ANNUAL REPORT 2017

Aurora ENERGY

CONTENTS

WANAKA UPGRADE

The lakeside town of Wanaka is increasingly popular as a place to live and visit. To meet the increasing energy demand, now and into the future, Aurora Energy is making capacity improvements to the network. The upgrade will ensure continued reliable electricity supply to all customers and connect supply to new residential housing and businesses.

The project includes building a new substation on the corner of Riverbank and Ballantyne Roads, new underground cabling to connect to the existing Wanaka substation and upgrading the overhead line along Riverbank Road. As part of the upgrade, the overhead power lines along the west side of Riverbank Road between Ballantyne Road and State Highway 6 will be upgraded from 33kV to 66kV (or 33,000 to 66,000 volts) while the existing 16 poles are proposed to be replaced by nine taller poles.

The Wanaka Upgrade is part of Aurora Energy's overall network development programme that will see us invest more than $230 million on major network renewal projects in the Queenstown Lakes and Central Otago regions over the next 10 years to enhance reliability and cater for growth.

WHAT WE DO

Aurora Energy's principal activities are the ownership and strategic management of electricity distribution network assets in Dunedin, Central Otago and Queenstown Lakes. Our function is to transport electricity from the national grid to the end-use consumer. Our role is to ensure the resilience of the network, supplying reliable electricity supply to more than 88,000 homes, farms and businesses through our Central Otago, Dunedin and Queenstown Lakes region. 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.

2017 HIGHLIGHTS

for the year ended 30 June 2017

FINANCIAL

- Total revenue increased by $2.8 million to $102.9 million
- Network operating expenses increased by $8.2 million to $82.7 million
- Equivalent dividends of $1.5 million paid to the shareholder, Dunedin City Holdings Limited
- Assets increased in value by 8 per cent to $472.6 million

NETWORK

- Energy received into the network was 1,441 gigawatt hours for the year
- Customer connections increased by 2 per cent to 88,144
- Network capacity increased by 0.6 per cent to 953 megavolt amperes

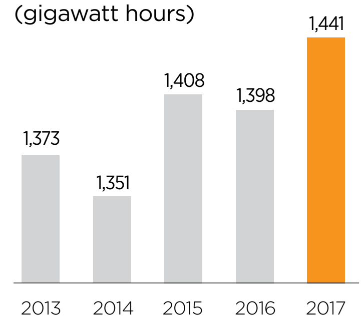
HIGHLIGHTS

- Managed the transition to standalone electricity network company, directly employing asset management and operations functions
- Planned for $721 million in network investment over the next decade in updated long term asset management plan
- Invested $45.2 million in capital projects
- Replaced or newly installed 1,580 power poles, double last year's total
- Initiated Fast Track pole programme and achieved half way milestone
- Completed detailed designs for two major substation projects – a new switching substation in Wanaka and a zone substation at Carisbrook, Dunedin
- Completed next phase of Glenorchy power supply upgrade with installation of a new 33kV line near Queenstown

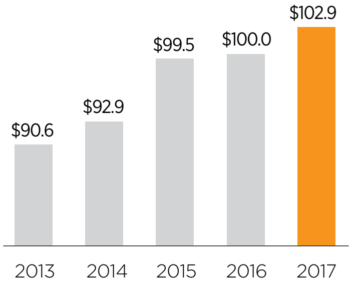
RESULTS AT A GLANCE

Years ended 30 June

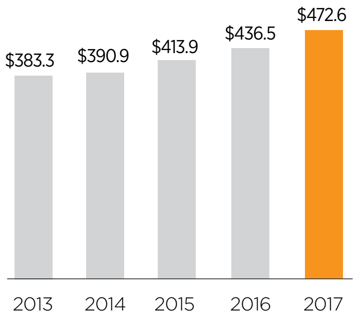
ENERGY RECEIVED INTO NETWORK
(gigawatt hours)



TOTAL REVENUE
($m)



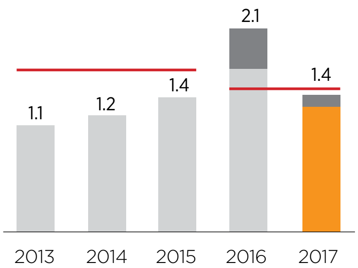
TOTAL ASSETS
($m)



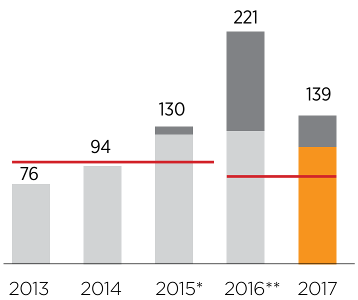
NETWORK PERFORMANCE

Years ended 31 March

INTERRUPTIONS
(average interruptions per consumer per annum, SAIFI)



MINUTES OFF
(average duration per consumer per annum, SAIDI)



KEY

Reliability Limit

minutes off / interruptions attributed to extreme weather events or significant third party damage

* restated after prior period adjustment

** minutes off and reliability limit include 50% de-weighting of planned outages in accordance with regulation

CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

for the year ended 30 June 2017

It was a defining year for Aurora Energy as we made the transition to a standalone organisation, committed to a network investment goal of $721 million over the next decade and accelerated our pole renewal programme.

Aurora Energy is in a major phase of investment to modernise, maintain and expand its network, much of which was built in the 1960s and 70s. In our latest asset management plan, we signalled plans to invest almost three quarters of a billion dollars from 2017-2027 to maintain the distribution network and upgrade substations and transformers, switchgear and other assets.

This year, we achieved a significant uplift in network maintenance and asset renewal, improving the risk profile of our infrastructure assets while catering for future growth in electricity demand.

As we deliver increased levels of network maintenance and asset renewal, these investments exceed the levels at which Aurora Energy is compensated under default price-quality regulation. Aurora Energy has therefore confirmed its intention to apply to the regulator to switch to a customised price-quality path from 2020 to fund future investment. This move will be subject to extensive customer consultation and Commerce Commission approval.


FAST TRACK
Aurora

2017 FINANCIAL RESULTS

For the financial year ended 30 June 2017 (FY17), total revenue increased by 2.8 per cent to $102.9 million (FY16: $100.0 million). The increase reflects a combination of growth in consumer connections and the recovery of higher transmission charges throughout the year.

Trading profit before tax and subvention payments was $11.3 million (FY16: $16.3 million). Transmission costs increased to $36.7 million (FY16: $33.8 million) and network maintenance costs increased to $15.9 million (FY16: $14.0 million) for the year.

Net profit after tax and subvention payments was $7.3 million, up on last year's $6.5 million due to a reduction in subvention payments within the group. The company paid a $1.4 million post-tax subvention to Dunedin Stadium Properties Limited in FY17 compared to a $7.2 million pre-tax subvention payment in the prior year.

Aurora Energy's financial position remains sound as the company continues to plan for further investments into network asset renewals and additions. Capital expenditure during FY17 increased by 21.4 per cent to $45.2 million (FY16: $37.2 million) and FY17 year-end term borrowings increased by 12.3 per cent to $191.4 million (FY16: $170.5 million). The increases in capital expenditure and borrowings reflect the higher level of asset investment signalled in Aurora Energy's ten-year asset management plan.

Total assets increased by 8.3 per cent to $472.6 million (FY16: $436.5 million).

DIVIDENDS

Aurora Energy paid a dividend of $1.5 million to its shareholder, Dunedin City Holdings Limited, for the year under review (FY16 equivalent dividend: $8.2 million).

As a regulated business, Aurora Energy has a responsibility to its customers to provide safe, reliable electricity infrastructure. To maintain a reliable network and cater for growth, we are planning to spend $721 million on the network over the next decade to be funded by increased revenue, increased borrowings, lower profit and reduced dividends. Accordingly, the Board anticipates that no dividend will be paid for the next five years of this reinvestment phase.

The Board assesses that foregoing dividends in favour of network investment is a prudent decision and in the long term interest of the shareholder.

Lindis Crossing Substation

COMPANY REVIEW

In October 2016, concerns were raised in the media regarding the safety of the Aurora Energy network, particularly in relation to pole condition and pole identification systems. Subsequently, our shareholder, Dunedin City Holdings Limited, engaged Deloitte to carry out an independent review.

The Board supported the findings of the independent report that found that the Aurora Energy Board and management were aware of the concerns raised and had been making progress in the five areas where the report recommended change. These include Board diversity, long term planning, organisational structure, asset management planning and health and safety.

Following the shareholder review, Aurora Energy has implemented many of the recommendations made within the report, with other longer term initiatives in progress. On 1 July 2017 Aurora Energy and its sister company, Delta marked the transition to separate businesses. The change gives Aurora Energy dedicated resources and clear focus on our major work streams in relation to the network renewal programme, supporting the achievement of long-term reliability targets.

Separate Boards, Chairs and Chief Executives have been established for each company. We welcomed two new directors, Margaret Devlin and Brenden Hall, appointed by our shareholder Dunedin City Holdings effective 1 July 2017.

Margaret Devlin is a professional director operating predominantly in the infrastructure and service sector. She was previously chair of WEL Networks and is currently a director of City Care, Waikato Regional Airport and Watercare Services, among others. Brenden Hall is a professional director and business advisor with over 25 years of experience across multiple industries including electricity, information technology and agricultural export. He is a director of ETEL, Unison Networks and Unison Fibre.

The appointments bring the Aurora Energy Board to the full complement of directors: Stephen Thompson (Chair), Margaret Devlin, Dave Frow and Brenden Hall, following the retirements of former Chair, Dr Ian Parton and Stuart McLauchlan in December 2016, and Trevor Kempton and Brian Wood in June 2017.

Dr Parton joined the Board in October 2012 and was appointed Chair of both Aurora Energy and Delta in November 2013. Stuart McLauchlan joined the Boards of Aurora Energy and Delta in June 2007, and also served as Chair of the Audit & Risk sub-committees of each company.

We would like to thank both Dr Parton and Mr McLauchlan for their significant contributions over the last five and ten years respectively.

More recently, Trevor Kempton and Brian Wood retired as directors of Aurora Energy. Both were re-appointed to the Delta Board. Mr Wood was appointed the new Chair of Delta in July 2017.

We would also like to thank Mr Kempton and Mr Wood for their contributions to the Board of Aurora Energy.

Effective 1 July 2017 Grady Cameron was appointed Aurora Energy chief executive to provide continuity during the transition to the new company structure and oversee the completion of the accelerated pole programme to December 2017.

Aurora Energy now directly employs its own asset management, engineering, network operation and corporate services functions, and is contracted to provide shared services support to Delta for another year. Around 100 staff transferred from Delta to Aurora Energy on 1 July 2017.

Delta continues to provide Aurora Energy's core maintenance and faults response services under a commercial contract.

INVESTING FOR THE FUTURE

Aurora Energy's role is to provide safe, reliable electricity supply to power the communities of Dunedin, Central Otago and Queenstown Lakes.

In our 2017 Asset Management Plan, we outlined plans for a large-scale asset renewal programme over the next decade to ensure network safety and reliability, modernise infrastructure and cater for long-term growth.

Many of Aurora Energy's network assets date back more than fifty years and the revised programme will see these ageing assets upgraded and replaced with modern, more resilient equipment.

Over the next ten years, Aurora Energy plans to invest $721 million in maintaining its distribution network and in capital upgrades to substations and transformers, switchgear and other network assets. The total planned expenditure, represents an increase of $304 million in forecast expenditure during the decade.

Total planned expenditure is allocated to asset renewal ($347 million capital expenditure), maintenance ($192 million operating expenditure), growth and security of supply projects ($81 million capital expenditure) plus $101 million capital expenditure primarily on new consumer connections and safety and reliability (see opposite page).

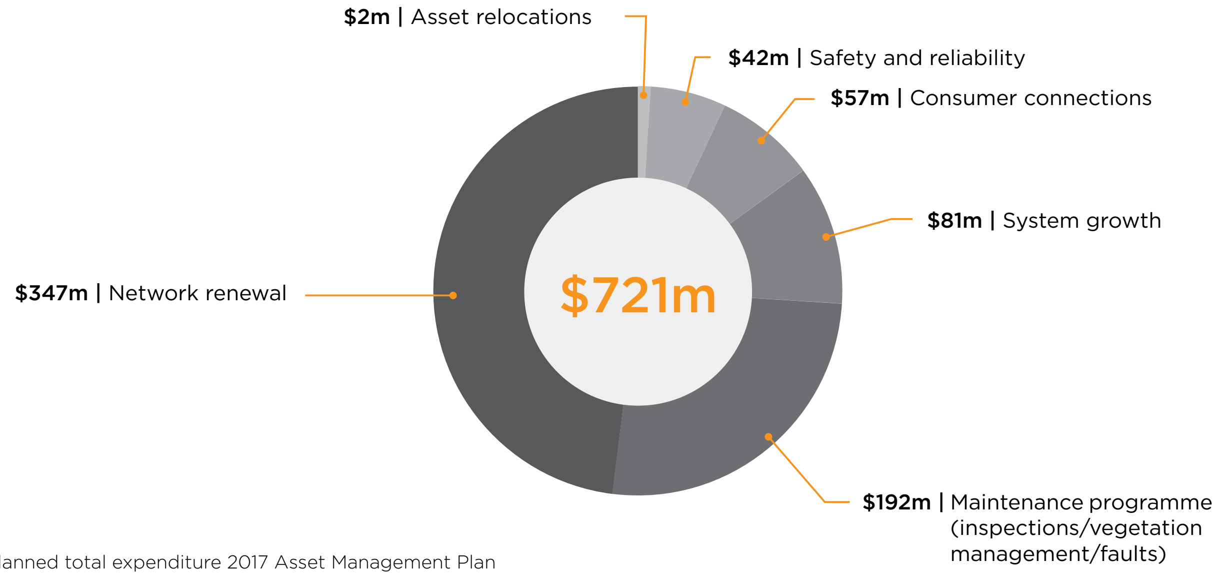
The largest allocation of funds, earmarked for asset renewal, includes upgrades to a total of 14,000 poles, replacement of ageing subtransmission cables and an upgrade of overhead lines. Other major projects include a new substation at Carisbrook, which will replace the 60-year-old Neville Street substation by 2019 and a new Wanaka substation on Riverbank Road, Wanaka planned for 2018.

An additional $81 million is planned on growth and security of supply projects to support the region over the next ten years. Substantial investment is needed to cater for accelerating residential and commercial development, particularly in the Queenstown Lakes District.

It is an extensive work programme and will benefit the community through ensuring future reliability and capacity, with significant spill-over economic benefits as more staff and contractors are employed on infrastructure upgrades and maintenance.

THE NUMBERS AT A GLANCE

2017-2027*



* Planned total expenditure 2017 Asset Management Plan

With an increased work programme comes an unavoidable increase in planned outages to ensure the safety of workers and the public. Aurora Energy will continue to be above existing regulated reliability thresholds for a time, with the end result an improved, modernised network.

The investment required and the impact of planned outages on reliability have already moved Aurora Energy outside the provisions of the current default price-quality path. In May, we confirmed that we would apply to the industry regulator, the Commerce Commission, to switch to a customised price-quality path (CPP) from 2020 to fund the future investment in the network and accommodate the impact of an increase in planned outages during the rebuild phase.

The outcome of that application will determine Aurora Energy's expenditure envelope for the period 2020-2025 and have a direct bearing on our ability to make planned improvements in network safety and customer quality.

Aurora Energy is one of 16 New Zealand network companies subject to price-quality regulation. Aurora Energy's charges remain among the lowest in the country while its reliability performance over the past decade has been well ahead of the national average.

The application process is expected to take three years with any price change not coming into effect until the next regulatory pricing period starting 1 April 2020. The Commerce Commission sets pricing for electricity networks like Aurora Energy and any change to the default pricing can only occur with its approval and once it has completed its independent audit, verification and evaluation processes and following consultation with electricity customers on the Aurora Energy network.

Aurora Energy plans to submit its application to the Commission in early 2019, following a period of consultation with Otago electricity consumers. If accepted by the regulator, Aurora Energy would move to a customised pricing approach from April 2020. The application would also seek an increase in the reliability thresholds so that Aurora Energy can carry out the work required without being penalised for planned power outages required to protect its workers and the public.

While Aurora Energy will apply for an increase in the distribution line charge component of customers' electricity bills, the likely price impacts cannot be quantified until detailed modelling has been completed. As distribution costs make up only around a quarter of the total power bill, any future price increase in line charges would affect that smaller proportion of what customers pay, assuming retailers pass on any changes to line charges.

REGULATORY REVIEW

Electricity distribution businesses such as Aurora Energy operate within a regulatory framework administered by the Commerce Commission in relation to pricing and service quality, the Electricity Authority in relation to pricing structure and market operation and the Energy Safety Service in relation to network safety.

As outlined above, Aurora Energy's current and future investment path has moved beyond the operating allowances set by the Commerce Commission when it established our five-year price-quality path in November 2014. These default settings are based on the performance of the network in the past, assume that the past will be repeated into the future, and are therefore not sustainable during a major renewal phase requiring an increase in investment and in planned outages to carry out work.

That is why we intend to apply to switch to customised settings that would better reflect the demands of renewing the network, starting from the next regulatory period in 2020. Until then, our current and planned levels of investment in maintenance and asset renewals will continue to exceed the allowances that are built into our regulated revenues. Similarly, the increase in planned work and in de-energised work, combined with extreme weather events, will continue to test historic reliability limits.

The challenge presented by the quality standards of the regulatory framework was evidenced in Aurora Energy's inability to meet those standards for the 2015 and 2016 regulatory years. The Commerce Commission, as it is required to do, has opened an investigation into our non-compliance with the quality standards and issued in March 2017 an extensive notice to provide information under Section 98 of the Commerce Act 1986. We have complied with that notice, and await the Commission's response.

In October 2016, the Commerce Commission concluded its investigation into whether Aurora Energy had breached section 36 of the Commerce Act 1986 by restricting all new and amended irrigation work on the Cromwell and Clyde grid exit points to its sister company Delta. The temporary measure, in place from 2013 until it was progressively withdrawn by May 2016, delivered the right outcome by allowing Aurora Energy to plan its network upgrades and investments and deliver services at the lowest overall cost to all customers. Importantly, we were able to avoid the costs of new connections being placed unfairly onto existing customers. After review, the Commission decided not to take any action, nor issue a warning and provided a compliance advice letter in resolution of the matter.

During the period, the Commerce Commission continued its substantive review of the input methodologies - the upfront regulatory methodologies, rules, processes, requirements and evaluation criteria that apply to regulated businesses. They include consideration of risk allocation mechanisms, the operation and cost effectiveness of customised and default price paths, the cost of capital, the treatment of emerging technologies, related party transactions and consumer engagement. The Commission's

final decisions, released in December 2016, generally reflected the incremental improvements signalled in its draft decisions released in June 2016. The Commerce Commission carved out the input methodologies addressing the valuation of capital expenditure undertaken by related parties, and these will be considered separately, in conjunction with similar provisions for valuing operational expenditure that are specified within information disclosure requirements. Consultation on an amended valuation regime for related party transactions is expected in September 2017.

The Electricity Authority continued its programme of work related to distribution pricing, transmission pricing and contract review during the year. In October 2016, the Authority wrote to all distributors requesting that they publish a roadmap toward more cost-reflective pricing. We published our roadmap as part of our pricing methodology in March 2017, and while we are at the early stages of development, we recognise the importance of cost-reflective pricing, as emerging technologies change the way that customers make use of their electricity connections. Also during the year, the Authority continued its deliberations on implementing a default distribution agreement as a fall-back to negotiated use-of-system agreements. With 17 electricity retailers actively trading across our network, and nearly half of those having signed use-of-system agreements since January 2015, we disagree with the Authority that current contractual arrangements are having an effect on the intensity of retail competition, and believe that the Authority's problem statement lacks evidence.

In December, the Electricity Authority finalised its review of distributed generation pricing principles and decided to change the eligibility for avoided costs of transmission payments from distributors. These are the regulated payments from distributors to local power generators intended to recognise that some generators can limit or defer investments in transmission investments.

The change comes into effect on 1 April 2018 for lower South Island distributors. The Electricity Authority's decision has created a misalignment of the separate regulatory frameworks administered by the Authority and the Commerce Commission. A possible outcome is that in the absence of either regulated, or contract-based, relief, some electricity distributors may be left with an obligation to pay avoided costs of transmission to larger distributed generators without the ability to recover those payments in their use-of-system prices. We are comfortable with Aurora Energy's contractual provisions, however along with the other affected distributors – we are working with the Electricity Networks' Association to engage with the regulators over our concerns that some distributors, having never gained any benefit from avoided transmission transactions and having only acted as an intermediary, may now face the perverse outcome of being burdened with the obligation.

OPERATING PERFORMANCE

Energy received for delivery was 1,390 gigawatt hours in FY17, a 1.8 per cent increase on FY16 (1,365 gigawatt hours). Consumer connections increased by 1,522 to 88,144 (FY16: 86,622), off the back of a 3.5 per cent growth in new residential and commercial connections in Central Otago. Consumer connections in Dunedin increased by 0.5 per cent.

For the past decade, Aurora Energy's network assets have been managed and maintained by our sister company, Delta Utility Services Limited under an asset services agreement that expired in June 2017. Following the separation of the two companies and the transfer of asset management and operations functions to Aurora Energy on 1 July 2017, an interim agreement was put in place for FY18 for Delta to provide core maintenance and fault response services. We plan to confirm a new, longer term arrangement with Delta for ongoing services with increased contestability during FY18.

In 2015 and 2016 Aurora Energy breached its regulated quality thresholds.. As the limits were exceeded in consecutive years, the Commerce Commission has initiated an investigation into the underlying reasons for breaches. At the time of writing, the Commission had not concluded that review. We believe the number and duration of outages on our network is not unusual, especially given its age and the challenges we face from the weather. Our network reliability is similar to comparable networks in New Zealand. For the regulatory year ended 31 March 2017, we achieved 99.97% reliability of electricity supply to our customers.

Certainly, one of the unavoidable consequences of the necessary network renewal programme is an increase in planned outages where a risk-based approach results in greater use of de-energised work to safely carry out improvements. Reliability limits based on historical performance remain very challenging to achieve when networks enter a major renewal phase and Aurora Energy's recent performance against regulatory targets reflects this.

The System Average Interruption Duration Index (SAIDI) measures the average annual outage duration for each consumer supplied. The normalised SAIDI for the regulatory year ended 31 March 2017 was 109 minutes, compared with 129 minutes for the previous year and exceeding the performance target of 83.4 minutes (compliance not achieved). One-off events had a significant impact on reliability, responsible for 30 SAIDI minutes. These included a logging contractor felling a tree across high voltage lines in Dunedin, snow-related outages in October affecting Arrowtown and Glenorchy and a fire at Rat Point, Lake Wakatipu in January.

The System Average Interruption Frequency Index (SAIFI) measures the average annual number of power interruptions, for each consumer supplied. The normalised SAIFI for the regulatory year ended 31 March 2017 was 1.52, compared to 1.74 last year and above the target of 1.49 (compliance not achieved).

We compensate consumers who are affected by delays in restoring electricity supply following an extended outage. Under our supply agreements with electricity retailers, we are required to pay compensation where the delay is a result of factors within Aurora Energy's reasonable control. In FY17, $252,408 was paid to electricity retailers in relation to 3,536 consumers affected by supply interruptions, an increase on FY16 during which we paid $96,199 in relation to 1,294 consumers affected. Extreme weather events and third party damage contributed to the greater number of extended outages.

Aurora Energy is a member of the Utilities Disputes Limited scheme (previously the Electricity and Gas Complaints Commissioner) that provides a free and independent resolution service for electricity customers. We received 98 complaints in FY17 compared to 63 last year, reflecting the customer impact of our increased work programme.

NETWORK INVESTMENT

The last three years have seen an uplift in capital expenditure on asset renewal, network management systems upgrades and additional capacity to cater for growth.

In FY17, we invested $45.2 million in capital projects, an $8.0 million or 21 per cent increase on the prior period. Major project milestones included the halfway mark of the Fast Track pole programme and completing the design phases for new substations at Riverbank Road, Wanaka and Carisbrook, Dunedin.

The company accelerated the rate of its ongoing pole programme using both existing and external resources. In total, 1,580 power poles were replaced or newly installed on the Aurora Energy network, double the total achieved last year.

In November, Aurora Energy initiated a dedicated Fast Track pole programme to remove the risk of 2,910 identified power poles by December 2017. The Board approved an additional $26 million in capital expenditure to a total of $30.25 million to fund the programme in FY17 and FY18. The programme made significant progress using the detailed process and methodology agreed with WorkSafe NZ. By the end of FY17, we had completed 1,600 poles across the network, by replacing or repairing the pole, or confirming that the pole was serviceable after reassessment by an independently verified method. With up to an additional 20 crews working across the region, we remain on track to complete the remainder of the identified poles by December 2017.

Initial site preparation and detailed designs were completed for a new zone substation in South Dunedin for supply to more than 18,500 homes and businesses. The new Carisbrook substation will replace the existing Neville Street substation which dates back to the 1950s and is the oldest substation still in use on the network. The first stage of project construction started in late June with the installation of two kilometres of new cross-linked polyethylene cables to supply Carisbrook substation from the South Dunedin grid exit point. The

Neville Street Substation 6.6kV switchgear

new Carisbrook substation is due to be commissioned by mid-2018 and will cater for increasing levels of electricity demand, enhance network reliability, minimise failure risks of the older station and improve modern functionality and safety features.

Plans for a new switching substation at Riverbank Road in Wanaka and associated high voltage powerline upgrade were also developed to the detailed design stage (see inside front cover).

The next phase of the multi-year project to upgrade the supply to Glenorchy, beside Lake Wakatipu was completed with the installation of a section of 33kV (or 33,000 volts) overhead line in Sunshine Bay, Queenstown. The upgrade of the Outram zone substation also commenced, with initial design work underway. The two 1950s transformers there will be replaced by a single, larger capacity 7.5 MVA (megavolt ampere) transformer and mobile substation parking bay.

Keeping vegetation away from power lines is an ongoing maintenance task that reduces the likelihood of unplanned outages and reduces the risk to public safety. Vegetation was cleared away from a length of 39 kilometres of power lines in FY17, an increase on last year's 30 kilometres.

In FY16, the Dunedin network was changed over to a modern advanced distribution management system that has enabled further safety improvements in network control operations during the year. Specifically, automated switching processes have been introduced for the Dunedin network that increase safety controls and decrease the risk of errors.

CUSTOMER AND COMMUNITY

Photo credit: Ray Tiddy Photography

We are proud to support the communities we serve by providing energy infrastructure and by helping local initiatives across youth, technology, the arts and conservation.

At a minimum, electricity customers expect timely information about power outages from their network. Our increased programme of network renewal has an unavoidable impact on customer's power supply. In FY17 we initiated a customer service project to improve our customer focus and responsiveness. We have taken a greater responsibility for direct communications with customers about outages to deliver the level of service that customers expect.

Customer service initiatives during the year included setting up a dedicated customer services team to respond to public enquiries about their power supply, launching planned outage information on the Aurora Energy website, establishing a social media presence with outage information and safety tips, and establishing a dedicated Aurora Energy freephone number for network enquiries. We also publish planned outages each week in the regional newspaper. While factors beyond our control can always arise, once a planned outage is notified, we then make every effort to proceed with the work as customers will have put plans in place.

These actions are the first steps in an ongoing programme to improve how we communicate with customers and to enable customers to communicate with us in the way they prefer.

The biennial Festival of Colour brings artistic and cultural flair from around New Zealand and the world to the Wanaka and Queenstown Lakes communities. In 2017, Aurora Energy was again a major sponsor of the festival, which showcased over 50 performances across nine venues. Opening night saw bonfires, street theatre, and school workshops for the lakeside communities. Every year, the event attracts many keen observers with more than 10,000 tickets sold during the 2017 Festival. Aurora Energy was pleased to support the seventh Festival of Colour in bringing performances to Otago audiences to inspire and delight.

Aurora Energy is proud to continue its longstanding relationship with the Aurora Energy Otago Science and Technology Fair, now in our twelfth year as primary sponsor. The Fair encourages students from across Otago to stretch their horizons of enquiry into topics of science and technology. The 2016 Fair saw more than 300 students from 24 schools in Otago enter high quality projects based on their ideas and researches. The Aurora Energy Premier Award for Best in Fair 2016 went to a Year 7 Balmacewen Intermediate student Aaron Nelson for his project on a robotic automatic table setter.

In November 2016, we partnered the Department of Conservation to address the risk to the rare kārearea, or New Zealand falcon, from un-insulated overhead power structures. The face of our $20 dollar note, kārearea are found in the Queenstown Lakes and Central Otago areas of the Aurora Energy network. They encounter a range of threats from human activity, introduced predators and loss of habitat. During 2017, we tested falcon safe network designs intended to reduce the risk of falcon electrocution when they land or perch on power poles. Our findings were shared with the industry at the 2017 Electricity Engineers' Association conference and are being progressively incorporated into network standards across all regions.

SAFETY AND RISK

Electricity distribution is an essential service with associated critical risks. Aurora Energy is committed to a strong health and safety culture and management systems. During FY17 we developed and began implementing a new, five year strategic plan and annual health and safety plan. These initiatives will run in parallel with the Aurora Energy asset management plan and will be subject to an annual review process to ensure they are meeting the desired outcomes. The Board of Directors' Health and Safety Committee met three times during the year.

As the principal duty holder and Person Conducting a Business or Undertaking (PCBU), Aurora Energy has adopted a risk-based approach. Key areas of focus include operating standards, contractor management, risk-based reviews, employee engagement, accountability matrices, and enhancing employee capabilities. When an incident occurs, Aurora Energy follows a robust investigation process that is designed to identify the root cause and corrective actions and that encourages input from employees, contractors and the public.

During FY17 Aurora Energy complied with its public safety obligations under the Electricity Act 1992, maintaining a public safety management system in accordance with the Electricity Safety Regulations (2010). The intent of the system is to prevent serious harm to any members of the public or significant damage to their property. From 1 July 2017, Aurora Energy will facilitate all future re-certifications to New Zealand Standard 7901:2008.

Our electricity network covers a wide geographic area and the community lives, works and plays near those assets. Our planned public safety campaign launched in 2016 with the objective of increasing public awareness of safety around electricity. A newspaper and online advertising campaign promoted a series of targeted safety messages on keeping safe around the network during summer, DIY householder safety around overhead power lines, contractor safety when digging near underground cables, and, being prepared for power outages. Our safety information guide for those working on or near the network was updated.

Following concerns raised in the media, the Energy Safety Service of WorkSafe carried out an audit of network safety. Aurora Energy received its report in March and by 31 July 2017 we had rectified 24 of the 27 items identified, including pole replacements, minor repairs and pole re-inspections, where the poles were re-tested and assessed as serviceable. The remaining three items are programmed for completion.

Energy Safety also issued a Work Instruction at the commencement of the Fast Track pole programme. A detailed process and methodology was agreed with WorkSafe NZ to ensure that the risks related to the accelerated programme are adequately managed, particularly the safety of external contractors and the public.

As we operate essential infrastructure, Aurora Energy's resilience and interaction with other emergency response agencies are critical in the event of a major natural disaster. In preparation, we participated in a civil defence workshop held in Dunedin and continued to be an active member of the Otago Civil Defence Emergency Management Group Lifelines Steering Committee.

NEW TECHNOLOGIES

LIGHT ELECTRIC VEHICLES IN OTAGO

Otago is second only to Auckland in the uptake of 100% electric vehicles per 1,000 people.

Globally, the electricity market is being reinvented, as technology and innovation change how electricity is generated, supplied and consumed. Changing consumer demands and the emergence of new technologies and new energy sources such as local solar and wind generation and grid-connected battery storage are challenging all participants in the energy sector to re-evaluate their future investment decisions, the regulatory framework and customer relationships.

The preferences of electricity users are also driving change, through an expectation of greater choice, real time interaction, always-on connectivity, better reliability and security. Our role is to find ways to accommodate the changing demands on our electricity infrastructure from both consumers and new technologies.

In February 2016, we connected the first public fast charger for electric vehicles in the South Island to support the uptake of electric transport in Otago. Since then the number of electric vehicles in Otago has increased from 53 to 225 by July 2017. We were also pleased to see the public charging network expand in the region as other providers installed a fast charger in Alexandra and a standard charger in Dunedin.

As part of Drive Electric Week 2017,
135 electric vehicles gather in Dunedin.
Photo: Michael Henríquez.

OUTLOOK

The outlook for energy demand on the network is expected to continue the regional trends observed in prior years. Energy demand in Dunedin is expected to remain steady or decline due to a stable population combined with gains in energy efficiency. Energy demand in Central Otago and Queenstown Lakes is expected to continue to grow in line with increasing resident and visitor population and economic activity.

Financial projections illustrate the near term challenges to profitability. Regulated revenues are expected to remain relatively constant until April 2020, while forecast operating expenditure and capital investment are set to increase markedly. We appreciate the commitment of our shareholder to making the necessary reinvestment that will reduce risk from the ageing network and maintain reliable electricity supplies into the future.

We have signalled that the planned increased network programme will require funding from a combination of increased revenue, lower profit, increased borrowings and suspending dividend payments. For periods beyond the end of the current regulatory period, the outcome of our application to the Commerce Commission for a customised price quality path will be critical to future company performance.

The company has undergone a significant transformation in a short period of time that will prepare it well to meet the challenges of a major phase of network renewal, adapt to regulatory change and embrace the potential of new technologies.

The Board thanks staff for their tolerance during a period of significant change, their contribution to ensuring the transition was successful and their positive contribution throughout the year.

From 1 July 2017, Aurora Energy has its own Board, leadership team and around 100 employees with a shared focus on delivering safe, reliable energy infrastructure for our customers and the community now and into the future.

Stephen Thompson
CHAIRMAN

Grady Cameron
CHIEF EXECUTIVE

7 September 2017

TREND STATEMENT

YEARS ENDED 30 JUNE	Note		2017	2016	2015	2014	2013
Energy received into network		GWh	1,441	1,398	1,408	1,351	1,373
Energy received for delivery to consumers		GWh	1,390	1,365	1,361	1,313	1,331
Energy delivery reliability (average time without supply per consumer per annum)		Minutes	**227.0**	**235.0**	**137.3**	**123.6**	**77.5**
Total revenue		$000	**102,868**	**100,032**	**99,462**	**92,895**	**90,560**
Trading profit before tax (before subvention payments)		$000	**11,278**	**16,262**	**18,420**	**18,024**	**19,077**
EBIT/average funds employed			**4.5%**	**6.0%**	**6.9%**	**7.1%**	**7.4%**
Tax – current year provision		$000	2,185	2,519	3,132	3,037	3,325
– prior year (over)/under provision		$000	387	(12)	(180)	45	(164)
Net profit for the year (before after-tax value of subvention payments)		$000	**7,294**	**11,713**	**13,426**	**12,900**	**13,874**
Net profit for the year (after subvention payments)	1	$000	**7,294**	**6,463**	**8,176**	**7,650**	**8,624**
Cash flow from operating activities		$000	20,981	23,286	20,392	24,278	20,228
Dividends paid		$000	1,500	3,000	4,750	4,750	8,750
Equivalent dividends (actual dividends plus after-tax value of subvention payments)		$000	**1,500**	**8,250**	**10,000**	**10,000**	**14,000**
Shareholder's equity		$000	190,432	183,648	182,550	180,983	178,005
Total assets		$000	**472,619**	**436,452**	**413,855**	**390,882**	**383,272**
Capital expenditure (net)		$000	**45,152**	**37,196**	**35,421**	**21,260**	**18,841**
Return on average equity (before after-tax value of subvention payments)			3.9%	6.4%	7.4%	7.2%	7.8%
Equity to total assets			40.3%	42.1%	44.1%	46.3%	46.4%

NOTE:

1 Aurora Energy Limited is part of the Dunedin City Holdings group of companies. In the years ended 30 June 2013 to 2016, Aurora Energy Limited made pre-tax subvention payments to companies within the Dunedin City Council group of companies, which had the effect of reducing the net profit for the year. In the year ended 30 June 2017, Aurora Energy made a post-tax subvention of $1.4 million which had no net effect on the company's profit for the year.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2017

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
GENERAL OBJECTIVES			
• The Statement of Intent (SOI) will be submitted to and approved by Dunedin City Holdings Limited (DCHL), ensuring consistency across the DCHL Group.	30 June 2016	Achieved	The Statement of Intent for the 2017 financial year was submitted to and accepted by DCHL prior to 30 June 2016.
• Bring to the attention of the Shareholder any strategic or operational matters where there may be a conflict between the Council's community outcomes and those of the Company.	No unnotified potential conflict	Achieved	Issues of potential strategic or operational conflicts were notified to the Shareholder.
• Keep the Shareholder informed of all substantive matters.	All substantive matters reported within 24 hours	Achieved	All substantive mattes were reported to the Shareholder within 24 hours.
• Promote economic development by providing essential electricity infrastructure to support the Council's strategy to be one of the worlds great small cities.	Refer to Safety and Network Reliability targets following	Not achieved	While safety targets were achieved some Network Reliability targets were not achieved.
NETWORK OPERATIONS (Regulatory Year Targets – Period Ended 31 March 2017)			
• Consumer connections (ICP count)	87,500 average per annum	Achieved	Total customer connections were 87,771 as at 31 March 2017.
• Energy received into the network	1,400 Gigawatt hours per annum	Not achieved	1,364
• Load factor %	≥ 54.00% energy into network/peak kW hours	Not achieved	53.44%
• Loss ratio %	≤ 6.0% energy into network less energy delivered/energy into network	Achieved	5.9%
• Capacity utilisation %	≥ 30.0% peak network kW/installed distribution transformer capacity kVA	Achieved	30.5%
• Customer responsiveness – achieve average network restoration times of < 4 hours for urban customers and < 6 hours for rural customers	≤ 60 number of events outside urban and rural restoration targets that resulted in service payments to customers	Achieved	60 events occurred outside of restoration targets that resulted in service payments being made.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2017 – continued

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
NETWORK RELIABILITY (Regulatory Year Targets – Period Ended 31 March 2017)			
• SAIDI			
- Class B interruptions planned	≤ 14.10 minutes	Not achieved	62.48 minutes
- Class C interruptions unplanned	≤ 76.31 minutes	Not achieved	77.29* minutes
- Total	≤ 90.41 minutes	Not achieved	139.77 minutes
• SAIFI			
- Class B interruptions planned	≤ 0.09	Not achieved	0.31 interruptions
- Class C interruptions unplanned	≤ 1.40	Achieved	1.21* interruptions
- Total	≤ 1.49	Not achieved	1.52 interuptions

*Class C SAIDI and SAIFI are expressed as normalised figures. Regulatory reporting allows for the effect of extreme events to be removed, resulting in normalised figures that are compared against target. The raw results for Class C SAIDI and SAIFI were 107.04 minutes and 1.26 interruptions respectively.

COMMUNITY, PEOPLE, SAFETY AND ENVIRONMENT OBJECTIVES

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
Community			
• Support community initiatives.	$20,000 of sponsorship per annum	Achieved	$34,835 was spent in support of community initiatives during the year. Aurora's main community sponsorship is the Southern Lakes Festival of Colour.
• Promote uptake of electric vehicles.	1 Number of public charging facilities connected to Aurora network	Achieved	There are two public fast chargers connected to the network, one each in Dunedin and Alexandra.
• Partner with Department of Conservation in the NZ Falcon conservation project aimed at reducing risk of bird electrocution.	+ 3 Number of site installations	Not achieved	Falcon safe network designs were tested and the findings shared with the industry via presentation at the 2017 Electricity Engineers Association Conference. The findings are being progressively incorporated into network standards across all regions.
Safety			
• Reduce harm to contractors.	≤ 5.00 total recordable injury frequency rate (TRIFR) per 200,000 hours worked	Achieved	Aurora's largest contractor achieved a TRIFR of 4.33 per 200,000 hours worked during the year.
• Zero serious harm events involving members of the public.	0	Achieved	There were no serious harm incidents during the year involving the public.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2017 – continued

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
Environment			
• No transgression of the environmental and resource law occurs.	No breaches	Achieved	There were no Resource Management Act breaches during the year.
• Prevent adverse environmental impacts associated with network assets.	0 leaks of sulphur hexafluoride.	Unknown	Not able to be monitored during the year.
	0 leaks of polychlorinated biphenyl.	Unknown	Not able to be monitored during the year.

PERFORMANCE MEASURE	TARGET $000	OUTCOME	RESULT $000
FINANCIAL OBJECTIVES			
• EBITDA (before subvention)	38,936	Not achieved	35,399
• Net surplus (before subvention)	8,073	Not achieved	7,294
• Shareholder's funds	186,191	Achieved	190,432
• Cash flow from operations (after subvention)	34,490[1]	Not Achieved	20,981
• Capital expenditure	≥ 47,463	Not achieved	45,152
• Term debt	≤ 200,900	Achieved	191,350
• Dividends and or subvention	7,500	Not achieved	2,601
• Shareholder's funds to total assets	39.9%	Achieved	40.3%

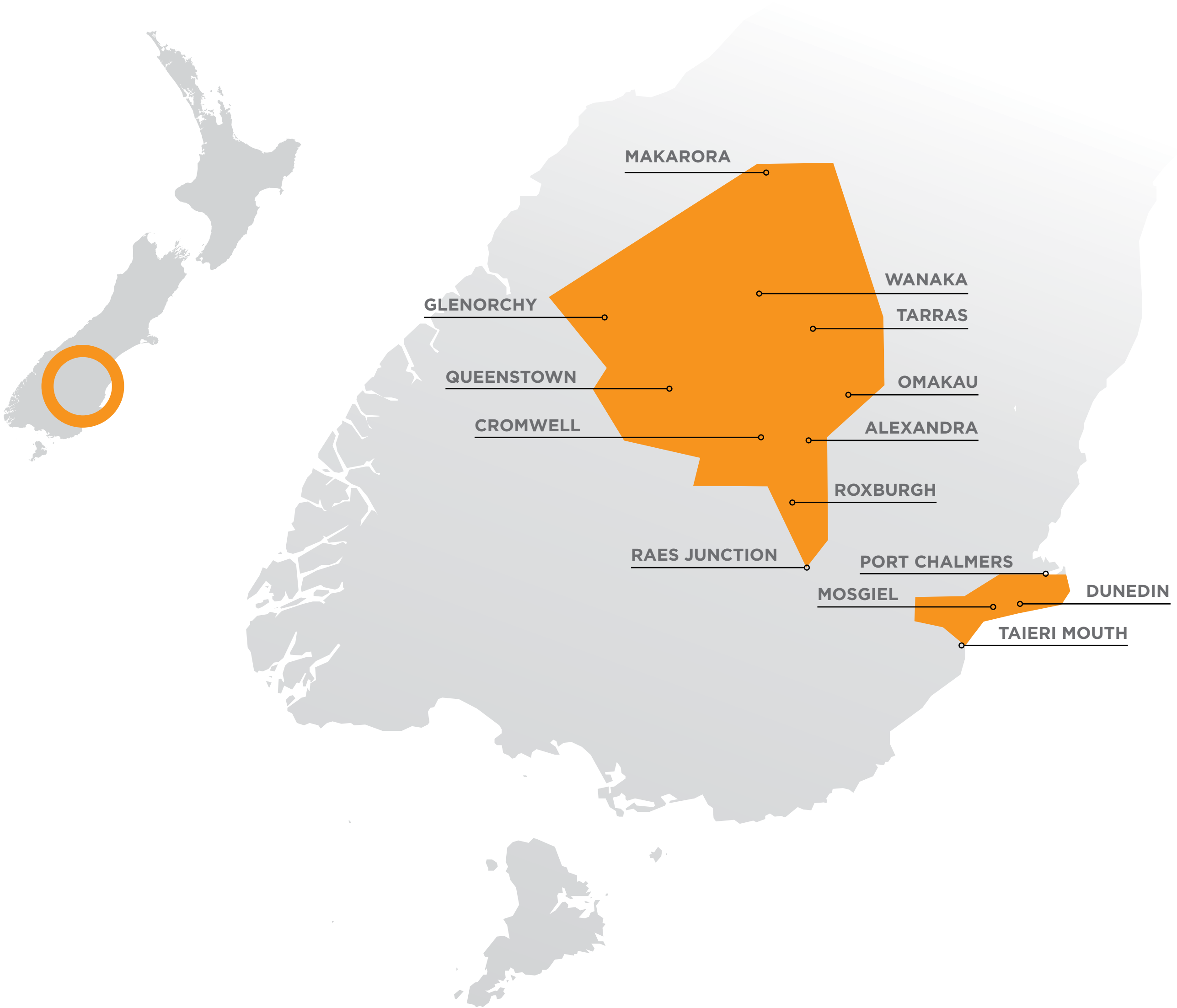
(1) The target for cash flow from operations (after subvention) of $34.490 million was incorrectly disclosed in the company's statement of intent. The target of $34.490 million did not recognise the effect of subvention payments ($7.292 million) and GST on capital expenditure ($7.043 million). Had these items been recognised, the company would have reported a target of $20.155 million and an outcome of 'Achieved'.

NETWORK OVERVIEW

ELECTRICITY DISTRIBUTION NETWORK AT A GLANCE

for the year ended 31 March 2017

Number of consumer connections	87,771
Energy received for distribution	1,364 gigawatt hours
Total capacity of distribution transformers	953 megavolt amperes
Capacity utilisation	31%
Number of zone substations	40
Number of bulk supply points	5
Length of lines and cables	6,135 kilometres



NETWORK PERFORMANCE

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

12 months ended 31 March		2017	2016	2015	2014	2013
System Physical Measures						
Average length of lines and cables	km	6,135	5,878	5,815	5,796	5,543
Total capacity of distribution transformers	MVA	953	947	928	910	897
Distribution transformer capacity utilisation		31%	31%	31%	31%	32%
Consumer Measures						
Number of consumer connections		87,771	86,375	85,530	84,362	83,656
System maximum coincident demand	MW	291	291	286	279	284
Energy received for delivery	GWh	1,364	1,388	1,347	1,321	1,331
Average load factor		53%	54%	54%	54%	53%
Average minutes off per fault	CAIDI	80	74	95(1)	78	69
Average faults per annum	SAIFI	1.5	1.7	1.4	1.2	1.1
Average minutes off per annum	SAIDI	109(3)	129(2)	124(1)	94	76

NOTES:

km - kilometres

MVA - megavolt amperes

MW - megawatts

GWh - gigawatt hours

CAIDI - Consumer Average Interruption Duration Index

SAIFI - System Average Interruption Frequency Index

SAIDI - System Average Interruption Duration Index

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

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

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

DIRECTORS' REPORT

for the year ended 30 June 2017

The Directors of Aurora Energy Limited are pleased to report on the financial results and associated matters for the year ended 30 June 2017.

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 2017	$000
Trading profit before tax and subvention	11,278
less subvention payment	1,412
Operating profit before income tax	9,866
less income tax expense	2,572
Net profit for year	7,294

STATE OF AFFAIRS

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

DIVIDENDS

Total dividends of $1.500 million were declared and paid during the year.

RESERVES

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

	$000
Cash flow hedge reserve - to (from)	990
Retained earnings - to (from)	5,794

DIRECTORS' REPORT

for the year ended 30 June 2017

REVIEW OF OPERATIONS

The Directors are generally satisfied with the operating results achieved for the year ended 30 June 2017. The net profit of $7.294 million (2016: $11.713 million) generated a return on average shareholders equity of 3.9% (2016: 6.4%).

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 Company has continued a major programme of capital works intended to cater for the current growth in electricity demand in Central Otago and the renewal and upgrade of existing network assets. A total of $45.152 million (2016: $37.196 million) was invested into network related assets during the year. The company continued its major programmes of capital works and accelerated the replacement of its pole fleet in both Dunedin and Central Otago.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2017 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 2017 or existed at that date are disclosed in the related parties section of this report.

CHANGE OF DIRECTORS

Dr I M Parton and Mr S J McLauchlan retired as Directors on 12 December 2016.

Mr S R Thompson was appointed as Chairman on 12 December 2016.

Mr B J Wood was appointed as a Director on 12 December 2016.

DIRECTORS' REMUNERATION

The remuneration paid to Directors during the year was:

Stephen R Thompson	$	54,029
David J Frow	$	26,250
Trevor J Kempton	$	32,238
Brian J Wood	$	15,182
Dr Ian M Parton	$	18,271
Stuart J McLauchlan	$	12,354
	$	158,324

DIRECTORS' REPORT

for the year ended 30 June 2017

AUDIT AND RISK COMMITTEE

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

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

Crowe Horwath 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

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

NOMINATION COMMITTEE

All Directors were members of the Nomination Committee throughout their tenure as Directors of the Company. The Nomination Committee's principal responsibility is to identify and nominate, for approval by the Shareholder, external candidates to fill board vacancies as they arise.

EMPLOYEES' REMUNERATION

For the year ended 30 June 2017, no staff were employed by Aurora Energy Limited. The management of the Company was 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 2017

DIRECTORS' INSURANCE

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

DIRECTORS' BENEFITS

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

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

EVENTS SUBSEQUENT TO BALANCE DATE

Following a decision by the company's shareholder to separate the Aurora Energy and Delta businesses, Aurora Energy contracted Delta as the company's principal supplier of network maintenance and asset construction services from 1 July 2017.

Also with effect from 1 July 2017, Aurora Energy directly employed around 100 staff previously employed by Delta, and began to self-perform its own asset management and operations functions.

For and on behalf of the Board of Directors

Stephen Thompson
CHAIRMAN

Margaret Devlin
DIRECTOR

7 September 2017

INFORMATION ON THE DIRECTORS

Director	Qualifications	Date Appointed	Declarations of Interests
Stephen R Thompson Non-Executive Chairman	BCom, FCA (PP), CF.Inst.D.	June 2016	Chairman and shareholder – Thompson Bloodstock Limited Chairman – Alpine Energy Limited Chairman – Delta Utility Services Limited Chairman – Infratec Limited Chairman – Infratec Renewables (Rarotonga) Limited Chairman – NETcon Limited Chairman – Timaru Electricity Limited Director and shareholder – Cairnmuir Road Winery Limited Director and shareholder – Passmore Consulting Services Limited Director – F.S. Investments Limited Director – Integrated Contract Solutions Limited Director – Keano's Trustee Company Limited Director – Millenium Solutions Limited Director – NT Partnership Director – Owhiro River Limited Director - Sarita Holdings Ltd Director – Wanaka Bay Limited Director – Westminster Resources Limited Director – Whitestone Contracting Limited Partner – Queensberry Hills Development
David J Frow Non-Executive Director	B.Sc.Eng, CF.Inst.D.	October 2012	Chairman and shareholder – Major Consulting Group Limited Chairman – Holmes Farsight LP Chairman – Holmes Fire LP Director – Delta Utility Services Limited Director – ETEL Limited Director – ETEL Transformers Pty Ltd (Aus) Director – HydroWorks Limited (Resigned May 2017) Director – Rataworks Limited (Resigned March 2017)
Trevor J Kempton Non-Executive Director	BE (Hons), M.IPENZ, F.NZIM, CM.Inst.D.	November 2013 (Resigned 30 June 2017)	Director and shareholder – Long Beach Consulting Limited Director – Delta Utility Services Limited Director – Constructing Excellence (NZ) Limited Director – The Academy of Construction Excellence (NZ) Limited Director – Trevian Properties Limited Councillor – Otago Regional Council Shareholder – Naylor Love Enterprise Group of companies
Brian J Wood Non-Executive Director	MBA (Otago), FNZIM, CF.Inst.D.	December 2016 (Resigned 30 June 2017)	Chairman – Buller Holdings Limited Chairman – Buller Recreation Limited Chairman – Canterbury Linen Services Limited Chairman – South Island Transport Corridors Reinstatement Group – Ministry of Transport Chairman – Westport Harbour Limited Chairman – Westreef Services Limited Director – Delta Utility Services Limited Director – Dunedin City Holdings Limited Director – Dunedin City Treasury Limited Director – Harrison Grierson Holdings Limited Director – Interpret Geospatial Solutions Limited (Resigned March 2017) Director – Lyttelton Port of Christchurch Limited Member – Governance Board for Maintenance Contract, West Coast State Highways, Fulton Hogan Chair – Project Steering Group, Christchurch Library Build, Christchurch City Council Chair – Project Steering Group, Christchurch Town Hall Rebuild, Christchurch City Council Chairman – Abley Transportation Ltd (Resigned 31 January 2017)

INFORMATION ON THE DIRECTORS

Director	Qualifications	Date Appointed	Declarations of Interests
Dr Ian M Parton Non-Executive Chairman	BE (Hons), PhD, Dist.F.IPENZ, CF.Inst.D.	October 2012 (Resigned 12 December 2016)	Chairman – Delta Utliity Services Limited Director – Auckland Transport Limited Director – Construction Techniques Group Limited Director – Skellerup Holdings Limited Chancellor – University of Auckland
Stuart J McLauchlan Non-Executive Director	BCom, FCA (PP), CF.Inst.D.	June 2007 (Resigned 12 December 2016)	Chairman and shareholder – Scott Technology Limited Chairman – Compass Agribusiness Management Limited Chairman – Dunedin International Airport Limited Chairman – NZ Sports Hall of Fame Chairman – Pharmac Chairman – University of Otago Foundation Studies Limited Chairman – UDC Finance Limited Director and shareholder – Dunedin Casinos Limited Director and shareholder – Rosebery Holdings Limited Director – AD Instruments Pty Limited Director – Delta Utility Services Limited Director – BPAC Clinical Solutions Management Limited Director – Cargill Hotel 2002 Limited Director – HTS 110 Limited Director – Ngai Tahu Tourism Board Director – Otago & Southland Employers Association Director – Scenic Circle Hotels Limited and subsidiaries Director – University of Otago Holdings Limited Director – USC Investments Limited Member – Marsh Advisory Board Partner – G S McLauchlan & Co Limited Pro Chancellor – University of Otago Trustee/Shareholder – Three Hills Limited

FINANCIAL STATEMENTS

for the year ended 30 June 2017

CONTENTS

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2017

	Note	2017 $000	2016 $000
Operating revenue	3	102,854	100,019
Financial revenue	4	14	13
Total revenue		102,868	100,032
Less expenses			
Operating expenses	5	82,659	74,436
Financial expenses	6	8,931	9,334
Total expenditure		91,590	83,770
Profit before tax and subvention		11,278	16,262
Subvention payment provided		1,412	7,292
Profit before tax		9,866	8,970
Income tax expense	9	2,572	2,507
Net profit/(loss) after tax for the year		7,294	6,463
Other comprehensive income			
Gain/(loss) on cash flow hedges		990	(2,361)
Gain/(loss) on terminated cash flow hedges		0	(4)
Total other comprehensive income		990	(2,365)
Total comprehensive income		8,284	4,098

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 2017

	Note	2017 $000	2016 $000
Equity at beginning of the year		183,648	182,550
Recognised income and expense			
Total comprehensive income		8,284	4,098
Less distribution to owner	8	1,500	3,000
Equity at end of the year		190,432	183,648

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

BALANCE SHEET

as at 30 June 2017

	Note	2017 $000	2016 $000
EQUITY			
Share capital	11	10,000	10,000
Cash flow hedge reserve	12	(2,279)	(3,269)
Retained earnings	13	182,711	176,917
Total equity		190,432	183,648
CURRENT LIABILITIES			
Trade and other payables	14	25,282	17,561
Taxation payable		0	666
Total current liabilities		25,282	18,227
NON-CURRENT LIABILITIES			
Cash flow hedge instruments	21	3,166	4,540
Term borrowings	16	191,350	170,460
Deferred tax liability	17	62,389	59,577
Total non-current liabilities		256,905	234,577
Total liabilities		282,187	252,804
TOTAL EQUITY AND LIABILITIES		472,619	436,452

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

BALANCE SHEET

as at 30 June 2017 – continued

	Note	2017 $000	2016 $000
CURRENT ASSETS			
Cash and cash equivalents	18	58	4
Trade and other receivables	19	13,176	11,803
Inventories	22	4,045	8
Other current assets	15	1,583	729
Taxation receivable		304	0
Intra group advances		0	85
Total current assets		19,166	12,629
NON-CURRENT ASSETS			
Investments	20	8	8
Deferred tax asset	17	977	1,309
Property, plant and equipment	23	452,468	422,506
Total non-current assets		453,453	423,823
TOTAL ASSETS		472,619	436,452

For and on behalf of the Board of Directors

Stephen Thompson
CHAIRMAN

Margaret Devlin
DIRECTOR

7 September 2017

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 2017

	Note	2017 $000	2016 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from			
Receipts from customers		101,605	100,974
Interest and dividends received		14	13
Income tax refund		0	50
Inter Company advance		85	0
		101,704	101,037
Cash was disbursed to			
Payments to suppliers		67,860	60,223
Interest paid		9,286	9,046
Intra group tax loss/subvention payments		721	276
Income tax paid		62	896
Net GST paid/(received)		753	(125)
Subvention payment		2,041	7,292
Inter Company advance		0	143
		80,723	77,751
Net cash inflows/(outflows) from operating activities	25	20,981	23,286
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from			
Sale of investments		0	2
		0	2
Cash was disbursed to			
Purchase of property, plant and equipment		40,317	35,278
		40,317	35,278
Net cash inflows/(outflows) from investing activities		(40,317)	(35,276)

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 2017 – continued

	Note	2017 $000	2016 $000
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from			
Proceeds from borrowings		41,660	44,860
		41,660	44,860
Cash was disbursed to			
Repayment of borrowings		20,770	29,900
Dividends paid		1,500	3,000
		22,270	32,900
Net cash inflows/(outflows) from financing activities		19,390	11,960
Net increase/(decrease) in cash, cash equivalents and bank overdraft		54	(30)
Cash and cash equivalents at beginning of the year		4	34
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	18	58	4

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 2017

1 REPORTING ENTITY

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

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

The financial statements were authorised for issue by the Directors on 7 September 2017.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

REVENUE RECOGNITION

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

TAXATION

The tax expense comprises both current tax and deferred tax.

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

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

INVENTORIES

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

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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 in consultation with the Company's Shareholder.

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

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

CHANGES IN ACCOUNTING POLICIES

During the period, there were no new or amended accounting standards relevant to the Company.

STANDARDS AMENDED OR ISSUED DURING THE YEAR

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

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

STANDARD	BRIEF OUTLINE
Amendments to NZ IAS 16 *Leases* Adoption date: periods beginning on or after 1 January 2019	NZ IFRS 16 removes the classification of leases as either operating or finance leases – for the lessee – effectively treating all leases as finance leases. This is likely to have a material impact on the Company's financial statements and leading up to implementation the Company will review the new standard to ensure appropriate disclosure. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.
Amendments to NZ IFRS 15 *Revenue from Contracts and Customers* Adoption date: periods beginning on or after 1 January 2018	The standard specifies how and when the company will recognise revenue as well as requiring the financial statements to include more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The standard is unlikely to have a major impact on the recognition and reporting of the Company's revenue. The Company will however review revenue to ensure that it is recognised in line with the revised standards and contracts in place
NZ IFRS 9 (2014) *Financial Instruments* Adoption date: periods beginning on or after 1 January 2018	A revised version of NZ IFRS 9 will be released which includes changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of NZ IFRS 9 at the same time. The Company does not expect any material changes to current treatment or disclosure of its Financial Instruments.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – continued

	2017 $000	2016 $000
3 OPERATING REVENUE		
Sales revenue	101,351	98,703
Avoided transmission constraint and loss revenue	1,503	1,316
	102,854	100,019
4 FINANCIAL REVENUE		
Interest and dividends received	14	13
5 OTHER EXPENSES		
Included in the operating expenses of the Company are the following items:		
Audit fees		
- for audit of financial statements	40	39
- for audit services in relation to regulatory (information disclosure) reporting	19	19
- for audit services in relation to price and quality thresholds and other regulatory reporting	15	15
Total audit fees	74	73
Transmission costs	36,642	33,800
Depreciation	15,190	14,321
Maintenance costs	15,876	14,028
Other contractor costs	947	727
Directors' fees	132	109
Bad debts written off	19	1
Lease expense	253	89
Increase/(decrease) in provision for doubtful trade and other receivables	192	19

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – continued

			2017 $000	2016 $000
6 FINANCIAL EXPENSES				
Interest - other			1	12
Interest - related parties			8,930	9,326
Interest amortised from cash flow hedge close out			0	(4)
Total financial expenses			8,931	9,334
7 LEASE COMMITMENTS				
Non-Cancellable Operating Lease Commitments				
Payable within one year			384	68
Payable between one to five years			377	216
Payable later than five years			535	570
			1,296	854
8 DIVIDENDS				
Interim dividend	December	$0.150/share (2016: $0.150)	1,500	1,500
Final dividend	June	$0.000/share (2016: $0.150)	0	1,500
		$0.150/share for 2017 (2016: $0.300)	1,500	3,000

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – continued

9 INCOME TAX

	2017 $000	2016 $000
Operating profit before income tax	9,866	8,970
Tax thereon at 28% (2016: 28%)	2,762	2,512
Plus/(less) the tax effect of differences		
Expenditure (deductible)/non-deductible for taxation purposes	70	7
Group loss offset	(1,017)	0
Consolidated group adjustment	370	0
Under/(over) tax provision in prior years	387	(12)
Tax effect of differences	(190)	(5)
Tax expense	2,572	2,507
Represented by		
Current tax provision	128	886
Deferred tax provision	2,057	1,633
Under/(over) tax provision in prior years	387	(12)
Income tax	2,572	2,507
Effective tax rate	26.1%	27.9%

During the 2017 income year, Aurora Energy has removed from its cost of assets for tax depreciation purposes the identified profits arising on the construction of those assets supplied by Dunedin City Holdings Limited subsidiary, Delta Utility Services Limited (Delta). These profits have also been deducted from the calculation of taxable income of the consolidated tax group. For accounting purposes, the group has decided to recognise the adjustment to remove the profit component of these assets and reflect a tax compensation payment of $700,000 from Delta to Aurora Energy. This approach has been adopted from 1 July 2015, which contributed the majority of the $387,000 prior period adjustment to tax expense above. The removal of the profit component from the 2017 assets acquired has also increased the current year's deferred tax charge.

IMPUTATION CREDIT ACCOUNT

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – continued

	2017	2016
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	0.73	0.65

	2017 $000	2016 $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	(3,269)	(904)
Net revaluations	1,374	(3,279)
Cash flow hedge closed out	0	(5)
Deferred tax arising on hedges (note 17)	(384)	919
Balance at end of the year	(2,279)	(3,269)

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 2017 – continued

	2017 $000	2016 $000
13 RETAINED EARNINGS		
Balance at beginning of the year	176,917	173,454
Net profit for the year	7,294	6,463
Dividend distributions	(1,500)	(3,000)
Balance at end of the year	182,711	176,917
14 TRADE AND OTHER PAYABLES		
Trade payables	12,311	5,778
Due to related parties	12,971	11,783
	25,282	17,561

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.

	2017 $000	2016 $000
15 OTHER CURRENT ASSETS		
GST receivable	1,583	729
	1,583	729
16 TERM BORROWINGS (secured)		
Dunedin City Treasury Limited - related party	191,350	170,460
The term borrowings are secured by a General Security Agreement over all the assets of the Company. At balance date, the Company had a term debt facility limit of $210.0 million.	191,350	170,460
The repayment periods on the term borrowings are:		
Repayable between one to two years	0	0
Repayable between two to five years	191,350	170,460

The weighted average interest rate for the loan inclusive of any current portion, was 5.36% (2016: 6.08%).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – 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 Sheet Net $000
YEAR ENDED 30 JUNE 2017:						
Property, plant and equipment	(54,529)	0	(2,591)	0	(57,120)	(57,120)
Provisions	(5,010)	0	(169)	90	(5,269)	(5,179)
Revaluations of interest rate swaps	1,271	(384)	0	887	0	887
Balance at end of the year	**(58,268)**	**(384)**	**(2,760)**	**977**	**(62,389)**	**(61,412)**
YEAR ENDED 30 JUNE 2016:						
Property, plant and equipment	(53,730)	0	(799)	0	(54,529)	(54,529)
Provisions	(4,172)	0	(838)	37	(5,047)	(5,010)
Revaluations of interest rate swaps	352	919	0	1,271	0	1,271
Balance at end of the year	**(57,550)**	**919**	**(1,637)**	**1,309**	**(59,577)**	**(58,268)**

	2017 $000	2016 $000
18 CASH AND CASH EQUIVALENTS		
Cash and bank	58	4
	58	4

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 2017 – continued

	2017 $000	2016 $000

19 TRADE AND OTHER RECEIVABLES

	2017 $000	2016 $000
Trade receivables	13,320	11,881
Less estimated impairment	(315)	(123)
	13,005	11,758
Due from related parties		
- Dunedin City Council and Group entities	115	45
- Other related parties	56	0
	13,176	11,803

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:

		2017 $000	2016 $000
Age analysis:	30-60 days	15	32
	60-90 days	5	23
	90 days plus	404	304
		424	359

20 INVESTMENTS

	2017 $000	2016 $000
Investments – listed companies	8	8
	8	8

Investments – listed companies

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

21 CASH FLOW HEDGE INSTRUMENTS

	2017 $000	2016 $000
Interest rate swaps revaluations - receivable/(payable)	(3,166)	(4,540)
	(3,166)	(4,540)

22 INVENTORIES

	2017 $000	2016 $000
Network spare parts	8	8
Materials and stores	4,037	0
	4,045	8

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – 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 2017:									
Cost									
Balance at beginning of year	5,402	12,190	505,715	2,281	191	16	4,962	25,776	556,533
Purchases	0	94	29,900	67	0	50	6	15,035	45,152
Transfers	0	0	0	0	0	0	0	0	0
Total cost	5,402	12,284	535,615	2,348	191	66	4,968	40,811	601,685
Accumulated depreciation									
Balance at beginning of year	0	1,759	129,448	1,868	83	16	853	0	134,027
Depreciation	0	144	14,787	95	9	3	152	0	15,190
Total accumulated depreciation	0	1,903	144,235	1,963	92	19	1,005	0	149,217
Balance at end of year	**5,402**	**10,381**	**391,380**	**385**	**99**	**47**	**3,963**	**40,811**	**452,468**
YEAR ENDED 30 JUNE 2016:									
Cost									
Balance at beginning of year	5,282	11,530	474,344	2,243	191	16	4,962	20,769	519,337
Purchases	120	0	31,371	38	0	0	0	5,667	37,196
Transfers	0	660	0	0	0	0	0	(660)	0
Total cost	5,402	12,190	505,715	2,281	191	16	4,962	25,776	556,533
Accumulated depreciation									
Balance at beginning of year	0	1,618	115,537	1,760	74	16	701	0	119,706
Depreciation	0	141	13,911	108	9	0	152	0	14,321
Total accumulated depreciation	0	1,759	129,448	1,868	83	16	853	0	134,027
Balance at end of year	**5,402**	**10,431**	**376,267**	**413**	**108**	**0**	**4,109**	**25,776**	**422,506**

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 2017 – continued

	2017 $000	2016 $000
24 CAPITAL EXPENDITURE COMMITMENTS		
Capital expenditure contracted for at balance date but not provided for in the financial statements	10,230	10,888
	10,230	10,888
25 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/(loss) for the year	7,294	6,463
Items not involving cash flows		
Depreciation	15,190	14,321
Increase/(decrease) in deferred tax	3,144	718
Other non-cash items	990	(2,365)
Increase/(decrease) in cash flow hedge valuation	(1,374)	3,279
Impact of changes in working capital items		
(Increase)/decrease in trade and other receivables	(1,373)	948
Increase/(decrease) in trade and other payables	7,721	2,340
Increase/(decrease) in provision for tax	(970)	(710)
(Increase)/decrease in other current assets	(854)	(105)
(Increase)/decrease in inter Company advance	85	315
(Increase)/decrease in Inventories	(4,037)	0
Items classified as investing or financing activities		
Capital creditors in accounts payable	(4,835)	(1,918)
Net cash inflows/(outflows) from operating activities	20,981	23,286

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – 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. During the period, the Company provided services and traded with Dunedin City Council Group in respect of the following transactions:

YEAR ENDED 30 JUNE	2017 $000	2016 $000
Purchases of goods and services from Dunedin City Holdings Limited:		
Management fees	200	200
Subvention/tax loss offset payment	0	268
	200	468
Purchases of goods and services from Dunedin City Council:		
Rates and property leases	818	813
Subvention/tax loss offset payment	0	0
Interest	4	3
	822	816
Purchases of goods and services from other Dunedin City Council Group entities:		
Capital work	26,526	27,554
Network management and operation	22,720	20,721
Interest/facility fees	8,926	9,323
Subvention/tax loss offset payments	721	465
Contracting services	2,257	1,159
Management fees	120	120
Accounting, administration and secretarial	400	343
Sundry and consulting	77	95
Lease of meters	82	75
Subvention expense	1,412	7,292
	63,241	67,147

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – continued

26 RELATED PARTY TRANSACTIONS - continued

	2017 $000	2016 $000
At period end the amounts payable by Aurora Energy to Group entities:		
Dunedin City Council Group entities	207,487	186,783
	207,487	186,783
Sales of services to Dunedin City Council:		
Interest received	6	0
Other	4	54
	10	54
Sales of services to Dunedin City Council Group entities:		
Rent	26	26
Service failure penalties	206	113
Other	88	14
Tax compensation	700	0
	1,020	153
At period end, the amounts receivable by Aurora Energy Limited from Dunedin City Council Group entities are:		
Dunedin City Council	25	25
Other Dunedin City Council Group entities:	790	104

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

Aurora Energy Limited undertakes transactions with other related parties.

TRANSACTIONS WITH COMPANIES IN WHICH DIRECTORS HAVE AN INTEREST:

Mr S R Thompson is a Director and Shareholder of Passmore Consulting Services Limited. During the financial period covered by this report, Director's fees ($36,528) and Consultancy services ($17,500) were purchased from Passmore Consulting Services Limited (2016: nil). $5,750 was outstanding as at 30 June 2017 (2016: nil).

Mr Thompson is Chairman of Infratec Limited. In the ordinary course of business during the financial period covered by this report, services valued at $215,952 were purchased from Infratec Limited (2016: nil). $146,337 was outstanding as at 30 June 2017 (2016: nil).

Mr S J McLauchlan was, during his tenure as a director of the company, Pro Chancellor of the University of Otago. In the ordinary course of business during the financial period covered by this report, services valued at $86,771 were provided to the University of Otago (2016: $7,139). $55,568 was outstanding as at 30 June 2017 (2016: nil).

Mr McLauchlan was, during his tenure as a director of the company, a Director and Shareholder of Rosebery Holdings Limited. During the financial period covered by this report, services of $12,354 were purchased from Rosebery Holdings Limited (2016: $24,535). No monies were outstanding as at 30 June 2017 (2016: nil).

Mr McLauchlan was, during his tenure as a director of the company, a Trustee / Shareholder in Three Hills Limited. In the ordinary course of business during the financial period covered by this report, no services were provided to Three Hills Limited (2016: $68,265). No monies were outstanding as at 30 June 2017 (2016: $54,953).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – continued

26 RELATED PARTY TRANSACTIONS - continued

TRANSACTIONS WITH COMPANIES IN WHICH DIRECTORS HAVE AN INTEREST:

Mr D J Frow was, during his tenure as a director of the company, a Director of ETEL Limited. In the ordinary course of business during the financial period covered by this report, services of $227,740 were purchased from ETEL Limited (2016: nil). $150,104 was outstanding as at 30 June 2017 (2016: nil).

Mr T J Kempton was, during his tenure as a director of the company, a Councillor on Otago Regional Council. During the financial period covered by this report, services to the value of $31,837 were purchased from Otago Regional Council (2016: $27,689). $1,294 was outstanding as at 30 June 2017 (2016: $300).

Mr Kempton was, during his tenure as a director of the company, a Director and Shareholder of Long Beach Consulting Limited. During the financial period covered by this report, Directors fees ($23,763) and Consulting services ($8,475) were purchased from Long Beach Consulting Limited (2016: $21,470). $18,625 was outstanding as at 30 June 2017 (2016: nil).

KEY MANAGEMENT PERSONNEL REMUNERATION

No employees were directly employed by Aurora Energy Limited during the year.

Services of the Chief Executive Officer and Company Secretary are provided in accordance with an Administrative and Financial Services agreement with Delta Utility Services Limited. The value of these management services is included in the above Purchase of goods and services from other Dunedin City Council Group entities Related Party Transaction Note. The company is unable to estimate the value of the key management personnel portion of these services.

DIRECTORS' REMUNERATION

The remuneration paid to Directors during the year was:

Stephen R Thompson	$ 54,029
David J Frow	$ 26,250
Trevor J Kempton	$ 32,238
Brian J Wood	$ 15,182
Dr Ian M Parton	$ 18,271
Stuart J McLauchlan	$ 12,354
	$ 158,324

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – continued

27 FINANCIAL INSTRUMENT RISK

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

INTEREST RATE RISK

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

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

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

	2017 $000	2016 $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.

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

	2017 $000	2016 $000
Cash and cash equivalents	58	4
Trade and other receivables	13,176	11,803
Short term investments	8	8
Inter Company advances	0	84
	13,242	11,899

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – continued

27 FINANCIAL INSTRUMENT RISK - continued

CREDIT QUALITY OF FINANCIAL ASSETS

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

	2017 $000	2016 $000
Counterparties with credit ratings		
Cash and cash equivalents		
AA-	58	4
Trade and other receivables		
AA-	25	25
Counterparties without credit ratings		
Trade and other receivables		
Existing counterparties with no defaults in the past	13,466	11,901
Investment		
Existing counterparties with no defaults in the past	8	8

LIQUIDITY RISK

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – continued

27 FINANCIAL INSTRUMENT RISK - continued

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

Maturity Dates	Less than 1 Month $000	1 to 3 Months $000	3 Months to 1 Year $000	1 to 5 Years $000	More than 5 Years $000	No Maturity $000	Total $000
Financial assets							
Cash and cash equivalents	58	0	0	0	0	0	58
Trade and other receivables	13,176	0	0	0	0	0	13,176
Taxation receivable	0	0	304	0	0	0	304
Long term investments	0	0	0	0	0	8	8
Inter Company advance	0	0	0	0	0	0	0
Other current assets	1,583	0	0	0	0	0	1,583
	14,817	0	304	0	0	8	15,129
Financial liabilities							
Trade and other payables	25,282	0	0	0	0	0	25,282
Taxation payable	0	0	0	0	0	0	0
Term borrowings	0	0	0	0	0	191,350	191,350
Cash flow hedge	0	0	0	0	0	3,166	3,166
	25,282	0	0	0	0	194,516	219,798

The following table analyses the exposure of the Company's financial liabilities to liquidity risk as at 30 June 2016:

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	4	0	0	0	0	0	4
Trade and other receivables	11,803	0	0	0	0	0	11,803
Long term investments	0	0	0	0	0	8	8
Inter Company advance	0	0	84	0	0	0	84
Other current assets	729	0	0	0	0	0	729
	12,536	0	84	0	0	8	12,628
Financial liabilities							
Trade and other payables	17,561	0	0	0	0	0	17,561
Taxation payable	0	0	666	0	0	0	666
Term borrowings	0	0	0	0	0	170,460	170,460
Cash flow hedge	0	0	0	0	0	4,540	4,540
	17,561	0	666	0	0	175,000	193,227

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – continued

27 FINANCIAL INSTRUMENT RISK - continued

SENSITIVITY ANALYSIS

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

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

	Fair Value at Balance Date $000	+100bps Profit $000	+100bps Equity $000	-100bps Profit $000	-100bps Equity $000
Financial liabilities					
Cash flow hedge instruments	3,166	0	2,011	0	(2,112)
Term borrowings (unhedged)	141,350	(1,414)	0	1,414	0
	144,516	**(1,414)**	**2,011**	**1,414**	**(2,112)**

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements recognised in the statement of financial position.

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

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

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

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

2017	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial liabilities/(assets)				
Derivative financial liabilities	0	3,166	0	3,166
	0	3,166	0	3,166

2016	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial liabilities/(assets)				
Derivative financial liabilities	0	4,540	0	4,540
	0	4,540	0	4,540

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017 – 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 in consultation with its Shareholder.

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

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

30 CONTINGENT LIABILITIES

Breach of Default Price-Quality Path Reliability Standards

During the financial reporting period, the Commerce Commission initiated an investigation into the Company's breach of regulated network reliability standards in the 2015 and 2016 disclosure years. The Company breached regulated network reliability standards for the second successive year in 2016, giving rise to the investigation.

Network reliability standards are contained in the Commerce Commission's Default Price-Quality Path for Electricity Distribution Businesses, and the regulations provide for pecuniary penalties in the event that the standards are breached in any 2 of the previous 3 years. The maximum fine for the breach that occurred during 2017 is $5 million.

The Company holds statutory liability insurance.

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

Saddle Hill, Dunedin Fire

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

The Company holds public liability insurance.

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

Energy Safety Service (WorkSafe) investigation

During the financial reporting period, Energy Safety Service issued the Company with a formal instruction after allegations of public safety concerns on the Aurora Electricity network.

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

Heritage New Zealand/Department of Conservation

In June 2017, the Company was notified of a potential claim for damage caused to an archaeological site in Central Otago. This matter is the subject of continuing discussions with Heritage New Zealand and the Department of Conservation.

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

31 EVENTS AFTER BALANCE DATE

Following a decision by the company's shareholder to separate the Aurora Energy and Delta businesses, Aurora Energy contracted Delta as the company's principal supplier of network maintenance and asset construction services from 1 July 2017.

Also with effect from 1 July 2017, Aurora Energy directly employed around 100 staff previously employed by Delta, and began to self-perform its own asset management and operations functions.

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 2017

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

Opinion on the financial statements and the statement of service performance

We have audited:

- the financial statements of the company on pages 34 to 63, that comprise the balance sheet as at 30 June 2017, the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on pages 22 to 24.

In our opinion:

- the financial statements of the company on pages 34 to 63:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards.
- the statement of service performance of the company on pages 22 to 24, presents fairly, in all material respects, the company's achievements measured against the performance targets adopted for the year ended 30 June 2017.

Our audit was completed on 7 September 2017. This is the date at which our opinion is expressed.

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

INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

AUDITOR'S REPORT

Basis of opinion

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

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

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

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

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 21 and pages 25 to 33, but does not include the financial statements and the statement of service performance, and our auditor's report thereon.

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

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

Independence

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

In addition to the audit, we have reported on the following engagements:

- an assurance engagement in respect of the company's compliance statement prepared under the Electricity Distribution Services Default Price-Quality Path Determination 2015 NZCC 35 for the assessment year ended 31 March 2017; and
- an assurance engagement in respect of the company's compliance statement prepared under the Electricity Distribution Information Disclosure Determination 2012 for the assessment year ended 31 March 2017.

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

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

COMPANY DIRECTORY

DIRECTORS

Stephen Thompson (Chair)

David Frow

Margaret Devlin

Brenden Hall

(1 July 2017)

MANAGEMENT

Chief Executive – Grady Cameron

Chief Financial Officer / Company Secretary – Gary Dixon

General Manager Network Performance – Warren Batchelor

General Manager Operations and Risk – John Campbell

General Manager Network Commercial – Alec Findlater

Chief Technology Officer – Mark Corbitt

(1 July 2017)

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