matters for the year ended 30 June 2014.

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 2014	$000
Trading profit	18,024
less subvention payment (pre-tax equivalent dividend)	7,292
Operating profit before income tax	10,732
less income tax expense	3,082
Net profit for year	7,650

STATE OF AFFAIRS

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

DIVIDENDS

Total dividends of $4.750 million were declared and paid for the year ended 30 June 2014. 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 $10.000 million paid for the year. Equivalent dividends last year amounted to $14.000 million.

RESERVES

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

	$000
Cash flow hedge reserve - to (from)	78
Retained earnings - to (from)	2,900

DIRECTORS' REPORT

for the year ended 30 June 2014

REVIEW OF OPERATIONS

The Directors are satisfied with the operating results achieved for the year ended 30 June 2014. The net profit before after tax value of subvention payments of $12.900 million (2013: $13.874 million) was a satisfactory result, given the lower energy usage associated with the milder winter during 2013 and above-average temperatures. The after-tax value of subvention payments was $5.250 million (2013: $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 2014 continued at a level in excess of the net profit achieved. Major projects included the completion of Roxburgh and Queenstown substation rebuilds, the 33-kilovolt cable replacement in Anderson's Bay, Dunedin, line renewal work and the commencement of a system control communication and protection upgrade project.

There are signs that economic activity is increasing, particularly in Central Otago and considerable planning is ongoing to identify areas where the network needs to be strengthened. The Company is embarking on a major programme of capital works that is intended to renew and upgrade both primary and secondary network assets over the next few years.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2014 are attached to this report.

DIRECTORS' INTERESTS IN CONTRACTS

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

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

Any significant contracts involving Directors' interests that were entered into during the year ended 30 June 2014 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:

Dr Ian M Parton	$	31,875
Stuart J McLauchlan	$	24,375
David J Frow	$	23,250
Trevor J Kempton	$	13,667
Raymond S Polson	$	14,250
	$	107,417

DIRECTORS' REPORT

for the year ended 30 June 2014

AUDIT AND RISK COMMITTEE

Stuart McLauchlan, Ian Parton, David Frow, Trevor Kempton and Ray Polson were members of the Audit and Risk Committee of the Board during the year. Ray Polson resigned on 1 November 2013. 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.

Crowe Horwath (previously WHK Taylor Limited) continues as internal auditor to the Company. Specific areas for its review were identified and a number of reviews have been completed, with the results reported to the Audit and Risk Committee and the Board. Review of further areas is on-going and progress is satisfactory.

HEALTH AND SAFETY BOARD COMMITTEE

A new Health and Safety Board Committee was established during the year. Its principal responsibility is to review and make recommendations to the Board on the appropriateness and effectiveness of the Company's health and safety strategy, performance and governance.

David Frow, Ian Parton, Stuart McLauchlan and Trevor Kempton were appointed members of the Health and Safety Board Committee on 1 May 2014.

NOMINATION COMMITTEE

A new Nomination Committee of the Board was established during the year. Its principal responsibility is to identify and nominate, for approval by the Shareholder, external candidates to fill board vacancies as they arise.

Ian Parton, David Frow, Stuart McLauchlan and Trevor Kempton were appointed members of the Nomination Committee on 1 May 2014.

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' REPORT

for the year ended 30 June 2014

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 Ray Polson retired as Chairman of the Board with effect from 1 November 2013. The Company acknowledges the substantial contribution made by Mr Polson.

Dr Ian Parton was appointed as the new Chairman of the Board.

Mr Trevor Kempton was appointed to the Board during October 2013 with effect from 1 November 2013. The Company welcomes Mr Kempton.

DIRECTORS' BENEFITS

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

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

EVENTS SUBSEQUENT TO BALANCE DATE

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

Ian Parton
CHAIRMAN

Stuart McLauchlan
DIRECTOR

2 September 2014

INFORMATION ON THE DIRECTORS

Director	Qualifications	Date Appointed	Declarations of Interests
Dr Ian M Parton Non-Executive Chairman	BE (Hons), PhD, Dist.F.IPENZ, F.Inst.D.	October 2012	Chairman – Delta Investments Limited Chairman – Delta Utility Services Limited Director – Auckland Transport Limited Director – Construction Techniques Group Limited Director – Skellerup Holdings Limited Chancellor – University of Auckland
David J Frow Non-Executive Director	B.Sc.Eng, F.IPENZ, F.Inst.D.	October 2012	Chairman – 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 Director and Shareholder – Major Consulting Group 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 – Rosebery Holdings Limited Director – Scenic Circle Hotels Limited and subsidiaries Director – University of Otago Foundation Studies Limited Director – University of Otago Holdings Limited Director – USC Investments Limited Director – XRock Automation Pty Limited Member – Marsh Advisory Board Partner – G S McLauchlan & Co Pro Chancellor – University of Otago Director – Roxdale Foods Limited (resigned 7 April 2014)

INFORMATION ON THE DIRECTORS

Director	Qualifications	Date Appointed	Declarations of Interests
Trevor J Kempton Non-Executive Director	BE (Hons), MIPENZ, FNZIM, M.Inst.D.	November 2013	Director – Delta Utility Services Limited Director – Constructing Excellence (NZ) Limited Director – Long Beach Consulting Limited Director – The Academy of Construction Excellence (NZ) Limited Director – Trevian Properties Limited Councillor – Otago Regional Council Shareholder – Naylor Love Enterprise Group of companies
Raymond S Polson Non-Executive Chairman	BCom, FCA, AF.Inst.D.	October 1994 (Resigned 1 November 2013)	Chairman – Mactodd Chairman – Ophir Gold Limited Director – Lakes Contract Services Limited Director – Luggate Nominee Limited Director – Marsh Advisory Board Director – Otago Power Limited Chairman – Delta Investments Limited (resigned 1 November 2013) Chairman – Delta Utility Services Limited (resigned 1 November 2013)

PHOTO: CARDRONA ALPINE RESORT

FINANCIAL STATEMENTS

for the year ended 30 June 2014

CONTENTS

Statement of Comprehensive Income

for the year ended 30 June 2014

	Note	2014 $000	2013 $000
Operating revenue	3	92,889	90,537
Financial revenue	4	6	23
Total revenue		**92,895**	**90,560**
Less expenses			
Operating expense	5	65,547	62,580
Financial expenses	6	9,324	8,903
Total expenditure		74,871	71,483
Profit before tax and subvention		**18,024**	**19,077**
Subvention payment provided		7,292	7,292
Profit before tax		**10,732**	**11,785**
Income tax expense	9	3,082	3,161
Net profit/(loss) after tax for the year		**7,650**	**8,624**
Other comprehensive income			
Gain/(loss) on cashflow hedges		70	883
Gain/(loss) on terminated cashflow hedges		8	(97)
Total other comprehensive income		78	786
Total comprehensive income		7,728	9,410

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 2014

	Note	2014 $000	2013 $000
Equity at beginning of the year		178,005	177,345
Recognised income and expense			
Total comprehensive income		7,728	9,410
Less distribution to owner	8	4,750	8,750
Equity at end of the year		180,983	178,005

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

Balance Sheet

as at 30 June 2014

	Note	2014 $000	2013 $000
EQUITY			
Share capital	11	10,000	10,000
Cash flow hedge reserve	12	955	877
Retained earnings	13	170,028	167,128
Total equity		180,983	178,005
CURRENT LIABILITIES			
Trade and other payables	14	12,481	9,969
Other current liabilities	15	(68)	238
Taxation payable		1,570	1,882
Total current liabilities		13,983	12,089
NON-CURRENT LIABILITIES			
Term borrowings	16	138,800	137,600
Deferred tax liability	17	57,048	55,578
Total non-current liabilities		195,848	193,178
Total liabilities		209,831	205,267
TOTAL EQUITY AND LIABILITIES		390,814	383,272

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

Balance Sheet

as at 30 June 2014 – continued

	Note	2014 $000	2013 $000
CURRENT ASSETS			
Cash and cash equivalents	18	57	68
Trade and other receivables	19	11,558	10,742
Inventories	22	8	8
Inter Company advances		56	1,234
Cash flow hedge instruments	21	1,323	1,226
Total current assets		13,002	13,278
NON-CURRENT ASSETS			
Investments	20	10	10
Deferred tax asset	17	27	42
Property, plant and equipment	23	377,775	369,942
Total non-current assets		377,812	369,994
TOTAL ASSETS		390,814	383,272

For and on behalf of the Board of Directors

Ian Parton
CHAIRMAN

Stuart McLauchlan
DIRECTOR

2 September 2014

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 2014

	Note	2014 $000	2013 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from			
Receipts from customers		92,130	89,758
Interest and dividends received		6	23
Income tax refund		114	0
		92,250	89,781
Cash was disbursed to			
Payments to suppliers		50,812	50,523
Interest paid		9,296	9,076
Intra group tax loss/subvention payments made		0	859
Income tax paid		188	0
Net GST paid/(received)		(304)	569
Subvention payment		7,292	7,292
Inter Company advance		688	1,234
		67,972	69,553
Net cash inflows/(outflows) from operating activities	25	24,278	20,228
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from			
Sale of property, plant and equipment		26	0
		26	0
Cash was disbursed to			
Purchase of property, plant and equipment		20,765	17,889
		20,765	17,889
Net cash inflows/(outflows) from investing activities		(20,739)	(17,889)

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 2014 – continued

	Note	2014 $000	2013 $000
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from			
Proceeds from borrowings		28,300	36,794
		28,300	36,794
Cash was disbursed to			
Repayment of borrowings		27,100	30,344
Dividends paid		4,750	8,750
		31,850	39,094
Net cash inflows/(outflows) from financing activities		(3,550)	(2,300)
Net increase/(decrease) in cash, cash equivalents and bank overdraft		(11)	39
Cash and cash equivalents at beginning of the year		68	29
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	18	57	68

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 2014

1 REPORTING ENTITY

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

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

The financial statements were authorised for issue by the Directors on 2 September 2014.

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.

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

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 goods and services tax (GST).

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

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

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.

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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, as the below standards introduced or amended did not materially impact the company.

STANDARDS AMENDED OR ISSUED DURING THE YEAR

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

STANDARD	BRIEF OVERVIEW OF EFFECT ON THE COMPANY
Amendments to NZ IAS 1 Presentation of Financial Statements	The amendment is limited to additional disclosure only; it has no impact in the current period or subsequent reporting period on the financial performance or net asset position of the Company.
Amendments to NZ IAS 19 Employee Benefits	The adoption of the amendments has had no impact on the recognition or measurement of financial assets or liabilities, and changes have been limited to additional note disclosure.
NZ IFRS 10 Consolidated Financial Statements was issued	The standard supersedes the consolidation requirements in NZ IAS 27 Consolidated and Separate Financial Statements and NZ SIC-12 Consolidation – Special Purpose Entities. The changes do not result in any change to the mechanics of consolidation and the accounting for any controlling interests and changes in control remains the same.
NZ IFRS 11 Interests in Joint Ventures	The standard supersedes the consolidation requirements in NZ IAS 31 Interests in Joint Ventures. The Directors have reviewed the relationship the Company has with other entities in light of the revised definition of control under this new standard and have not identified additional subsidiaries, joint ventures or associates which had not been previously recognised.
NZ IFRS 13 Fair Value Measurements	The standard establishes a single source of guidance for fair value measurements. The application of the new standard in the current year has not significantly changed the basis for determining the carrying amounts of assets and liabilities measured at fair value.

Notes To The Financial Statements

for the year ended 30 June 2014 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

STANDARD	BRIEF OUTLINE
Amendments to NZ IAS 32 *Offsetting Financial Assets and Financial Liabilities* Adoption date: year ended 30 June 2015	The key change from the amendment is the introduction of additional criterion that must be met to demonstrate that an entity "currently has legally enforceable right to set off the recognised amounts" and that an entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously". The amendment only changed the application guidance. There were no other changes to the standard.
Amendments to NZ IFRS 10, NZ IFRS 11, NZ IFRS 12 and NZ IAS 27 Adoption date: year ended 30 June 2015	The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in NZ IFRS 12 and NZ IAS 27.
Amendments to NZ IFRSs arising from the Annual Improvements Project (2010-2012) Adoption date: year ended 30 June 2015	The following standards have been amended: NZ IFRS 3 – Clarifies the classification requirements for contingent consideration in a business combination by removing all references to NZ IAS 37. NZ IFRS 13 – Amendments to clarify the measurement requirements for those short-term receivables and payables. NZ IAS 16 & NZ IAS 38 – Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts. NZ IAS 24 – Defines a management entity providing Key Management Personnel (KMP) Services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of NZ IAS 24 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be disclosed separately.

Notes To The Financial Statements

for the year ended 30 June 2014 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

STANDARD	BRIEF OUTLINE
Amendments to NZ IFRSs arising from the Annual Improvements Project (2011-2013) Adoption date: year ended 30 June 2015	The following standards have been amended: NZ IFRS 3 – Amends the scope paragraph for the formation of a joint arrangement. NZ IFRS 13 - Clarifies that the portfolio exception in paragraph 52 of NZ IFRS 13 applies to all contracts within the scope of NZ IAS 39 or NZ IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in NZ IAS 32. NZ IAS 40 – Clarifies that judgement is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of NZ IFRS 3 that includes an investment property. That judgement is based on guidance in NZ IFRS 3.
NZ IFRS 9 *Financial Instruments* Adoption date: year ended 30 June 2018	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 and most of Phase 3 has been completed. 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 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.

	2014 $000	2013 $000
3 OPERATING REVENUE		
Sales revenue	91,878	88,683
Avoided transmission constraint and loss revenue	1,011	1,854
	92,889	**90,537**
4 FINANCIAL INCOME		
Interest and dividends received	6	23

Notes To The Financial Statements

for the year ended 30 June 2014 – continued

	2014 $000	2013 $000
5 OTHER EXPENSES		
Included in the operating expenses of the Company are the following items:		
Audit fees		
- for audit of financial statements	38	37
- for audit services in relation to regulatory (information disclosure) reporting		
- current year	18	13
- prior year	20	0
- for audit services in relation to price and quality thresholds and other regulatory reporting	14	32
Total audit fees	90	82
Transmission costs	29,671	30,007
Depreciation	13,039	12,684
Maintenance costs	11,384	8,409
Other contractor costs	842	890
Directors' fees	107	123
Bad debts written off	59	28
Lease expense	88	92
Loss on disposal of plant and equipment	361	0
Increase/(decrease) in provision for doubtful, trade and other receivables	(49)	18

6 FINANCIAL EXPENSES

	2014 $000	2013 $000
Interest - other	1	0
Interest - related parties	9,311	9,035
Interest amortised from cash flow hedge close out	12	(132)
Total financial expenses	9,324	8,903

7 LEASE COMMITMENTS

Non-Cancellable Operating Lease Commitments

	2014 $000	2013 $000
Payable within one year	57	57
Payable between one to five years	51	107
Payable later than five years	87	96
	195	260

Notes To The Financial Statements

for the year ended 30 June 2014 – continued

			2014 $000	2013 $000
8 DIVIDENDS				
Interim dividend	December	$0.300/share ($0.500, 2013)	3,000	5,000
Final dividend	June	$0.175/share ($0.375, 2013)	1,750	3,750
		$0.475 per share for 2014 ($0.875, 2013)	**4,750**	**8,750**

	2014 $000	2013 $000
9 INCOME TAX		
Operating profit before income tax	10,732	11,785
Tax thereon at 28% (2013: 28%)	3,005	3,300
Plus / (Less) the Tax Effect of Differences		
Revenue not liable for taxation	(40)	0
Expenditure (deductible)/non-deductible for taxation purposes	72	25
Under/(over) tax provision in prior years	45	(164)
Tax effect of differences	77	(139)
Tax expense	**3,082**	**3,161**
Represented by		
Current tax provision	1,570	1,954
Deferred tax provision	1,467	1,371
Under/(over) tax provision in prior years	45	(164)
Income tax	3,082	3,161
Effective tax rate	28.7%	26.8%

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 2014 – continued

	2014	2013
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	0.77	0.86

	2014 $000	2013 $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	877	91
Net revaluations	97	1,226
Cash flow hedge closed out	10	(128)
Deferred tax arising on hedges (note 17)	(29)	(312)
Balance at end of the year	955	877

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 2014 – continued

	2014 $000	2013 $000
13 RETAINED EARNINGS		
Balance at beginning of the year	167,128	167,254
Net profit for the year	7,650	8,624
Dividend distributions	(4,750)	(8,750)
Balance at end of the year	170,028	167,128
14 TRADE AND OTHER PAYABLES		
Trade payables	4,808	3,240
Due to related parties - other	7,673	6,671
- Dunedin City Holdings Limited	0	58
	12,481	9,969

The Directors consider that the carrying amount of trade payables approximates their fair value. Creditors and other payables are non-interest bearing and are normally settled on 30-day terms.

	2014 $000	2013 $000
15 OTHER CURRENT LIABILITIES		
GST payable/(receivable)	(68)	238
	(68)	238
16 TERM BORROWINGS (secured)		
Dunedin City Treasury Limited - related party	138,800	137,600

The term borrowings are secured by a General Security Agreement over all the assets of the Company. Currently, the Company has a facility available of $150.0 million.

The repayment periods on the term borrowings are:

	2014 $000	2013 $000
Repayable between one to two years	0	0
Repayable between two to five years	138,800	137,600

The weighted average interest rate for the loan inclusive of any current portion, was 6.59% (2013: 6.39%).

Notes To The Financial Statements

for the year ended 30 June 2014 – 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 2014:						
Property, plant and equipment	(52,742)	0	(559)	0	(53,301)	(53,301)
Provisions	(2,450)	0	(900)	26	(3,376)	(3,350)
Revaluations of interest rate swaps	(344)	(26)	0	0	(370)	(370)
Close out of interest rate swaps	0	(3)	3	1	(1)	0
Balance at end of the year	(55,536)	(29)	(1,456)	27	(57,048)	(57,021)
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)

	2014 $000	2013 $000
18 CASH AND CASH EQUIVALENTS		
Cash and bank	57	68
	57	68

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 2014 – continued

	2014 $000	2013 $000
19 TRADE AND OTHER RECEIVABLES		
Trade receivables	11,643	10,867
Less estimated impairment	(94)	(142)
	11,549	10,725
Due from related parties		
- Dunedin City Council and Group entities	7	15
- other related parties	2	2
	11,558	10,742

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

Past due, but not impaired, receivables are:

		2014 $000	2013 $000
Age analysis:	30-60 days	21	52
	60-90 days	39	45
	90 days plus	204	227
		264	324

20 INVESTMENTS

	2014 $000	2013 $000
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

	2014 $000	2013 $000
Interest rate swaps revaluations - receivable	1,323	1,226
	1,323	1,226

22 INVENTORIES

	2014 $000	2013 $000
Network spare parts	8	8
	8	8

Notes To The Financial Statements

for the year ended 30 June 2014 – continued

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 2014:									
Cost									
Balance at beginning of year	4,929	11,530	428,443	2,195	191	16	4,960	10,899	463,163
Purchases	353	0	20,868	29	0	0	11	0	21,261
Disposals	0	0	(485)	0	0	0	(23)	0	(508)
Transfers	0	0	1,704	0	0	0	0	(1,704)	0
Total cost	5,282	11,530	450,530	2,224	191	16	4,948	9,195	483,916
Accumulated depreciation									
Balance at beginning of year	0	1,358	89,907	1,487	53	16	400	0	93,221
Depreciation	0	130	12,612	136	11	0	151	0	13,040
Disposals	0	0	(118)	0	0	0	(2)	0	(120)
Total accumulated depreciation	0	1,488	102,401	1,623	64	16	549	0	106,141
Balance at end of year	5,282	10,042	348,129	601	127	0	4,399	9,195	377,775
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
Disposals	0	0	0	0	0	0	0	0	0
Transfers	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
Disposals	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

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 2014 – continued

	2014 $000	2013 $000
24 CAPITAL EXPENDITURE COMMITMENTS		
Capital expenditure contracted for at balance date but not provided for in the financial statements	13,513	7,758
	13,513	7,758
25 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/(loss) for the year	7,650	8,624
Items not involving cash flows		
Depreciation	13,039	12,684
Increase/(decrease) in deferred tax	1,485	1,617
Other non-cash items	78	786
Increase/(decrease) in cash flow hedge valuation	(97)	(1,226)
Impact of changes in working capital items		
(Increase)/decrease in trade and other receivables	(816)	(988)
Increase/(decrease) in trade and other payables	2,512	181
Increase (decrease) in provision for tax	(312)	994
Increase/(decrease) in other current liabilities	(306)	(256)
(Increase)/decrease in inter Company advance	1,178	(1,234)
Items classified as investing or financing activities		
Capital creditors in accounts payable	(494)	(954)
Loss/(gain) on disposal of property, plant and equipment	361	0
Net cash inflows/(outflows) from operating activities	24,278	20,228

Notes To The Financial Statements

for the year ended 30 June 2014 – continued

26 RELATED PARTY TRANSACTIONS

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

TRANSACTIONS WITH DUNEDIN CITY COUNCIL

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

YEAR ENDED 30 JUNE	2014 $000	2013 $000
Purchases of goods and services from Dunedin City Holdings Limited:		
Management fees	200	200
	200	200
Purchases of goods and services from Dunedin City Council:		
Rates and property leases	453	447
	453	447
Purchases of goods and services from other Dunedin City Council Group entities:		
Capital work	15,661	14,247
Network management and operation	17,502	15,567
Interest/facility fees	9,311	9,034
Subvention/tax loss offset payments	1,866	859
Contracting services	1,279	1,310
Management fees	100	100
Accounting, administration and secretarial	263	257
Sundry and consulting	77	65
Lease of meters	45	42
Subvention expense purchased	7,292	7,292
	53,396	48,773

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 2014 – continued

	2014 $000	2013 $000
26 RELATED PARTY TRANSACTIONS - continued		
At period end the amounts payable by Aurora to Group entities:		
Dunedin City Holdings Limited	0	58
Other Dunedin City Council Group entities	146,473	144,271
	146,473	144,329
Sales of services to Dunedin City Council:		
Other	40	40
	40	40
Sales of services to Dunedin City Council Group entities:		
Rent	26	23
Service failure penalties	54	35
Other	20	22
Interest received	0	14
	100	94
At period end, the amounts receivable by Aurora Energy Limited from Dunedin City Council Group entities are:		
Dunedin City Council	4	11
Other Dunedin City Council Group entities:	1,382	2,464

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 $23,364 were provided to the University of Otago (2013: $29,737). $2,239 was outstanding at 30 June 2014 (2013: $2,239).

Mr McLauchlan is a Director of Rosebery Holdings Limited. During the financial period covered by this report, services of $24,375 were purchased from Rosebery Holdings Limited (2013: $25,783). No monies were outstanding at 30 June 2014 (2013: nil).

Mr Trevor Kempton is a Councillor on Otago Regional Council. During the financial period covered by this report, services to the value of $23,787 were provided to Otago Regional Council. No monies were outstanding at 30 June 2014.

Mr Kempton is a Director of Long Beach Consulting Limited. During the financial period covered by this report, services of $13,667 were purchased from Long Beach Consulting Limited. No monies were outstanding at 30 June 2014.

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:

	2014 $000	2013 $000
Maturing in less than one year	0	0
Maturing between one and five years	0	0
Maturing after five years	50,000	50,000
	50,000	50,000

CREDIT RISK

Credit risk on liquid funds and cash flow hedge instruments is limited through the 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 2014 – continued

27 FINANCIAL INSTRUMENT RISK - continued

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

	2014 $000	2013 $000
Cash and cash equivalents	57	68
Trade and other receivables	11,558	10,742
Short term investments	10	10
Inter company advances	56	1,234
	11,681	12,054

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

	2014 $000	2013 $000
Cash and cash equivalents		
AA-	57	68
Trade and other receivables		
AA-	4	11
Counterparties without credit ratings		
Trade and other receivables		
Existing counterparties with no defaults in the past	11,648	10,873
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.

27 FINANCIAL INSTRUMENT RISK - continued

The following table analyses the exposure of the Company's financial assets and liabilities to liquidity risk as at 30 June 2014.

Contractual obligations in respect of interest expense on term borrowings, have not been included in the liquidity risk table as the term debt does not have a contractual end date and the interest is currently payable on a month-by-month basis. Details of the term loan balance and effective interest rate are included in note 16.

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

	Maturity Dates Less than 1 Month $000	1 to 3 Months $000	3 Months to 1 Year $000	1 to 5 Years $000	More than 5 Years $000	No Maturity $000	Total $000
Financial assets							
Cash and cash equivalents	57	0	0	0	0	0	57
Trade and other receivables	11,558	0	0	0	0	0	11,558
Long term investments	0	0	0	0	0	10	10
Inter Company advance	0	0	56	0	0	0	56
Cash flow hedge	0	0	1,323	0	0	0	1,323
	11,615	0	1,379	0	0	10	13,004
Financial liabilities							
Trade and other payables	12,481	0	0	0	0	0	12,481
Other current liabilities	(68)	0	0	0	0	0	(68)
Taxation payable	0	0	1,570	0	0	0	1,570
Term borrowings	0	0	0	0	0	138,800	138,800
	12,413	0	1,570	0	0	138,800	152,783

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
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
Term borrowings	0	0	0	0	137,600	0	137,600
	10,207	0	1,882	0	137,600	0	149,689

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	+100bps Equity $000	-100bps Profit $000	-100bps Equity $000
Financial liabilities					
Cash flow hedge instruments	(1,323)	0	1,806	0	(1,991)
Term borrowings (unhedged)	38,800	(388)	0	388	0
	37,477	(388)	1,806	388	(1,991)

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements recognised in the statement of financial position.

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

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

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

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

2014	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial liabilities				
Derivative financial liabilities	0	1,323	0	1,323
	0	1,323	0	1,323

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

Notes To The Financial Statements

for the year ended 30 June 2014 – 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 2014

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 20 to 49, that comprise the balance sheet as at 30 June 2014, 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 9.

Opinion

Financial statements and the statement of service performance

In our opinion:

- the financial statements of the company on pages 20 to 49:
  - 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 2014; and
    - financial performance and cash flows for the year ended on that date;
- the statement of service performance of the company on page 9:
  - 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 2014.

Independent Auditor's Report

AUDITOR'S REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

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 2 September 2014. 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, 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.

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.

Independent Auditor's Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

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.

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

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

David J Frow – B.Sc.Eng, F.IPENZ, F.Inst.D.

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

Trevor J Kempton – BE (Hons), MIPENZ, FNZIM, M.Inst.D.

CHIEF EXECUTIVE

Grady Cameron - BE, MEM, F.IPENZ, M.Inst.D.

COMPANY SECRETARY

Gary G Dixon - BCom, CA

REGISTERED OFFICE

10 Halsey Street
Dunedin
New Zealand

BANKER

Westpac Banking Corporation

SOLICITOR

Gallaway Cook Allan

AUDITOR

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

TAXATION ADVISOR

Deloitte

Aurora