Aurora ENERGY

ANNUAL REPORT 2019

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

Our role is to support our community's wellbeing and future development by transporting safe and reliable electricity from the national grid to over 90,000 homes, farms and businesses throughout the Otago Region.

Our role is becoming more challenging but important as new technologies are providing us with more choice about how and when we use electricity.

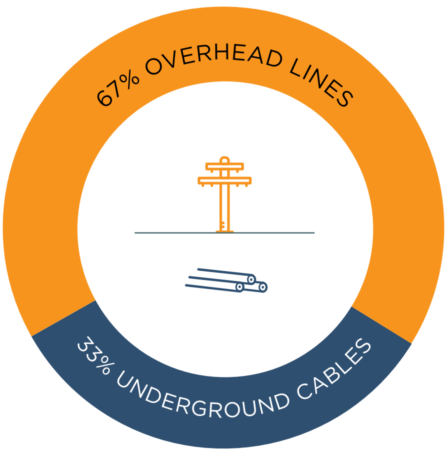
Aurora Energy Limited is a subsidiary company of Dunedin City Holdings Limited owned by Dunedin City Council.

OUR NETWORK

We serve more than

90,000

customer connections



54,000
power poles

7,000
distribution transformers

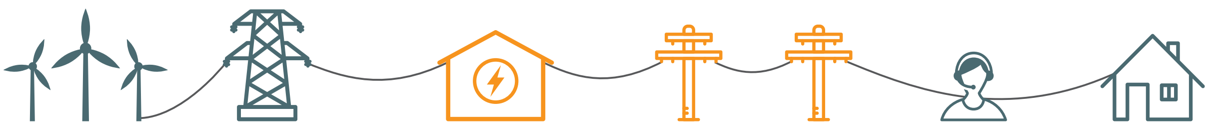
6,575
km of network length, overhead lines and underground cables

4,407
km of overhead lines

2,168
km of underground cables

39
zone substations

YOUR ELECTRICITY SUPPLY



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

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

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

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

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

CUSTOMERS
Your place.

HIGHLIGHTS

For the year ended 30 June 2019

$0.6 billion
total assets

$78 million
invested renewing, maintaining and building our network

90,419
customer connections as at 31 March 2019

1,419 gigawatt hours
electricity received into network for delivery to customers for the year ended 31 March 2019

135 employees
across Dunedin and Cromwell

6,575 kilometres
of network length, overhead lines and underground cables as at 30 June 2019

CHAIR AND CHIEF EXECUTIVE'S REPORT

For the year ended 30 June 2019

In the second year of operation as a standalone company, Aurora Energy has delivered another strong investment programme to ensure our network is safe and reliable for the Dunedin, Central Otago and Queenstown Lakes communities. Our network investment priorities remained on asset renewal, maintenance and condition assessment to rapidly reduce a backlog of renewal work, replace ageing infrastructure and stabilise network reliability performance.

Today's electricity network was largely built in the 1950s and 1960s and is now ageing. Electricity networks are typical of other long-lived, large-scale infrastructure that cycle through investment phases of build, maintain and renew. We are currently at the renew phase where the assets built by previous generations now need replacing or upgrading and a period of greater investment is required.

In Aurora Energy's case, low levels of investment in the intervening decades had helped keep distribution costs lower than the average for the rest of the country. The downside was a gradual deterioration of asset condition and a backlog of renewal work, particularly in the areas of poles, overhead lines and zone substations.

Aurora Energy's duty as the current asset owner is to plan the network for current and future generations and ensure that the network risks are appropriately managed. This means making the necessary reinvestment in the network to replace ageing infrastructure and ready our network for the future.

In the past few years, we have made considerable progress in the planning and delivery of that major network renewal programme. We have been assisted in this process by international experts who have peer reviewed our engineering decisions and confirmed that we are targeting our investment in the areas of priority. We have lifted investment and increased the pace of works delivery across a number of areas and to enable this we have scaled up the available contracting resource for construction and maintenance activity.

Setting up Aurora Energy as a standalone business in mid-2017 provided the organisation with a dedicated team and renewed clarity of purpose. We have taken onboard the recommendations of prior reviews and worked cooperatively with the regulator to make improvements in our approach to asset management, planning, works delivery and customer service.

We are now close to resolving past breaches of reliability limits with the Commerce Commission and have begun the process to agree on new reliability limits that would allow us to carry out preventative work without penalty.

The company's last three Asset Management Plans in 2017, 2018 and 2019 have all been based on a significant uplift in network investment for safety, reliability and future growth. We sought an independent assessment of the state of the network and incorporated those risk evaluations into our forward planning and immediate priorities.

However, the much-needed increase in network spend on renewals, upgrades and maintenance has outstripped what we can recover under the current regulated revenue limits. Our charges for line services have not increased over the last three years and the shortfall has been funded through higher shareholder debt. This current regulatory misalignment between our costs and revenue is behind this year's operating loss, a result that was well-signalled in our earlier financial projections.

The Board recognises that while it is prudent and necessary to increase network renewal ahead of cost recovery at this time, it is a position that cannot be sustained indefinitely. Longer term, continued network investment will need to be funded through an increase in revenue, which would be passed onto electricity customers through increased line charges. Only the regulator, the Commerce Commission, can approve an increase in allowable revenues and then only after they have assessed and approved the company's proposed level of network expenditure, assessed whether work will be delivered efficiently and considered the impact on customers' prices.

Given the level of future network investment we are proposing, we are required to complete a customised price-quality-path application to the Commerce Commission, which is the process that the independent regulator applies to scrutinise our business and plans.

We will submit our customised price-quality-path in May 2020 but before then we will consult widely with all our customers and wider stakeholders on our plans, the benefits that will result, and the associated implications for future prices. We discuss this process further below.

The Board also recognises that the major renewal of an ageing network requires a different approach and additional resources to that of maintaining a steady state. In the past two years, we have made a series of rapid and material changes to our forward network investment profile, organisational capacity and works delivery. Aurora Energy is now on the pathway to improvement and leading-edge performance in a number of areas, with more to do.

As well as renewing existing infrastructure, we are meeting capacity growth in the fast-growing areas of Central Otago and Queenstown Lakes and preparing for a future shaped by new technology options and changing consumer choices.

Our role is to provide flexibility and choice for customers in how they interact with the network and manage their energy use. We are already seeing the impact of more affordable small-scale renewable generation, a rise in electric vehicle ownership and the advent of battery storage. We are monitoring these trends in consumer preferences and new technologies closely.

A key consideration of our long-term planning is anticipating and adapting to, the evolution from a network designed for the one-directional transfer of energy to a two-way exchange of energy and information.

To recap, our approach over the last three years has been to:

- Recast the long-term asset management plan and increase planned network expenditure to ensure a safe and reliable electricity supply. (The significant uplift in planned expenditure made in the 2017 asset management plan was maintained in the subsequent 2018 and 2019 updates)
- Seek an independent engineering assessment of the current state of the network as the basis for setting priorities for network investment. (The WSP independent review was completed in October and its findings incorporated into the 2019 asset management plan)
- Scale up the available contracting resource to deliver the works programme efficiently. (Key field service providers on the network increased from one to three, introducing greater competition to the local contractor market. On 1 April 2019, all three started on new performance-based contracts)
- Develop Aurora Energy's capacity to deliver as a standalone infrastructure owner and asset manager. (We are now a dedicated team of 135 providing asset management, planning, engineering design, network operations, technology and customer service functions)
- Resolve historic reliability breaches with the regulator and agree a remedial plan to avoid future breaches. (An action plan was agreed with the regulator in April and we anticipate enforcement action on historic breaches will be resolved during FY20)
- Apply to the regulator for a customised price-quality path that would allow us to carry out preventive work without breaching regulated reliability limits and better match revenues to costs. (We have commenced the process to make an application in 2020)
- Improve approach to asset management to better anticipate emergent risks, manage lifecycle renewal and assess future network investment needs. (This year we began development of an Asset Management Roadmap as a foundation towards achieving ISO55001 certification).

OPERATIONS REVIEW

As a network owner, Aurora Energy contracts out its network construction, maintenance and fault response services. We introduced new contracting arrangements with three key service providers operating on our network. The new Field Services Agreements ensure we can access the required services from a competitive market, with the diversity of skills and capacity needed to deliver the ambitious programme of work over the coming ten years.

Following an independent assessment of the state of our network, the full WSP independent review of the Aurora Energy network was finalised in October. WSP found most of Aurora Energy's assets pose a low risk to public safety, reliability or the environment and identified priorities for remedial action.

We outlined the immediate steps we would take in relation to testing and maintenance of protection relays and further research into network resilience in the event of major natural disaster. Our updated Asset Management Plan, published in March, included an accelerated plan to replace the higher risk protection relays identified by WSP, enhanced the reporting of network risks and described our plans to achieve greater network resilience.

As we continue to deliver our largest-ever programme of works, the need for increased investment also remains. Earlier this year, the Commerce Commission made its draft decision on the default price-quality path for regulated electricity distribution businesses. Under the draft ruling Aurora Energy would receive an increase on allowable revenues but, because it is set via an industry-wide default process, it is likely to not fully reflect our specific future investment needs. This default process reset made by the Commerce Commission will be finalised in November of this year and will begin to fund the elevated works programme needed to ensure safer and reliable electricity supply.

Next year we will be applying to the Commerce Commission for a customised price-quality path to take effect from 1 April 2021. We will be working closely with key stakeholders during the consultation period to ensure our proposal reflects the preferences of customers. A dedicated consultation hub has been established at yoursay.auroraenergy.co.nz and we are encouraging our communities to register to have their say on this important issue.

This year we achieved a milestone in the technology space with the delivery of the Supervisory, Control, Communication and Protection Programme. This programme of work has seen the installation of a new network control system, a new outage management system and an upgraded communications network. This major technology overhaul allows us to better plan, monitor and optimise our network reliability performance now and into the future. We have also established a new information and communications technology platform, this being the final stage in our transition to a standalone company. We continue to introduce and embed new Aurora Energy systems and processes to achieve more efficient operations and performance.

Our customers are important to us and this year we established a new Customer and Engagement team dedicated to improving communication and the customer experience. Our focus this year has been improving our day-to-day customer interactions and deepening our understanding of customer needs. In addition, we have given focus to more timely and transparent communication via multiple channels, including several face-to-face community meetings on important issues.

We are working closely with our contracting partners to improve the experience for customers. Our Customer Voice Panels have been a successful initiative to gain valuable customer insights and this programme will continue through the next financial year.

FINANCIAL RESULTS

Our financial performance for the year ended 30 June 2019 (FY19) continued to reflect the investment demands of major infrastructure renewal, the current shortfalls in historical regulated revenue allowances administered by the Commerce Commission and the additional costs of operating as a standalone company.

Underlying financial performance measures were generally in line with forecast expectations.

Aurora Energy's FY19 operating expenditure again exceeded the historic regulated allowances administered by the Commerce Commission under its default price-quality path regime. Network maintenance costs increased by $0.9 million to $16.2 million (FY18 $15.3 million) driven predominantly by higher vegetation management expenditure.

Aurora Energy continued to invest strongly in its network evidenced by capital expenditure of $62.0 million (FY18: $78.4 million) on new network assets during the year under review. Total assets increased by $44.8 million to $580.4 million. Term borrowings increased by $46.8 million to $301.4 million.

As previously reported, Aurora Energy breached its network reliability standards in the 2015, 2016, 2017 and 2018 disclosure years. We also breached our regulated network reliability target for the 2019 disclosure year. At balance date, the Board considered it probable that the Commerce Commission would impose a financial penalty for the aforementioned breaches and consistent with financial reporting requirements, made a $5.0 million provision for the Commerce Commission's quality breach enforcement action. The actual penalty is yet to be finally determined, however we believe the provision made at balance date remains a reasonable estimate of the likely outcome. Regulatory and legal processes associated with the breaches are expected to be concluded during FY20.

As forecast, Aurora Energy recorded a net operating loss for the year under review. The net operating loss after tax was $5.9 million before providing for the Commerce Commission's quality breach enforcement action (slightly favourable against the forecast for FY19 $6.8 million loss) and $10.9 million after recognising the $5.0 million provision.

At balance date, the Directors also assessed the year-end valuation of the network assets and determined that the recoverable amount of those assets was not less than the current carrying value. The Board notes that the outcomes of future regulatory reset processes, including the default price-quality path reset from 1 April 2020 and the ensuing customised price-quality path application are presently uncertain. The Directors will continue to assess the value of the network assets as further information becomes available.

As signalled in its Statement of Intent, Aurora Energy paid no dividends during FY19. The view of the Board and our shareholder, Dunedin City Holdings Limited, is that forgoing dividends during the current period of infrastructure renewal is prudent and in the long-term interests of both the shareholder and Aurora Energy's customers.

FORWARD PLANNING

Aurora Energy's network covers two of the fastest growing regions in New Zealand, Queenstown Lakes and Central Otago. Over the next ten years, Aurora Energy plans to invest more than $790 million in renewing, upgrading and maintaining the network to provide safe and reliable electricity supply.

Our future network investment is set out in our Asset Management Plan 2018-2028 released in October 2018 with further refinements presented in our Asset Management Plan Update in March 2019. These plans outline our priorities for the next ten years and our team is already underway delivering projects outlined in the Asset Management Plan.

Like other networks in New Zealand, we are also planning for an expected increase in customer connections across our network. We are working hard as a business to ensure our long-term plans support this level of growth, as well as new technology choices for local households and businesses.

We continue to build our team to ensure we have access to the technical skills and capacity to plan for the future and deliver our network upgrade programmes effectively. We are also repositioning the business to improve the way we run our operations and manage our assets long term. A key part of this has been establishing a new, dedicated team to improve customer service and expand our engagement with stakeholders. This includes a new customer connections process to better meet customer expectations and support contractors to meet connection requirements in a timely manner.

FUTURE PRICING & CPP

Over the next ten years, Aurora Energy plans to invest more than $790 million in renewing, upgrading and maintaining the network to provide safe and reliable electricity supply to our customers.

This level of investment is a significant increase on historical levels.

In May this year the Commerce Commission released its draft decision on the maximum prices and minimum reliability quality standards for regulated electricity lines companies.

The draft decision resets the default price-quality paths of 16 electricity distribution businesses, including Aurora Energy, for the five years from 1 April 2020 to 31 March 2025.

On a preliminary view, the Commerce Commission's draft default price-quality path decision would mean that the distribution component of Aurora Energy's line charges (the amount charged for transporting energy from the national grid to homes and businesses) would increase from 1 April 2020. The final decision and precise level of allowed revenue for Aurora Energy will be made by the Commerce Commission in November 2019.

The Commerce Commission has also made a draft decision to lower transmission costs that would offset any impact on a consumer's total power bill arising from Aurora Energy's charges.

As we will be applying for a customised price-quality path to take effect from 1 April 2021, the reset default price-quality path will only apply to Aurora Energy for a single year (from 1 April 2020 to 31 March 2021).

The customised price-quality path or CPP application, is where the Commerce Commission can set new spending thresholds for an individual company based on its current circumstances.

As a part of this process we are required to consult electricity customers on our proposed investment plans, what this means for the future of the network and what our customers and stakeholders want us to deliver.

An increased programme of investment inevitably costs more. While any price increase is unwelcome, Aurora Energy's average distribution prices have been among the lowest in the country over the past decade.

During our consultation period in 2019, we will be asking our customers and stakeholders about their preferred trade-offs between price and reliability to ensure our CPP application accurately reflects both our, and our customers', needs.

As a part of our consultation, we have established a Customer Advisory Panel, which is made up of community organisations, consumer advocacy groups, local Councils and energy retailers who will represent their communities' views in the CPP engagement process.

The Customer Advisory Panel draws on the experience and connections of community organisations to represent the diverse interests of customers on our network, from vulnerable customers to farmers to generators. We will be working with the Panel throughout the year, holding discussions on service expectations, pricing, reliability and future technologies.

We are due to make our CPP application in May 2020 and our proposal will outline our planned network investment, service levels and pricing for a period of up to five years. If approved, our CPP would take effect from 1 April 2021.

EMERGING & NEW TECHNOLOGIES

Emerging and new technologies, such as electric vehicles, are becoming more and more a part of the energy mix in New Zealand. A recent study from the University of Otago revealed that Dunedin has the highest number of electric vehicles per head of population in the country. As new technologies emerge and become more commonplace, the way in which we supply energy to households will also change. At Aurora Energy, we are planning for this growth and change now to ensure we have the infrastructure to support these technologies into the future.

As well as planning for tomorrow, we are supporting technology uptake today. Our partnership with ChargeNet has seen the number of public fast chargers increase to seven across Central Otago and Dunedin, with two more planned in 2019. We also have an electric vehicle as a fleet car with sufficient range to easily travel between our Dunedin and Cromwell offices.

Source data from Ministry of Transport, Regional light EV fleet size by month: Otago

NETWORK INVESTMENT

1,477
poles replaced

1,702
poles reinforced

52.77
km of vegetation management along overhead lines

In 2019 we continued to focus on renewal, upgrade and maintenance delivery to ensure the Aurora Energy network remains safe and reliable for customers. The combined spend on new assets and maintenance totalled $78 million.

Our focus remained on replacing and reinforcing poles across the Aurora Energy network to ensure reliability of supply and the safety of our network. We also continued future proofing the network with the opening of the Carisbrook substation and work commencing on the Smith Street cable upgrade, both in Dunedin.

In April, we opened the new Carisbrook substation, which replaced the ageing Neville Street substation in Dunedin. The Carisbrook substation will ensure future reliable electricity supply to more than 3,600 homes and businesses in South Dunedin. This two-stage, $15 million, investment project included building a new substation and installing new high voltage underground cabling in the Dunedin area. In late 2018, we held an official opening for the new Riverbank switching substation which will increase reliability of supply to the Wanaka community.

Work also commenced earlier this year on upgrading the high voltage underground cables running from the Halfway Bush grid exit point to the Smith Street substation. The upgrade will ensure Aurora Energy can provide reliable and safe electricity supply to Central Dunedin.

Keeping trees clear of power lines is critical for public safety and to reduce the risk of unplanned power cuts. This year, our continued focus on vegetation management, has seen considerable progress towards achieving 100 percent managed state across the network.

We commenced new contracting agreements with Delta, Connetics and Unison Contracting from 1 April 2019 to promote efficient delivery of our works programme. The move is a milestone for Aurora Energy as we reposition the business and secure the contracting resources we need for an increased level of planned work. The new contracting agreements were a further step in establishing a stable, competitive market and bring greater transparency and accountability to network expenditure, which will ultimately benefit electricity customers.

CUSTOMERS

Our focus again this year has been on achieving meaningful engagement and communication with customers across our network.

CUSTOMER CONNECTIONS

as at 31 March

2014	2015	2016	2017	2018	2019
84,362	85,530	86,375	87,771	89,199	90,419

Aurora Energy customers have told us that early notification around planned power outages and timely updates during major weather events are important. We have been working to ensure that our customers have access to this information via our website and social media channels. We understand that power cuts do not only happen during working hours and this year we continued to provide updates on major weather events and major unplanned outages outside of business hours. Our Customer and Engagement team is investigating ways to make real-time information consistently available, following feedback from our customers.

In March this year, we hosted a third round of Customer Voice Panels with sessions in Dunedin, Central Otago and Queenstown Lakes. The panels, which began in late August 2018, bring together a cross-section of residential and small business customers in our key service regions of Dunedin, Central Otago and Queenstown Lakes.

The feedback from this year's panels built on the 2018 sessions. Customers told us they want easy access to information on power outages and communication around our future plans. We have been listening to this feedback and are continuously working to incorporate this into our business-as-usual operations.

This year we achieved a significant customer milestone, welcoming our 90,000th customer onto the network, a reflection of continued population growth. With our network covering two of the fastest growing regions in New Zealand, we expect new customer connections to continue to increase and are planning for this growth now to ensure the network meets future demand.

With the growth in new customers it is important that the process to connect to our network is as seamless as possible. We are developing an improved process for customer initiated works, with the goal of making it easier for our existing and new customers to arrange a new or larger connection on the network.

WHAT CUSTOMERS TOLD US THEY WANT

- Easy access to information on power outages in their area
- Update on progress to date and plans for the future
- Want to see clear benefits if prices are to increase
- Believe we are taking steps to improve the network but still believe there is more to do

RELIABILITY OF SUPPLY

MINUTES OFF

Average number of minutes that customers were without electricity, per customer per annum (normalised SAIDI) year ended 31 March.

2019 | **185 Mins**

2018 | **253 Mins**

2017 | **109 Mins**

2016 | **129 Mins**

2015 | **124 Mins**

COMPLIANCE LIMIT

UNPLANNED OUTAGES

PLANNED OUTAGES

Our increased renewal programme requires far more planned outages than in the past. That contributes to our reliability performance exceeding compliance targets that are based on historic levels.

CUSTOMER COMPLAINTS

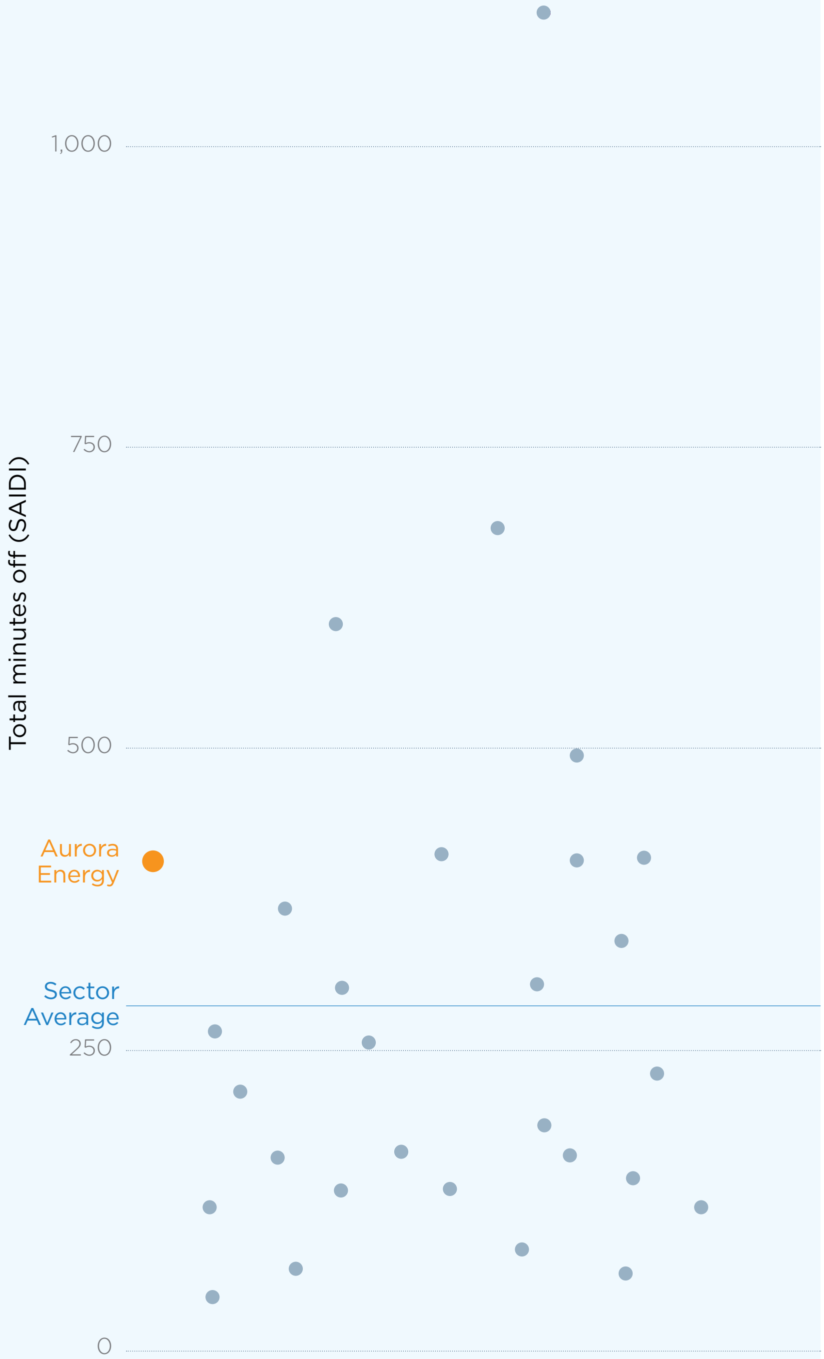
Customer complaints received by independent complaints resolution service, Utilities Disputes. Most of the complaints related to outages.

REASON FOR COMPLAINTS

- OUTAGES
- OTHER

RELIABILITY

As a result of a significant increase in outages for network upgrades, our reliability of supply has declined to below the New Zealand sector average.



Source data from PwC Information Disclosure Compendium 2018, p106.
Class B & C (Network Planned and Unplanned Interruptions on the Network)

COMMUNITY

Aurora Energy is proud to support the communities we serve through partnerships and sponsorships of events across our network in the areas of technology, arts and young people.

In 2019, Aurora Energy continued as a major sponsor of the biennial Festival of Colour. The festival brings local, national and international artistic and cultural acts to the Wanaka and Queenstown Lakes communities. As the electricity supplier to homes, farms and businesses in the Wanaka and Queenstown Lakes area, we were pleased to once again power the festival and share the entertaining and thought-provoking shows with all festival attendees.

Aurora Energy was proud to continue its longstanding partnership with the Otago Science and Technology Fair again in 2019. The Fair encourages students across Otago to delve deeper into learning about science and technology.

With the growing number of electric vehicles across the network, Aurora Energy was pleased to sponsor refreshments for the *Everyday Questions about EVs* in New Zealand event, which was held in Dunedin in May as part of TechWeek.

We continued our conservation partnership with the Department of Conservation to reduce the risk to kārearea or New Zealand falcon when they perch on our overhead electricity equipment. We unveiled our educational FalconSafe sign in Glenorchy in June along with the Department of Conservation.

We attended four A&P Shows across our region, engaging with the community, providing information about the business and showcasing our electric vehicle.

Outside of existing partnerships, the Aurora Energy Executive Leadership Team travelled to the Central Otago District Council, Vincent Community Board and Queenstown Lakes District Council to provide an update on the investment progress in each Council area and to address any concerns. In 2020, the Aurora Energy Executive Leadership Team will be continuing to engage with local Councils and work with them on a more proactive basis.

SAFETY AND RISK

Safety is our first and foremost priority at Aurora Energy.

OUR SAFETY RULES

ELECTRICAL SAFETY

WORKING AT HEIGHTS

LIFTING OPERATIONS

VEHICLES, PLANT AND EQUIPMENT

DRIVING

PUBLIC SAFETY

REMOTE AND ISOLATED WORK

EMERGENCY RESPONSE

We take not only the safety of our staff, but the safety of our contractors and customers extremely seriously. We run ongoing public awareness campaigns to inform the community about ways to keep safe around our electricity network.

This year we have continued to embed our Safety Choices Programme, including public safety into the operations and work practices of all staff and our contractors. The set of safety rules has been applied across the business and they guide both our office-based teams and those in the field.

Our new rapid response system is a practical example of how we apply those rules to manage critical risks. The system, launched in November, records and resolves potential public safety risks on the network. An accompanying mobile application was developed that improves capture of observed defects in the field, immediately identifies any with a public safety risk based on the public safety risk framework and initiates the necessary response. In order to respond to these risks, we developed a Rapid Response Team which has the capability to identify and respond to public safety issues in a timely manner.

More than 200 public safety jobs have been issued to contractors for action since the application was launched, primarily to address footpath pillar boxes, low line clearance and encroaching vegetation.

Supporting such internal process improvements, we maintain a regular programme of independent safety checks across the network to ensure the required standards of safe work practice and asset construction are achieved. Experienced industry assessors carry out audits in the field that provide valuable information on where improvements can be made to ensure the consistent application of safe work methods.

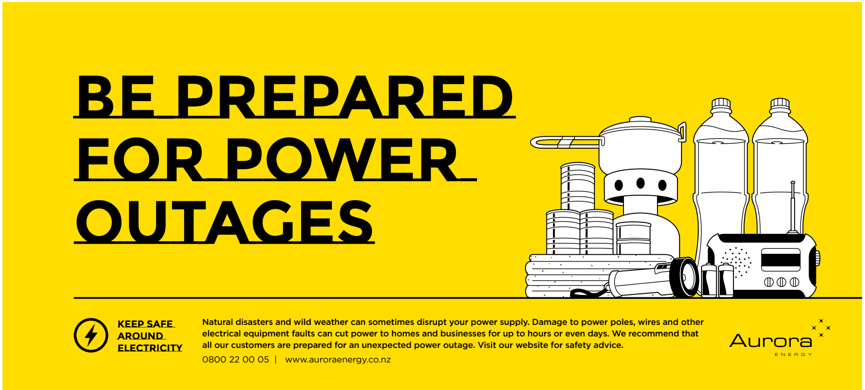
Major storms or earthquakes can disrupt supply and endanger the public and workers. As an essential service provider, it is vital we are well-prepared to respond in emergency situations and recover. We aligned our emergency response procedures to the New Zealand Coordinated Incident Management System (or CIMS) framework that is widely used by emergency services to manage incident response.

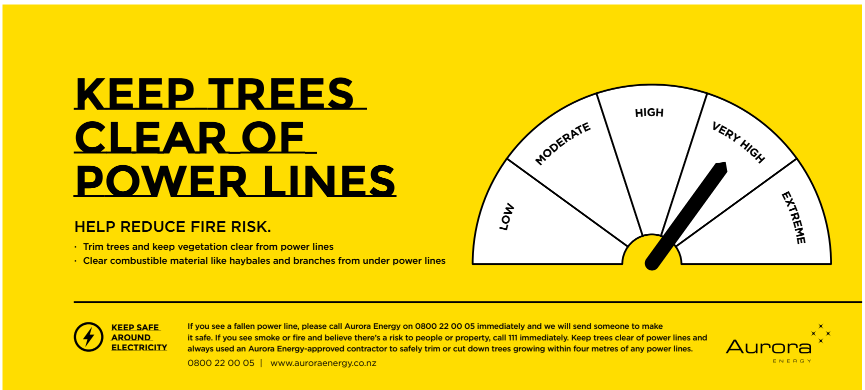
During the year, all Aurora Energy personnel involved in incident response received CIMS training to ensure familiarity with the framework and the knowledge and skills to command, control and coordinate incident response in a range of scenarios.

Targeted safety messages are promoted through print and online advertising and focus on informing the community about ways to keep safe around our network, being prepared in the event of a power outage and the hazards of digging near underground cables. To make it easier for the public and contractors wanting to work within four metres of overhead or underground cables we moved to 'beforeUdig', a free national online service that allows customers and contractors to request maps and information from a variety of utilities to check underground cables and pipes before commencing work.

The weather leading into the summer period saw strong vegetation growth across our region with a heightened risk of fire, particularly in Central Otago. To manage the increased fire risk during such periods, our policy is to suspend the automatic reclosing of overhead electricity circuits on the network and we enacted these measures during the months January-March 2019.

The public has an important role to play in reducing the risk of fire to the Aurora Energy network. We added a new safety message to our awareness campaign, encouraging the community to keep flammable material away from electricity lines during the summer months when fire danger is high. We reinforced the same advice in our engagement with local Councils to inform them of the fire risks and identify opportunities for a coordinated response to preventative actions.





OUR PEOPLE

At Aurora Energy our people are our most valuable asset. We pride ourselves on having a diverse and inclusive workforce. We see our people as the key ingredient to our success and over the past year we have had a key focus on maturing and modernising our people practices across the business.

With key skills shortages remaining a fact of life, Aurora Energy has continued to review and refine our employment conditions to ensure we are an employer of choice in a competitive market. All full-time team members are paid above living wage and we have worked hard to reduce the pay equity gap by ensuring that similar roles within our organisation are in line with market data and robustly assessed.

At Aurora Energy we have a clear set of values and our work is guided by these. We work hard to bring these values to life in the workplace.

- We put safety first
- We act with integrity
- We are one team
- We are solutions focused
- We pursue learning and innovation.

We pride ourselves on being inclusive, diverse and committed to the employee experience.

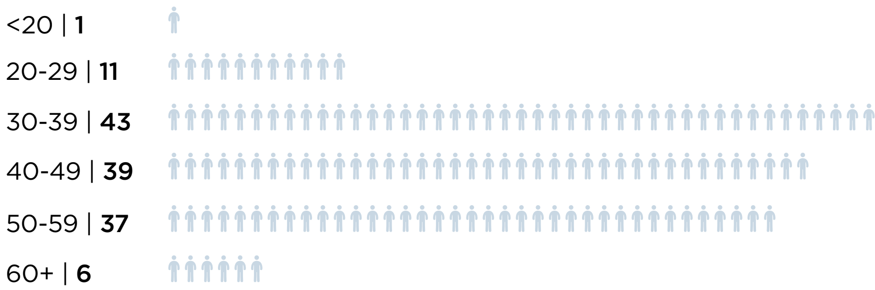
DIVERSITY

- 31% of our people were born outside New Zealand and come from 35 different countries.
- Our gender balance is above the industry average and the number of women in leadership roles continues to grow.
- Our workforce includes people from five different generations from 'The Silent Generation' (born before 1947) to Generation Z (born after 1996).

EMPLOYEES BY GENDER

	MALE	FEMALE
Directors	2 (50%)	2 (50%)
Executive Team	7 (87.5%)	1 (12.5%)
Direct reports to the Executive Team	13 (65.0%)	7 (35.0%)
Total	87 (63.5%)	50 (36.5%)

EMPLOYEES BY AGE



EMPLOYEES BY COUNTRY OF BIRTH

GOVERNANCE

We welcomed the appointment of Wendie Harvey as a Director of Aurora Energy in November. She brings a wealth of experience to the Board from her extensive legal career specialising in employment law and human resource management and her career as executive manager and business consultant.

A professional director, Wendie holds directorships in several infrastructure management companies including Napier Port, Hawkes Bay Airport and Centralines, the electricity network supplying Central Hawke's Bay.

Wendie Harvey replaces former director, Dave Frow, who stepped down from the Board by rotation at the conclusion of his second three-year term. The Board thanks Dave for his contribution to the governance of the organisation during a period of significant transformation for Aurora Energy.

Other members of the Board include our Non-Executive Chair Steve Thompson, Non-Executive Director Margaret Devlin, and Non-Executive Director Brenden Hall. Our Board contributes a rich array of skills gained over diverse careers including infrastructure, business consulting, financial services, human resource management and employment law.

STEVE THOMPSON
NON-EXECUTIVE CHAIR

Steve Thompson (BCom, FCA(PP), CFInstD) joined the Aurora Energy Board in June 2016 and was appointed Chair in December 2016. He was previously a Tax Partner and Office Managing Partner with Deloitte in Dunedin and retired from the partnership in May 2015.

Steve is Chair of electricity distribution network company Alpine Energy and is a Director of its contracting subsidiary NETcon. He is director of a number of New Zealand companies involved in the energy, construction, investment, manufacturing and professional services sectors. Steve is a Fellow of the New Zealand Institute of Chartered Accountants and a Chartered Fellow of the New Zealand Institute of Directors.

MARGARET DEVLIN
NON-EXECUTIVE DIRECTOR

Margaret Devlin (BA Hons, CFInstD) joined the Aurora Energy Board in July 2017. She is a professional director operating primarily within the infrastructure sector with a particular focus on audit and risk. Margaret is Chair of Watercare Services Ltd and Hospice Waikato. She is a Director of Meteorological Service of New Zealand, IT Partners and Waikato Regional Airport Ltd. Margaret is also a Councillor on the University of Waikato and the Waikato Institute of Technology (WINTEC). She has extensive experience in governance and executive management in New Zealand and the UK, primarily in the water and infrastructure sectors. She is a Chartered Fellow of the New Zealand Institute of Directors.

BRENDEN HALL
NON-EXECUTIVE DIRECTOR

Brenden Hall (BCom, CMInstD) joined the Aurora Energy Board in July 2017. He is an independent director and business advisor with over 30 years' experience across multiple industries. Brenden is currently a Director of Unison Networks Ltd, ETEL Ltd and Unison Fibre Ltd. For 20 years, Brenden was a principal and founding member of HGM, a specialist consulting practice. In his consulting capacity, he was engaged to lead a range of projects and initiatives for a cross section of generation, transmission and distribution companies in the New Zealand electricity sector. He is a Chartered Member of the Institute of Directors.

WENDIE HARVEY
NON-EXECUTIVE DIRECTOR

Wendie Harvey (LLB) joined the Aurora Energy Board in November 2018. She is a professional director whose governance appointments reflect her interests in strategy development, organisation change, infrastructure management and the promotion of health and safety in the workplace. Wendie is currently a Director of Napier Port, Hawkes Bay Airport, Centralines, the Electricity Training Company and Fire and Emergency New Zealand. Following an extensive legal career specialising in employment law and human resource management, Wendie brings a wealth of experience as a lawyer, executive manager and business consultant. She is also a Council member of the Eastern Institute of Technology and a New Zealand Gambling Commissioner.

EXECUTIVE LEADERSHIP TEAM

RICHARD FLETCHER
CHIEF EXECUTIVE

Richard (PhD, BEnvSc) joined Aurora Energy as Chief Executive in January 2018. He has extensive international experience in engineering and management consulting. He has advised on energy regulation, asset management, due diligence studies for mergers and acquisitions, as well as engineering investment plans. Before joining Aurora Energy, Richard was General Manager Regulation and Corporate Affairs at Powerco and before that a senior manager at national grid operator, Transpower NZ. From 2000 to 2005, Richard was Head of Economic Regulation at Welsh Water PLC.

GARY DIXON
CHIEF FINANCIAL OFFICER

Gary (BCom, CA) joined Aurora Energy in October 2011. He is responsible for the accounting and finance, risk assurance and corporate administration functions of Aurora Energy., accounting, and administration. A Chartered Accountant, Gary has previously held a number of senior management and corporate services roles in the commercial and financial sectors. He began his career with Westpac and was Chief Financial Officer of the Mainland Poultry Group for 12 years prior to joining Aurora Energy.

JOHN CAMPBELL
GENERAL MANAGER
OPERATIONS AND NETWORK PERFORMANCE

John (NZCE Electrical, REA) joined Aurora Energy in March 2015 and was appointed General Manager Operations and Risk in February 2017. He is responsible for network operations, operation of the network control centres, operational risk management and network safety for the Aurora Energy network. John has more than 30 years' experience in the electricity industry having held senior management roles at Central Power in the Manawatu and the national grid operator, Transpower. He brings broad experience in operations, risk and compliance, contract management, international benchmarking, procurement and strategic project management.

GLENN COATES
GENERAL MANAGER ASSET MANAGEMENT AND PLANNING

Glenn (NZCE, Be Hons Electrical) joined Aurora Energy in March 2018. He is responsible for asset management strategy and the associated growth and lifecycle management of our network assets. He also leads the Aurora design and engineering teams who support the delivery of our network and customer related projects. Glenn has more than 25 years' experience in the electricity industry having held senior management roles at Orion in Christchurch and operational roles for Transpower in Wellington. He brings broad experience in asset management strategy, planning and operations.

SIAN SUTTON
GENERAL MANAGER CUSTOMER AND ENGAGEMENT

Sian (MID) joined Aurora Energy in February 2019. She is responsible for Aurora Energy's customer experience, stakeholder engagement, communication and human resource management functions. Sian has been leading teams of communication and engagement professionals for over 15 years in various settings internationally. Before joining Aurora Energy, Sian was Director of Stakeholder Engagement at the Otago Regional Council and before that worked extensively in Australia in similar roles with a strong background in stakeholder engagement, media, government relations, communication and customer experience.

ALEC FINDLATER
GENERAL MANAGER REGULATORY AND COMMERCIAL

Alec (MBA) joined Aurora Energy in 1999 and was appointed General Manager Network Commercial in February 2017. He is responsible for network pricing, connection management, commercial development, customer solutions, regulatory affairs and resource management for the Aurora Energy network. Alec has more than 30 years' experience in electricity transmission and distribution, with senior roles encompassing design and engineering, contracting and commercial management.

EXECUTIVE LEADERSHIP TEAM CONTINUED

MARK PRATT
GENERAL MANAGER WORKS PROGRAMMING AND DELIVERY

Mark joined Aurora Energy in 2018 and was appointed General Manager Works Programming and Contracts in December 2018. He is responsible for the forward programming of physical works and managing contractor service delivery on the Aurora Energy network. Mark has more than 30 years' experience in contract management and service delivery. Before joining Aurora Energy, Mark was Electricity Contracts and Performance Manager at Powerco.

MARK CORBITT
CHIEF TECHNOLOGY OFFICER
(until August 2019)

Mark joined Aurora Energy in February 2017 and finished his tenure in August 2019. He was responsible for information technology strategy and operations and network technology development.

The Board and Chief Executive thank Mark for his contribution to the Aurora Energy Executive team.

THANKS

The Board and Executive Team would like to thank the Aurora Energy management team, staff and our contractor partners for their hard work and contributions during a busy year of delivery and improvement. We have more work ahead of us to meet the demands of the future and remain committed to that important task.

We acknowledge the dedication of our people and contractor partners who work and live throughout the Otago region. We are proud of our diverse and dedicated workforce and their positive contribution to powering our communities.

The year has been one of significant progress as we make good on our commitment to our customers and communities to provide a safe and reliable electricity service. We thank the community for their patience and support as we deliver the necessary work to upgrade and renew the network. We look forward to continued engagement with our customers and key stakeholders in the years ahead as we progress with our network investment plans in Dunedin, Central Otago and Queenstown Lakes.

TREND STATEMENT

YEARS ENDED 30 JUNE	Note		2019	2018	2017	2016	2015
Energy received into network		GWh	1,444	1,451	1,441	1,398	1,408
Energy received for delivery to consumers	1	GWh	1,401	1,417	1,390	1,365	1,361
Energy delivery reliability (average time without supply per consumer per annum)		Minutes	**164.9**	**258.3**	**227.0**	**235.0**	**137.3**
Total revenue		$000	**103,229**	**106,501**	**102,868**	**100,032**	**99,462**
Operating profit (loss) before tax (before subvention payments and provision for network reliability performance breach provision)		$000	**(7,049)**	**1,197**	**11,278**	**16,262**	**18,420**
Provision for network reliability performance breach provision		$000	(5,000)	-	-	-	-
Net profit (loss) before tax before subvention payments		$000	**(12,049)**	**1,197**	**11,278**	**16,262**	**18,420**
Tax		$000	(1,106)	772	2,572	2,507	2,952
Net profit (loss) for the year (before after-tax value of subvention payments)		$000	**(10,943)**	**425**	**7,294**	**11,713**	**13,426**
Net profit (loss) for the year (after subvention payments)	2	$000	(10,943)	425	7,294	6,463	8,176
Cashflow from operating activities		$000	16,887	18,448	20,981	23,286	20,392
Dividends paid		$000	-	-	1,500	3,000	4,750
Equivalent dividends (actual dividends plus after-tax value of subvention payments)		$000	-	-	1,500	8,250	10,000
Shareholder's equity		$000	**179,576**	**190,819**	**190,432**	**183,648**	**182,550**
Total assets		$000	**580,376**	**535,549**	**472,619**	**436,452**	**413,855**
Capital expenditure (net)		$000	**62,040**	**78,421**	**45,152**	**37,196**	**35,421**
Return on average equity (before after-tax value of subvention payments)			(5.9%)	0.2%	3.9%	6.4%	7.4%
Equity to total assets			30.9%	35.6%	40.3%	42.1%	44.1%

NOTE:

1 Energy received statistics for regulated years ended 31 March are reported under the Network Performance Summary on page 36.

2 Aurora Energy Limited is part of the Dunedin City Holdings group of companies. In the years ended 30 June 2015 and 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 mil which had no effect on the company's profit for the year. Aurora Energy has not made any subvention payments in the years ended 30 June 2018 & 2019.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2019

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
HEALTH, SAFETY, COMMUNITY AND ENVIRONMENT OBJECTIVES			
Health and Safety			
• Zero serious harm events involving members of the public.	0	Achieved	There were no serious harm incidents during the year involving members of the public.
• Reduce levels of recordable harm.	≤ 4.50 total recordable injury frequency rate (TRIFR) per 200,000 hours worked	Achieved	Aurora Energy and its largest contractors achieved a TRIFR of 4.0 per 200,000 hours worked during the year.
Community			
• Maintain community support through sponsorships and community initiatives including the street art programme on Aurora Energy assets.	$20,000 of sponsorship per annum	Achieved	$35,800 was spent in support of community initiatives during the year. Aurora's main community sponsorship was the Southern Lakes Festival of Colour.
• Promote uptake of electronic vehicles.	At least 3 public charging facilities connected to Aurora network.	Achieved	There are at least seven public fast chargers connected to the network.
• Partner with Department of Conservation in the NZ Falcon conservation project aimed at reducing risk of bird electrocution.	Network Design Standards updated to include FalconSafe requirements for all new installations.	Achieved	FalconSafe network design standards incorporated on all new installations across the business.
Environment			
• No transgression of the environmental and resource law occurs.	No breaches	Achieved	There were no Resource Management Act breaches during the year.
NETWORK OPERATIONS (Regulatory Year Targets – Period Ended 31 March 2019)			
• Consumer connections (ICP count)	89,000 average per annum	Achieved	Total customer connections were 90,419 as at 31 March 2019.
• Load factor %	≥ 54.00% energy into network/peak kW hours	Achieved	54%
• Capacity utilisation %	≥ 30.0% peak network kW/installed distribution transformer capacity kVA	Achieved	31%
• Customer responsiveness – achieve average network restoration times of < 4 hours for urban customers and < 6 hours for rural customers	≤ 60 number of events outside urban and rural restoration targets that resulted in service payments to customers.	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 2019 – continued

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
NETWORK RELIABILITY (Statement of Intent Targets – Period Ended 31 March 2019)			
• SAIDI			
- Class B interruptions planned	≤ 146.00 minutes	Achieved	77.15 minutes
- Class C interruptions unplanned	≤ 111.00 minutes	Achieved	108.34* minutes
- Total	≤ 257.00 minutes	Achieved	185.49 minutes
• SAIFI			
- Class B interruptions planned	≤ 0.72	Achieved	0.37 interruptions
- Class C interruptions unplanned	≤ 2.05	Achieved	1.75* interruptions
- Total	≤ 2.77	Achieved	2.12 interruptions

*Class C SAIDI and SAIFI are expressed as normalised figures. Regulatory reporting allows for the effect of extreme events to be removed, resulting in normalised figures that are compared against target. The raw results for Class C SAIDI and SAIFI were 168.00 minutes and 1.89 interruptions respectively.

ECONOMIC DEVELOPMENT

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
• Promote economic development by providing essential electricity infrastructure to support the Council's strategy to be one of the world's great small cities.	Refer to Safety & Network Reliability targets.	Achieved	Safety and Network Reliability targets were achieved.

SHAREHOLDER OBJECTIVES

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
• Engage with the Shareholder annually on opportunities for the Company to contribute, or assist where possible, with Council's community outcomes (as listed in the Annual Plan). Consult with the Shareholder on matters to be included in the Company's Statement of Intent	Shareholder approval of the Company's Statement of Intent.	Achieved	2019-2020 Statement of Intent has been submitted and approved.
• Bring to the attention of the Shareholder any strategic or operational matters where there may be a conflict between the Council's community outcomes and those of the Company.	No unnotified potential conflicts.	Achieved	Issues of potential strategic or operational conflicts were notified to the Shareholder.
• Keep the Shareholder informed of all substantive matters.	All substantive matters reported within 24 hours.	Achieved	All substantive matters were reported to the Shareholder within 24 hours.

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2019 – continued

PERFORMANCE MEASURE	TARGET $000	OUTCOME	RESULT $000
FINANCIAL OBJECTIVES			
Financial results before $5.0 million provision for historical network reliability breaches			
• EBITDA	21,440	Achieved	21,479
• Net surplus after tax	(6,753)	Achieved	(5,943)
• Shareholder's funds	184,174	Achieved	184,576
• Shareholder's funds to total assets	32%	Achieved	32%
Financial results after $5.0 million provision for historical network reliability breaches			
• EBITDA	21,440	Not achieved	16,479
• Net surplus after tax	(6,753)	Not achieved	(10,943)
• Shareholder's funds	184,174	Not achieved	179,576
• Shareholder's funds to total assets	32%	Not achieved	31%
Financial results - other			
• Cash flow from operations	17,651	Not achieved	16,887
• Capital expenditure	66,568	Not achieved	62,040
• Term debt	≤ 307,415	Achieved	301,350

NETWORK PERFORMANCE

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

12 months ended 31 March		2019	2018	2017	2016	2015
System Physical Measures						
Average length of lines and cables	km	6,575	6,683	6,135	5,878	5,815
Total capacity of distribution transformers	MVA	978	962	953	947	928
Distribution transformer capacity utilisation	%	31%	31%	31%	31%	31%
Consumer Measures						
Number of consumer connections		90,419	89,199	87,771	86,375	85,530
System maximum coincident demand	MW	299	300	291	291	286
Energy received for delivery[6]	GWh	1,419	1,400	1,364	1,388	1,347
Average load factor		54%	53%	53%	54%	54%
Average minutes off per fault	CAIDI	88	79(5)	73(5)	63(5)	81(1)(5)
Average faults per annum	SAIFI	2.1	3.2(5)	1.5	2.0(5)	1.6(5)
Average minutes off per annum	SAIDI	185	253(4)	109(3)	126(2)(5)	130(1)(5)

NOTES:

km - kilometres

MVA - megavolt amperes

MW - megawatts

GWh - gigawatt hours

CAIDI - Consumer Average Interruption Duration Index

SAIFI - System Average Interruption Frequency Index

SAIDI - System Average Interruption Duration Index

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

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

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

(4) 2018 and 2019 results have been significantly driven by Aurora's asset renewal programme, which requires a high proportion of de-energised work compared to previous years.

(5) In 2019 we identified an error in the way in which we calculated SAIFI. The SAIFI and CAIDI figures, together with any SAIDI figures that have been impacted, have been corrected and differ from those in previous annual reports.

(6) Energy received statistics for years ended 30 June are reported in the Trend Statement on page 32.

DIRECTORS' REPORT

for the year ended 30 June 2019

The Directors of Aurora Energy Limited are pleased to report on the financial results and associated matters for the year ended 30 June 2019.

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 2019	$000
Operating (loss) before income tax and provision for network reliability performance breach	(7,049)
less income tax benefit	1,106
Net operating loss before network reliability performance breach	**(5,943)**
Provision for network reliability performance breach	(5,000)
Net (loss) after tax	(10,943)

STATE OF AFFAIRS

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

DIVIDENDS

No dividends were declared or paid during the year.

RESERVES

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

	$000
Cash flow hedge reserve – to (from)	(300)
Retained earnings – to (from)	(10,943)

DIRECTORS' REPORT

for the year ended 30 June 2019 - continued

REVIEW OF OPERATIONS

The Company continued to build and further develop asset management, work programming and service delivery capabilities during the period under review.

Operating results were in line with forecast expectations prior to the estimated financial impact of historical network performance quality breaches. At balance date, the Board assessed that it was probable the Commerce Commission would impose a financial penalty on Aurora Energy for those breaches and a $5.0 million provision was recognised in the financial statements.

The financial performance of the Company continues to reflect that Aurora Energy is investing in its network at levels well in excess of the regulatory expenditure allowances for which it is currently compensated under the Commerce Commission's default price-quality path regime. The Company has signalled its intention to apply for a customised price-quality path in 2020 and the outcome of this application is expected to have a significant positive impact on financial performance from 1 April 2021.

At balance date the Directors assessed the year-end valuation of the network assets and determined that the recoverable amount of those assets was not less than the current carrying value.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2019 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 2019 or existed at that date are disclosed in the related parties section of this report.

CHANGE OF DIRECTORS

David J Frow retired as a Director of Aurora Energy Limited as of 31 October 2018 and was replaced by Wendie N Harvey on the 1st of November 2018.

DIRECTORS' REPORT

for the year ended 30 June 2019 - continued

DIRECTORS' REMUNERATION

The remuneration paid to Directors during the year was:

Stephen R Thompson	$99,193
Margaret P Devlin	$54,418
Brenden J Hall	$54,418
Wendie N Harvey	$39,219
David J Frow	$15,158
	$262,406

EMPLOYEES' REMUNERATION

The number of employees and former employees whose remuneration and benefits exceeded $100,000 for the year ended 30 June 2019 is listed below. Remuneration incudes all non cash benefits and redundancy payments at total cost to the company where applicable:

$100,000 – $109,999	13
$110,000 – $119,999	7
$120,000 – $129,999	8
$130,000 – $139,999	7
$140,000 – $149,999	3
$150,000 – $159,999	1
$160,000 – $169,999	1
$180,000 - $189,999	1
$190,000 - $199,999	1
$240,000 - $249,999	1
$290,000 - $299,999	2
$310,000 - $319,999	1
$380,000 - $389,999	1
$510,000 - $519,999	1
	48

AUDIT AND RISK COMMITTEE

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

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

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

KPMG were appointed as internal auditors to the Company and replaced Crowe Horwarth with effect from 1 February 2019.

HEALTH AND SAFETY BOARD COMMITTEE

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

REMUNERATION COMMITTEE

The Remuneration Committee's role is to develop and implement policies relating to the remuneration and other terms and conditions of service of the Chief Executive and senior staff and to oversee remuneration practices.

AUDITOR

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

DIRECTORS' REPORT

for the year ended 30 June 2019 - continued

DIRECTORS' INSURANCE

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

DIRECTORS' BENEFITS

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

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

EVENTS SUBSEQUENT TO BALANCE DATE

There were no significant post balance date events.

For and on behalf of the Board of Directors

Stephen Thompson
CHAIRMAN

Margaret Devlin
DIRECTOR

5 September 2019

INFORMATION ON THE DIRECTORS

Director	Qualifications	Date Appointed	Declarations of Interests
Stephen R Thompson Non-Executive Chairman	BCom, FCA (PP), CF.Inst.D.	June 2016	Chair and shareholder – Thompson Bloodstock Limited Chair – Alpine Energy Limited Chair – Timaru Electricity Limited Director and shareholder – Cairnmuir Road Winery Limited Director and shareholder – Passmore Consulting Services Limited Director and shareholder – Prospectus Nominees Director – F.S. Investments Limited Director – Integrated Contract Solutions Limited Director – Keano's Trustee Company Limited Director – Millenium Solutions Limited Director – Netcon Limited Shareholder – Owhiro River Limited Director – Sarita Holdings Ltd Director – Wanaka Bay Limited Director – Westminster Resources Limited (Retired May 2019) Director – Whitestone Contracting Limited Partner – Queensberry Hills Development Shareholder – McKenzie Architects Limited Consultant – Deloitte New Zealand Director and shareholder – Best View Limited Partner – NT Partnership Shareholder – Whangamata Water 2 Limited Shareholder – Cerise Orchard Limited Shareholder – OB Horn Company Limited Shareholder – Renaissance Holdings (NZ) Limited Shareholder – Waikato Property Investments Limited Shareholder – Richard E Shackleton Architects Limited Shareholder – Anreca Investments Limited Shareholder – Lake McKay GP Limited Shareholder – Airtime New Zealand Limited Shareholder – Ripponvale Irrigation Company Limited
Brenden J Hall Non-Executive Director	B.Com, CM.Inst.D.	July 2017	Deputy Chair – Unison Networks Limited Director – Unison Fibre Ltd Director – ETEL Limited Director – ETEL Transformers Pty Ltd (Aus) Director and Shareholder – Stratview Holdings Limited

Director	Qualifications	Date Appointed	Declarations of Interests
Margaret P Devlin Non-Executive Director	CF.Inst.D.	July 2017	Chair – Audit and Risk Committee, Waikato District Council Chair – Hospice Waikato Chair – Harrison Grierson Holdings Limited (Retired 1 July 2019) Chair – Joint Committee, Waikato Plan Chair – Lyttelton Port Company Limited Chair – Titanium Park Limited Chair – Watercare Services Limited Chair – Women in Infrastructure Network (Advisory board to Infrastructure New Zealand) Director and Shareholder – Indepen NZ Limited Director – Auckland City Water Limited Director – E-Spatial Limited (Retired 1 July 2019) Director – Harrison Grierson Consultants Limited (Retired 1 July 2019) Director – Harrison Grierson International Limited (Retired 1 July 2019) Director – Infrastructure NZ Director – IT Partners Group Limited Director – Meteorological Service of New Zealand Limited Director – Waikato Regional Airport Limited Councillor – Waikato University Councillor – WINTEC (Waikato Technical College) Member of the National Infrastructure Advisory Board (Retired 1 July 2019)
Wendie N Harvey	LLB	November 2018	Chair – Hawke's Bay Airport Construction Limited Director – Centralines Limited Director – Fire and Emergency New Zealand Director – The Electrical Training Company Limited Director – Port of Napier Limited Director – Hawke's Bay Airport Limited Director – Quality Roading and Services (Wairoa) Limited (Retired 28 February 2019) Director and shareholder – Excellence in Business Solutions Limited Commissioner – New Zealand Gambling Commission Councillor – Eastern Institute of Technology Shareholder – TPGH Limited
David J Frow Non-Executive Director	B.Sc.Eng, CF.Inst.D.	Retired 31 October 2018	Chair and shareholder – Major Consulting Group Limited Chair – Holmes GP Fire Ltd Director – Energy Democracy Pty Ltd (Aus) Director – ETEL Limited Director – ETEL Transformers Pty Ltd (Aus)

FINANCIAL STATEMENTS

for the year ended 30 June 2019


MAERSK

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2019

	Note	2019 $000	2018 $000
Operating revenue	3	103,222	106,494
Financial revenue	4	7	7
Total revenue		**103,229**	**106,501**
Less expenses			
Operating expenses	5	104,661	95,459
Financial expenses	6	10,617	9,845
Total expenditure		115,278	105,304
Profit/ (Loss) before tax		**(12,049)**	**1,197**
Income tax (benefit)/expense	9	(1,106)	772
Net Profit/(Loss) after tax for the year		**(10,943)**	**425**
Other comprehensive income			
(Loss) on cashflow hedges		(300)	(38)
Total other comprehensive income		(300)	(38)
Total comprehensive income		**(11,243)**	**387**

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 2019

	Note	2019 $000	2018 $000
Equity at beginning of the year		190,819	190,432
Recognised income and expense			
Total comprehensive income		(11,243)	387
Less distribution to owner	8	–	–
Equity at end of the year		179,576	190,819

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

BALANCE SHEET

as at 30 June 2019

	Note	2019 $000	2018 $000
EQUITY			
Share capital	11	10,000	10,000
Cash flow hedge reserve	12	(2,617)	(2,317)
Retained earnings	13	172,193	183,136
Total equity		179,576	190,819
CURRENT LIABILITIES			
Trade and other payables	14	21,351	20,796
Provisions	16	6,196	1,242
Total current liabilities		27,547	22,038
NON-CURRENT LIABILITIES			
Cash flow hedge instruments	22	3,637	3,219
Provisions	16	321	278
Term borrowings	17	301,350	254,550
Deferred tax liability	18	67,945	64,645
Total non-current liabilities		373,253	322,692
Total liabilities		400,800	344,730
TOTAL EQUITY AND LIABILITIES		580,376	535,549

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

BALANCE SHEET

as at 30 June 2019 – continued

	Note	2019 $000	2018 $000
CURRENT ASSETS			
Cash and cash equivalents	19	1	36
Trade and other receivables	20	13,830	13,787
Inventories	23	1,788	2,535
Other current assets	15	573	1,597
Taxation receivable		5,309	2,168
Total current assets		21,501	20,123
NON-CURRENT ASSETS			
Investments	21	8	8
Intangible assets	25	102	156
Deferred tax asset	18	1,671	1,413
Property, plant and equipment	24	557,094	513,849
Total non-current assets		558,875	515,426
TOTAL ASSETS		580,376	535,549

For and on behalf of the Board of Directors

Stephen Thompson
CHAIRMAN

Margaret Devlin
DIRECTOR

5 September 2019

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 2019

	Note	2019 $000	2018 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from			
Receipts from customers		103,171	105,861
Interest and dividends received		7	7
Intra group tax loss/subvention receipt		1,098	-
Intra group transition receipt		-	902
		104,276	106,770
Cash was disbursed to			
Payments to suppliers and employees		76,267	76,909
Interest paid		11,542	9,820
Intra group tax loss/subvention payments		–	450
Net GST (received)/paid		(420)	792
Intra group transition payment		–	351
		87,389	88,322
Net cash inflows from operating activities	27	16,887	18,448
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from			
Sale of property, plant and equipment		–	8
		–	8
Cash was disbursed to			
Purchase of property, plant and equipment		63,722	81,678
		63,722	81,678
Net cash (outflows) from investing activities		(63,722)	(81,670)

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 2019 – continued

	Note	2019 $000	2018 $000
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from			
Proceeds from borrowings		70,450	82,300
		70,450	82,300
Cash was disbursed to			
Repayment of borrowings		23,650	19,100
		23,650	19,100
Net cash inflows from financing activities		46,800	63,200
Net (decrease) in cash, cash equivalents and bank overdraft		(35)	(22)
Cash and cash equivalents at beginning of the year		36	58
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	19	1	36

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 2019

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 5 September 2019.

BASIS OF ACCOUNTING

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

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

CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

2 SIGNIFICANT ACCOUNTING POLICIES - continued

LEASING

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

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

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

GOODS AND SERVICES TAX (GST)

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

IMPAIRMENT OF ASSETS

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

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

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

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

FINANCIAL INSTRUMENTS

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

2 SIGNIFICANT ACCOUNTING POLICIES - continued

CHANGES IN ACCOUNTING POLICIES

On 1 July 2018 the following accounting standards were adopted:

i) NZ IFRS 15: Revenue from contracts with customers

NZ IFRS 15 specifies how and when the Company recognises revenue and requires the financial statements to include more informative relevant disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Apart from providing more extensive disclosures the adoption of this standard has had no impact on the timing or recognition of major revenue items and therefore on reported revenue for the current or prior year.

ii) NZ IFRS 9: Financial Instruments

NZ IFRS 9 introduced changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. The adoption of NZ IFRS 9 has not resulted in any adjustments directly to the opening equity.

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. NZ IFRS 16 will not have a material impact on the Company's net profit before tax. However, NZ IFRS 16 will require that the Company recognises additional depreciation and interest expense in respect of its leased assets and lease liabilities, with a corresponding decrease in operating expenses.

	2019 $000	2018 $000
3 OPERATING REVENUE		
Line charges	62,562	59,541
Pass-through and recoverable cost revenue	35,321	40,196
Customer contributions	3,533	4,194
Total revenue	101,416	103,931
Other income	1,806	2,563
Total revenue and other income	103,222	106,494

Line charges and pass-through and recoverable cost revenue is recognised at the fair value of services provided. These revenue streams relate to the provision of distribution services for electricity. Prices are regulated and customers are charged through a mix of fixed charges which are recognised on a straight line basis and variable charges which are recognised based on the volume of distribution services provided. Consistent with NZ IFRS 15 this revenue is recognised during the period in which the service is delivered.

Customer contribution revenue relates to contributions received from customers towards the costs of reticulating electricity to new connections, constructing uneconomic lines and relocating existing network assets. Revenue is generally recognised at the time the new connection is fully constructed and livened. For contracts with multiple performance obligations revenue is recognised at the point in time when each performance obligation is satisfied.

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.

The Company adopted NZ IFRS 15: Revenue from Contracts with customers effective from 1 July 2018. Having considered the new revenue recognition criteria of NZ IFRS 15, the Company has determined that line charges and customer contributions received during the reporting period continue to meet the requirements for recognition as upfront revenue.

	2019 $000	2018 $000
4 FINANCIAL REVENUE		
Interest and dividends received	7	7

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 – continued

	2019 $000	2018 $000
5 OTHER EXPENSES		
Included in the operating expenses of the Company are the following items:		
Audit fees		
- for audit of financial statements	78	51
- for audit services in relation to regulatory (information disclosure) reporting	35	20
- for audit services in relation to price and quality thresholds and other regulatory reporting	25	15
Total audit fees	138	86
Transmission costs	33,470	37,405
Depreciation and amortisation	17,910	16,402
Maintenance costs	16,243	15,292
Employee remuneration and benefits	12,621	10,469
Provision for Commerce Commission quality breach enforcement*	5,000	–
Other contractor costs	1,189	1,930
Directors' fees	307	246
Bad debts written off	86	90
Lease expense	948	996
Loss on sale / disposal of fixed assets	1,089	702
Increase/(decrease) in provision for doubtful, trade and other receivables	335	208

*As previously reported, the Company breached network reliability standards contained in the Commerce Commission's default price quality path for Electricity Distribution Businesses in the 2015, 2016, 2017 and 2018 disclosure years. The Company also breached its regulated network reliability target for the 2019 disclosure year. Other expenses include a $5.0 million provision for pecuniary penalties that are likely to arise from these network reliability quality breaches.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 – continued

	2019 $000	2018 $000
6 FINANCIAL EXPENSES		
Interest – other	12	2
Interest – related parties	10,605	9,843
Total financial expenses	10,617	9,845

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.

	2019 $000	2018 $000
7 LEASE COMMITMENTS		
Non-Cancellable Operating Lease Commitments		
Payable within one year	925	423
Payable between one to five years	1,746	389
Payable later than five years	546	501
	3,217	1,313

8 DIVIDENDS

			2019	2018
Interim dividend	December	$0.000/share (2018: $0.000)	–	–
Final dividend	June	$0.000/share (2018: $0.000)	–	-
		$0.000/share for 2019 (2018: $0.000)	–	–

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 – continued

9 TAXATION

The tax expense comprises both current tax and deferred tax.

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

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

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

	2019 $000	2018 $000
INCOME TAX		
Operating profit/(loss) before income tax	(12,049)	1,197
Tax thereon at 28% (2018: 28%)	(3,374)	335
Plus/(Less) the Tax Effect of Differences		
Expenditure (deductible)/non-deductible for taxation purposes	1,511	66
Group loss offset	–	–
Consolidated group adjustment	557	392
Under/(over) tax provision in prior years	200	(21)
Tax effect of differences	2,268	437
Tax expense	**(1,106)**	**772**
Represented by		
Current tax provision	(4,007)	(1,423)
Deferred tax provision	2,701	2,216
Under/(over) tax provision in prior years	200	(21)
Income tax	(1,106)	772
Effective tax rate	**9.2%**	**64.5%**

During the 2019 income year, Aurora Energy has removed from its cost of assets for tax depreciation purposes the identified profits arising on the construction of those assets supplied by DCHL subsidiary, Delta Utility Services Limited. 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 $556,500 from Delta to Aurora. This approach has been adopted from 1 July 2015. The removal of the profit component from the 2019 assets acquired has also increased the current years' deferred tax charge.

IMPUTATION CREDIT ACCOUNT

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 – continued

	2019 $000	2018 $000
10 EARNINGS PER SHARE		
Basic earnings per share is calculated by dividing the net profit/(loss) attributable to the Shareholder of the Company by the weighted average number of ordinary shares on issue during the year.		
Number of shares		
Weighted average number of ordinary shares	10,000,000	10,000,000
Basic earnings per share in dollars	(1.09)	0.04
11 EQUITY - Share Capital		
Issued capital - 10,000,000 ordinary shares	10,000	10,000
12 CASH FLOW HEDGE RESERVE		
Balance at beginning of the year	(2,317)	(2,279)
Net revaluations	(417)	(53)
Deferred tax arising on hedges (note 18)	117	15
Balance at end of the year	(2,617)	(2,317)

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.

	2019 $000	2018 $000
13 RETAINED EARNINGS		
Balance at beginning of the year	183,136	182,711
Net profit/(loss) for the year	(10,943)	425
Balance at end of the year	172,193	183,136

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 – continued

	2019 $000	2018 $000
14 TRADE AND OTHER PAYABLES		
Trade and other payables are stated at cost and include:		
Trade payables	14,263	9,840
Due to related parties	7,088	10,956
	21,351	**20,796**

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

15 OTHER CURRENT ASSETS

	2019 $000	2018 $000
GST receivable	573	1,597
	573	**1,597**

16 PROVISIONS

	2019 $000	2018 $000
(i) Current liabilities		
Annual leave	1,050	935
Long service leave	65	62
Gratuities	32	47
Other provisions	5,049	198
Balance at end of the year	**6,196**	**1,242**
(ii) Non current liabilities		
Long service leave	146	142
Gratuities	175	136
Balance at end of the year	**321**	**278**

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

As previously reported, the Company breached network reliability standards contained in the Commerce Commission's default price-quality path for Electricity Distribution Businesses in the 2015, 2016, 2017 and 2018 disclosure years. The Company also breached its regulated network reliability target for the 2019 disclosure year. As at 30 June 2019, "Other provisions" includes a $5.0 million provision for pecuniary penalties that are likely to arise from these network reliability quality breaches.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 – continued

	2019 $000	2018 $000
17 TERM BORROWINGS (secured)		
Dunedin City Treasury Limited - related party	301,350	254,550
	301,350	254,550

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 $320.0 million.

	2019 $000	2018 $000
The repayment periods on the term borrowings are:		
Repayable between one to two years	–	–
Repayable between two to five years	301,350	254,550

The weighted average interest rate for the loans inclusive of any current portion, was 3.73% (2018: 4.65%).

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

18 DEFERRED TAX

	Opening Balance Sheet $000	Charged to Equity $000	Charged to Income $000	Transfer of Employees $000	Closing Balance Sheet Assets $000	Closing Balance Sheet Liabilities $000	Closing Balance Sheet Net $000
YEAR ENDED 30 JUNE 2019:							
Property, plant and equipment	(59,180)	-	(3,430)	-	-	(62,610)	(62,610)
Provisions	(4,954)	-	296	(25)	652	(5,335)	(4,683)
Revaluations of interest rate swaps	902	117	-	-	1,019	-	1,019
Balance at end of the year	(63,232)	117	(3,134)	(25)	1,671	(67,945)	(66,274)
YEAR ENDED 30 JUNE 2018:							
Property, plant and equipment	(57,120)	-	(2,060)	-	-	(59,180)	(59,180)
Provisions	(5,179)	-	(126)	351	511	(5,465)	(4,954)
Revaluations of interest rate swaps	887	15	-	-	902	-	902
Balance at end of the year	(61,412)	15	(2,186)	351	1,413	(64,645)	(63,232)

18 DEFERRED TAX – continued

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

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

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

	2019 $000	2018 $000

19 CASH AND CASH EQUIVALENTS

	2019 $000	2018 $000
Cash and bank	1	36
	1	36

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

The carrying amount of these assets or liabilities approximate their fair value.

20 TRADE AND OTHER RECEIVABLES

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

	2019 $000	2018 $000
Trade receivables	14,470	14,042
Dunedin City Council and Group entities	217	268
	14,687	14,310
Less estimated impairment	(857)	(523)
	13,830	13,787

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.

	2019 $000	2018 $000
Debtor ageing		
Current	13,479	13,125
Past due 0 to 30 days	322	248
Past due 31-60 days	62	48
Past due 61-90 days	73	70
90+ days plus	751	819
	14,687	14,310

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 – continued

	2019 $000	2018 $000
21 INVESTMENTS		
Investments are comprised of long-term equity instrument holdings which are available for sale. These are initially measured at cost, including transaction costs and are assessed annually for impairment. Any resultant losses on impairment are recognised in the income statement for the period in which they occur.		
Investments – listed companies	8	8
	8	8

Investments – listed companies

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

22 CASH FLOW HEDGE INSTRUMENTS AND HEDGE ACCOUNTING

	2019 $000	2018 $000
Interest rate swaps revaluations - receivable/(payable)	(3,637)	(3,219)
	(3,637)	(3,219)

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.

	2019 $000	2018 $000
23 INVENTORIES		
Network spare parts	8	12
Materials and stores	1,780	2,523
	1,788	2,535

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

24 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

Depreciation rates and methods used are:

	RATE	METHOD
Land	no depreciation charged	
Buildings	1% to 10%	straight line
Electricity network assets	1% to 20%	straight line
Plant and equipment	2% 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 – continued

24 PROPERTY, PLANT AND EQUIPMENT – continued

	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 2019:									
Cost									
Balance at beginning of year	5,432	12,332	594,733	2,761	191	468	4,968	57,956	678,841
Purchases	377	5,618	70,952	596	29	152	13	(15,697)	62,040
Transfers	-	-	-	(17)	-	(10)	-	-	(27)
Disposals	-	-	(1,401)	(1)	-	-	-	-	(1,402)
Total cost	5,809	17,950	664,284	3,339	220	610	4,981	42,259	739,452
Accumulated depreciation									
Balance at beginning of year	-	2,051	159,468	2,131	101	84	1,157	-	164,992
Transfers	-	-	-	(17)	-	(10)	-	-	(27)
Depreciation	-	194	17,130	205	10	58	152	-	17,749
Disposals	-	-	(356)	-	-	-	-	-	(356)
Total accumulated depreciation	-	2,245	176,242	2,319	111	132	1,309	-	182,358
Balance at end of year	5,809	15,705	488,042	1,020	109	478	3,672	42,259	557,094
YEAR ENDED 30 JUNE 2018:									
Cost									
Balance at beginning of year	5,402	12,284	535,615	2,348	191	66	4,968	40,811	601,685
Purchases	30	48	60,383	413	-	402	-	17,145	78,421
Transfers	-	-	-	-	-	-	-	-	-
Disposals	-	-	(1,265)	-	-	-	-	-	(1,265)
Total cost	5,432	12,332	594,733	2,761	191	468	4,968	57,956	678,841
Accumulated depreciation									
Balance at beginning of year	-	1,903	144,235	1,963	92	19	1,005	-	149,217
Purchases	-	-	-	7	-	21	-	-	28
Depreciation	-	148	15,788	161	9	44	152	-	16,302
Disposals	-	-	(555)	-	-	-	-	-	(555)
Total accumulated depreciation	-	2,051	159,468	2,131	101	84	1,157	-	164,992
Balance at end of year	5,432	10,821	435,265	630	90	384	3,811	57,956	513,849

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 2019 – continued

25 INTANGIBLES

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

	2019 $000	2018 $000
SOFTWARE		
Cost		
Balance at beginning of year	671	–
Related party transfers*	718	483
Purchases	148	188
Disposals	(187)	–
Total Cost	1,350	671
ACCUMULATED AMORTISATION		
Balance at the beginning of year	515	–
Related party transfers*	714	415
Amortisation	161	100
Disposals	(142)	–
Total amortisation	1,248	515
Closing Balance	102	156

*Related party transfers relate to asset cost and accumulated depreciation balances transferred to the Company fixed asset registers. The Company paid for these purchases based on the net book value of these assets.

26 EXPENDITURE COMMITMENTS

	2019 $000	2018 $000
Expenditure contracted for at balance date but not provided for in the financial statements	52,729	22,300
	52,729	22,300

The Company is party to three field services agreement contracts. Under these agreements, the value of total committed expenditure was $23 million as at 30 June 2019.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 – continued

	2019 $000	2018 $000
27 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/(loss) for the year	(10,943)	425
Items not involving cash flows		
Depreciation and amortisation	17,910	16,402
Increase/(decrease) in deferred tax	3,041	1,820
Other non cash items	(299)	(39)
(Increase)/decrease in cash flow hedge valuation	418	53
Impact of changes in working capital items		
(Increase)/decrease in trade and other receivables	(43)	(611)
Increase/(decrease) in trade and other payables	555	(4,486)
Increase/(decrease) in provision for tax	(3,141)	(1,864)
(Increase)/decrease in other current assets	1,024	(14)
(Increase)/decrease in inventories	747	1,510
Increase/(decrease) in other liability provisions	4,997	1,520
Items classified as investing or financing activities		
Capital creditors in accounts payable	1,210	3,030
Loss on write down of capital projects	322	-
Net (gain)/loss on sale of property, plant and equipment	1,089	702
Net cash inflows/(outflows) from operating activities	16,887	18,448

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 – continued

28 RELATED PARTY TRANSACTIONS

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

TRANSACTIONS WITH DUNEDIN CITY COUNCIL

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

YEAR ENDED 30 JUNE	2019 $000	2018 $000
Purchases of goods and services from Dunedin City Holdings Limited:		
Management fees	200	200
Subvention/tax loss offset payment	–	512
	200	712
Purchases of goods and services from Dunedin City Council:		
Rates and property leases	578	535
Capital Work	5	–
	583	535
Purchases of goods and services from other Dunedin City Council Group entities:		
Capital work	31,190	29,030
Network management and operation	15,051	11,059
Interest/facility fees	10,605	9,843
Contracting services	1,899	6,303
Lease of meters	77	84
Rent	404	434
	59,226	56,753

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 – continued

28 RELATED PARTY TRANSACTIONS - continued

	2019 $000	2018 $000
At period end the amounts payable by Aurora Energy Ltd to Group entities:		
Dunedin City Council Group entities	312,074	268,725
	312,074	268,725
Sales of services to Dunedin City Council:		
Contribution in respect of Capital Works	172	50
	172	50
Sales of services to Dunedin City Council Group entities:		
Rent	54	26
Service failure penalties	–	32
Sales of stock & other	482	401
Subvention / tax loss offset receipt	1,098	–
Tax compensation	549	440
Consulting & sundry services	63	–
Corporate shared services	548	1,200
	2,794	2,099
At period end, the amounts receivable by Aurora Energy Ltd from Dunedin City Council Group entities are:		
Dunedin City Council	137	82
Other Dunedin City Council Group entities:	1,938	1,326

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 services of $99,193 were purchased from Passmore Consulting Services Limited (2018: $85,500). No monies were outstanding as at 30 June 2019 (2018: nil).

Mr Thompson was Chairman of Infratec Limited. In the ordinary course of business during the financial period covered by this report, no services were purchased from Infratec Limited (2018: $385,800). No monies were outstanding as at 30 June 2019 (2018: nil).

Mr Thompson is a non beneficiary Trustee of a shareholder in McKenzie Architects Limited. In the ordinary course of business during the financial period covered by this report, services valued at $1,680 were purchased from McKenzie Architects Limited (2018: $9,800). No monies were outstanding at 30 June 2019 (2018: nil).

Mrs Devlin is a Director of Infrastructure New Zealand Limited. In the ordinary course of business during the financial period covered by this report, services valued at $3,990 were purchased from Infrastructure New Zealand (2018:nil). No monies were outstanding at 30 June 2019 (2018: nil).

28 RELATED PARTY TRANSACTIONS - continued

TRANSACTIONS WITH COMPANIES IN WHICH DIRECTORS HAVE AN INTEREST:

Mr D J Frow is a Director of ETEL Limited. In the ordinary course of business during the financial period covered by this report, services of $1,489,537 were purchased from ETEL Limited (2018: $507,172). $91,942 was outstanding as at 30 June 2019 (2018: $52,495).

Mr B J Hall is a Director and Shareholder of Stratview Holdings Limited. During the financial period covered by this report services of $58,071 were purchased from Stratview Holdings Limited (2018: $45,000). No monies were outstanding as at 30 June 2019 (2018: nil).

Mr B J Hall is a Director of ETEL Limited. In the ordinary course of business during the financial period covered by this report, services of $1,489,537 were purchased from ETEL Limited (2018: $507,172). $91,942 was outstanding as at 30 June 2019 (2018: $52,495).

Mr B J Hall is a Director of Unison Networks Limited which owns Unison Contracting Limited. In the ordinary course of business during the financial period covered by this report, services of $4,331,909 were purchased from Unison Contracting Limited (2018: $3,561,203). $252,462 was outstanding as at 30 June 2019 (2018: $534,789).

DIRECTORS' REMUNERATION

The remuneration paid to Directors during the year was:

Stephen R Thompson	$99,193
Margaret P Devlin	$54,418
Brenden J Hall	$54,418
Wendie N Harvey	$39,219
David J Frow	$15,158
	$262,406

KEY MANAGEMENT PERSONNEL REMUNERATION

	2019 $000	2018 $000
Short term employment benefits	2,148	1,729
Post-employment benefits – Employees	80	67
Short term benefits – Directors (as above)	262	221
	2,490	2,017

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 – continued

29 FINANCIAL INSTRUMENT RISK

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

INTEREST RATE RISK

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

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:

	2019 $000	2018 $000
Maturing in less than one year	–	–
Maturing between one and five years	50,000	50,000
Maturing after five years	–	–
	50,000	50,000

CREDIT RISK

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

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

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

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

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

	2019 $000	2018 $000
Cash and cash equivalents	1	36
Trade and other receivables	13,830	13,787
Short term investments	8	8
	13,839	13,831

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 – continued

29 FINANCIAL INSTRUMENT RISK - continued

CREDIT QUALITY OF FINANCIAL ASSETS

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

	2019 $000	2018 $000
Counterparties with credit ratings		
Cash and cash equivalents		
AA-	1	36
Trade and other receivables		
AA-	137	82
Counterparties without credit ratings		
Trade and other receivables		
Existing counterparties with no defaults in the past	14,550	14,228
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 2019.

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

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

29 FINANCIAL INSTRUMENT RISK - continued

The following table analyses the exposure of the Company's financial liabilities to liquidity risk as at 30 June 2019:

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	1	–	–	–	–	–	1
Trade and other receivables	13,830	–	–	–	–	–	13,830
Taxation receivable	–	–	5,309	–	–	–	5,309
Long term investments	–	–	–	–	–	8	8
Other current assets	573	–	–	–	–	–	573
	14,404	–	5,309	–	–	8	19,721
Financial liabilities							
Trade and other payables	21,351	–	–	–	–	–	21,351
Taxation payable	–	–	–	–	–	–	–
Term borrowings	–	–	–	–	–	301,350	301,350
Cash flow hedge	–	–	–	3,637	–	–	3,637
	21,351	–	–	3,637	–	301,350	326,338

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

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

29 FINANCIAL INSTRUMENT RISK - continued

SENSITIVITY ANALYSIS

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

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

	Fair Value at Balance Date $000	+100bps Profit $000	+100bps Equity $000	-100bps Profit $000	-100bps Equity $000
Financial liabilities					
Cash flow hedge instruments	3,637	–	1,136	–	(1,168)
Term borrowings (unhedged)	251,350	(2,514)	–	2,514	–
	254,987	(2,514)	1,136	2,514	(1,168)

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements recognised in the statement of financial position.

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

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

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

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

YEAR ENDED 30 JUNE 2019	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial liabilities/(assets)				
Derivative financial liabilities	–	3,637	–	3,637

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019 – continued

30 SEGMENT REPORTING

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

31 CAPITAL MANAGEMENT STRATEGY

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

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

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

32 CONTINGENT LIABILITIES

Saddle Hill, Dunedin Fire

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

The Company holds public liability insurance.

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

33 EVENTS AFTER BALANCE DATE

There were no significant post balance date events.

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 2019

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 46 to 75, that comprise the balance sheet as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on pages 33 to 35.

In our opinion:

- the financial statements of the company on pages 46 to 75:
    - present fairly, in all material respects:
        - its financial position as at 30 June 2019; and
        - its financial performance and cash flows for the year then ended; and
    - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards; and
- the statement of service performance of the company on pages 33 to 35 presents fairly, in all material respects, the company's achievements measured against the performance targets adopted for the year ended 30 June 2019.

Our audit was completed on 5 September 2019. 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 - continued

Basis of our opinion

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

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

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report - continued

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

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report - continued

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 32, 36 to 43 and 80, but does not include the financial statements and the statement of service performance, and our auditor's report thereon.

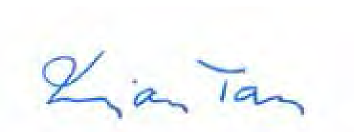
Our opinion on the financial statements and the statement of service performance does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

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

Independence

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

In addition to the audit, we have carried out assurance engagements pursuant to the pursuant to the Electricity Distribution Information Disclosure Determination 2012 - (consolidated in 2015) and the Electricity Distribution Services Default Price-Quality Path Determination 2015, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the company.



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

COMPANY DIRECTORY

As at 30 June 2019

DIRECTORS

Stephen R Thompson (Chair)

Margaret P Devlin

Brenden J Hall

Wendie N Harvey

MANAGEMENT

Chief Executive – Richard Fletcher

Chief Financial Officer – Gary Dixon

General Manager Asset Management and Planning – Glenn Coates

General Manager Operations and Network Performance – John Campbell

General Manager Regulatory and Commercial – Alec Findlater

General Manager Works Programming and Delivery – Mark Pratt

General Manager Customer and Engagement – Sian Sutton

Chief Technology Officer – Mark Corbitt (to August 2019)

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