



Aurora
ENERGY LIMITED

ANNUAL
REPORT 2016



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Highlights

for the year ended 30 June 2016

- Aurora Energy continues to be the main contributor of cash dividends to its shareholder Dunedin City Holdings Limited. This year, we paid equivalent dividends of \$8.25 million
- Total equivalent dividends paid to the shareholder since Aurora Energy's inception are \$150.1 million
- Revenue increased by \$0.6 million to \$100.0 million
- Assets increased in value by 5 per cent to \$436.5 million
- Energy received into the network was 1,398 gigawatt hours for the year
- Consumer connections increased by 1% to 86,622
- Increased network capacity by 2% to 947 megavolt amperes
- Completed a new, higher-capacity substation at Camp Hill, Central Otago to cater for increased electricity demand, livened in November 2015
- Upgraded power supply to Omakau and surrounding areas in Central Otago including overhead line upgrades and construction of a new substation at Lauder Flat Road, livened in January 2016
- Strengthened power supply to the Closeburn and Glenorchy areas of Lake Wakatipu
- Achieved major milestones in multi-year project to modernise and upgrade our network management, control and communication systems: the completion of the SCADA system upgrade to a modern advanced distribution management system and a new 24/7 network control centre for Dunedin
- Completed significant planned pole replacements and vegetation management projects throughout Dunedin and Central Otago
- Entered partnership with Department of Conservation to reduce the electrocution risk for the rare New Zealand falcon or kārearea perching on overhead power equipment
- First South Island rapid charger for electric vehicles opened to the public in Dunedin

What We Do

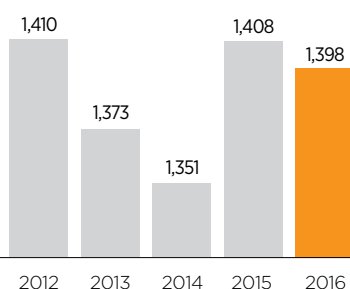
Aurora Energy's principal activities are the ownership and strategic management of electricity distribution network assets in Dunedin and in Central Otago. Our function is to transport electricity from the national grid to the end-use consumer. Customers are local generators and New Zealand's electricity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

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

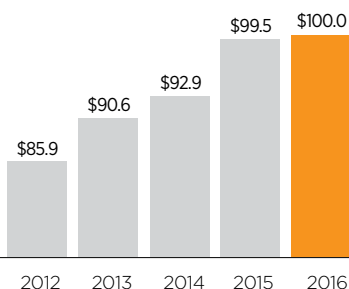
Results At A Glance

Years ended 30 June

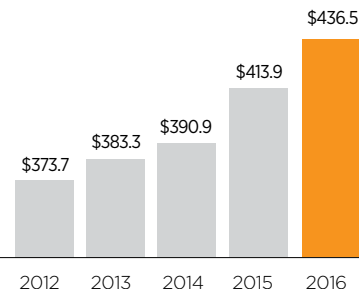
Energy received into network
(gigawatt hours)



Total revenue (\$m)



Total assets (\$m)

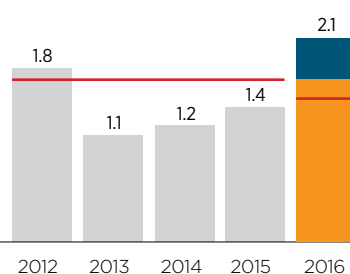


Network Performance

Years ended 31 March

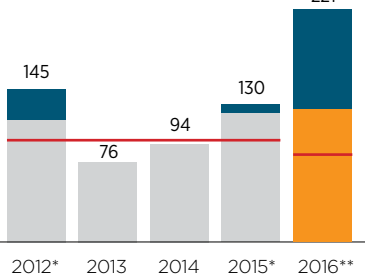
Interruptions

(average interruptions per consumer per annum, SAIFI)



Minutes off

(average duration per consumer per annum, SAIDI)



Reliability Limit

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

*restated after prior period adjustment

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



CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

for the year ended 30 June 2016

The electricity distribution sector is in transformation. We face the twin challenges of building and maintaining a reliable network to deliver energy from the national grid to our local customers, and adapting to the new futures that changing technology, and consumer choice are bringing.

During the financial year ended 30 June 2016 (FY16) we met these challenges head on, planning and implementing an accelerated asset investment programme for today while preparing the groundwork for a new energy future.





2016 FINANCIAL RESULTS

For the financial year ended 30 June 2016 (FY16), total revenue increased by 0.5 per cent to \$100.0 million (FY15: \$99.5 million). The increase reflects a combination of growth in consumer connections in Central Otago, the recovery of higher transmission charges in the fourth quarter, and higher energy demand.

Trading profit before tax and subvention payments was \$16.3 million (FY15: \$18.4 million). Net profit before the after-tax value of subvention payments was \$11.7 million (FY15: \$13.4 million).

Net profit after tax and subvention payments was \$6.5 million (FY15: \$8.2 million), after a pre-tax subvention payment of \$7.3 million (equivalent dividend FY16: \$5.3 million, FY15: \$5.3 million).

Aurora Energy's financial position remains strong and the company is well-placed to make the planned network infrastructure investments. Capital expenditure during FY16 increased by 5.0 per cent to \$37.2 million (FY15: \$35.4 million) and FY16 year-end term borrowings increased by 9.6 per cent to \$170.5 million (FY15: \$155.5 million). The increases in capital expenditure

and borrowings reflect the higher level of asset investment signalled in Aurora Energy's ten-year asset management plan.

Total assets increased by 5.5 per cent to \$436.5 million (FY15: \$413.9 million).

DIVIDENDS

Aurora Energy paid dividends to its shareholder, Dunedin City Holdings Limited, that were equivalent to \$8.250 million for the year under review (FY15: \$10.0 million). Aurora Energy has paid total equivalent dividends of \$150.1 million to its shareholder since its inception in 2003.

As a provider of an essential service, Aurora Energy has a responsibility to consumers and under regulation to provide safe, reliable electricity infrastructure. The decision of the Commerce Commission to reduce Aurora Energy's allowable revenues by 4.3% at the start of the current five-year regulatory period will continue to challenge plans to make \$186 million in network improvements over the next five years.

REGULATORY REVIEW

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

The Commerce Commission's price-quality path regulation operates in five-year regulatory control periods. Aurora Energy's maximum allowable distribution revenue (excluding pass-through costs) was set at \$56.5 million from 1 April 2015. For the subsequent four years ending 31 March from 2016 to 2020, Aurora Energy is only allowed to increase pricing by a rate equivalent to the Consumer Price Index.

While the Commerce Commission made some positive changes to their forecast and economic models for the 2015-2020 regulatory period, as a result of submissions by Aurora Energy and other lines businesses, the outcome means that significant capital expenditure will not be compensated for in pricing until 2020.



2015 Otago Science and Technology
fair premium award winners

The quality path remains a challenge for Aurora Energy. The Commission's general approach to the quality path results in a sinking lid quality target. Aurora Energy's investment profile significantly influences the extent of planned outages required on the network. These factors, and more stringent health and safety practice involving greater use of de-energised work, could ultimately result in quality targets that are unsustainable.

During the period, the Commerce Commission commenced a substantive review of the input methodologies. These are the upfront regulatory methodologies, rules, processes, requirements and evaluation criteria that apply to regulated businesses, and include consideration of risk allocation mechanisms, the operation and cost effectiveness of customised and default price paths, the cost of capital, the treatment of emerging technologies, related party transactions and consumer engagement. Draft decisions were released in June 2016, and generally reflect incremental improvements rather than wholesale and significant change. A period of stakeholder consultation follows the draft decisions, with the final

decisions to be determined in December 2016.

The Electricity Authority continued its programme of work related to distribution pricing, transmission pricing and contract review during the year. It released a consultation paper on distribution pricing in November 2015, aiming to facilitate more cost-reflective, or service based, pricing within the industry. Cost reflectivity will become increasingly important over time, as emerging technologies change the way that customers make use of their electricity connections.

The Electricity Authority released its long awaited Transmission Pricing Methodology second issues paper in May 2016, along with the inter-related review of distributed generation pricing principles. The issues paper has created winners and losers, with respect to the manner in which transmission revenue is recovered. Based on the Authority's current proposal, Aurora Energy's customers are likely to be better off, on average, by around \$50 per annum from 2019. The concurrent review of the distributed generation pricing principles is also likely to have a positive outcome for our customers. The proposals have

not attracted widespread approval. We have seen organisations like Entrust, representing Auckland electricity consumers, conducting widespread lobbying against changes.

OPERATING PERFORMANCE

Energy received for delivery was 1,365 gigawatt hours in FY16, a 0.3 per cent increase on FY15 (1,361 gigawatt hours). Consumer connections increased by 930 to 86,622 (FY15: 85,692), off the back of a 2.8 per cent growth in new residential and irrigation connections in Central Otago. In Dunedin, consumer connections increased by 0.3 per cent.

Aurora Energy's network assets are managed by infrastructure specialist Delta Utility Services Limited under a fixed-price, performance-based agreement for ten years from July 2007. The principles for the future contracting model were reviewed in anticipation of the end of the existing contract term in FY17 and in light of network requirements over the next decade.



South City substation illuminated for the Vogel Street Party 2015

In the regulatory year ended 31 March 2016, we achieved 99.95% reliability of electricity supply to our customers. The Commerce Commission sets quality targets for all regulated electricity distribution businesses. From 1 April 2015, the Commission put in place new, more stringent targets for both the duration and frequency of outages for Aurora Energy. Sinking lid targets fail to recognise the complexity of operating a large-scale, mixed urban/rural network during an infrastructure build phase. Aurora Energy was one of six regulated electricity businesses that breached the quality threshold during the regulatory year.

While we strive to deliver the most reliable service possible to our customers, we have an overriding duty to keep our contractors and the general public safe. Every year, we spend many millions on improving the reliability of the network. At times, we have to turn the power off temporarily to work safely, for example when we install new or maintain existing equipment or to repair storm damage.

The System Average Interruption Duration Index (SAIDI) measures the average annual outage duration for each consumer supplied. The normalised SAIDI for the regulatory year ended 31 March 2016 was

128.7 minutes, compared with 123.6 minutes for the previous year, and exceeding the performance target of 83.4 minutes (compliance not achieved). A series of extreme weather events including a lightning storm on the Otago Peninsula on 29 November 2015 and windstorms in Dunedin on 10 March 2016 and across Otago on 4 October and 27 November 2015 were responsible for 97 minutes of the SAIDI outcome. These severe storm conditions brought down overhead lines and damaged distribution transformers.

The System Average Interruption Frequency Index (SAIFI) measures the average annual number of power interruptions, for each consumer supplied. The normalised SAIFI for the regulatory year ended 31 March 2016 was 1.7, compared to 1.4 last year and above the target of 1.49 (compliance not achieved).

We compensate consumers who are affected by delays in restoring electricity supply following an extended outage. Under our supply agreements with electricity retailers, we are required to pay compensation where the delay is a result of factors within Aurora Energy's reasonable control. In FY16, \$96,199 was paid to electricity retailers in relation to 1,294 consumers affected by supply interruptions, a decrease on FY15 during which we paid \$205,372

in relation to 3,534 consumers affected. Multiple extreme weather events contributed to the greater number of extended outages, including trees bringing down overhead power lines in extreme wind events and a lightning storm damaging equipment.

Aurora Energy participates in the Electricity and Gas Complaints Commissioner scheme that provides independent resolution service for electricity customers. We received 63 complaints in FY16 compared to 98 last year.

We assess the maturity of Aurora Energy's asset management using the Commerce Commission's asset management maturity assessment tool. The tool was administered by independent consultants across 31 areas and the results were an overall maturity rating improvement from 2.6 to 2.9 since the last annual assessment.

NETWORK INVESTMENT

We made significant progress on our accelerated programme of asset investment this year to renew existing assets across the network and cater for growth in Central Otago. Between 2016 and 2026, we plan capital investment of \$283 million and maintenance spend of \$134 million. The total



New advanced distribution management system

expenditure of \$417 million, represents an increase of \$45 million in forecast expenditure over the ten-year period.

In a multi-year project, we are modernising our network management, control and communication systems. Two major milestones were achieved during FY16. The first was to change over the Dunedin network to the GE PowerOn advanced distribution management system and to complete the upgrade to the supervisory control and data acquisition or SCADA system, in readiness for go live in early FY17. The new system provides greater visibility of real-time network information and will improve the safe and efficient management of the network. The second milestone was the commencement of 24 hours a day, seven days a week operations in a network control centre for Dunedin.

We also started construction of a high-speed, high-capacity microwave link between the Dunedin and Central Otago networks. Once the link is in place and the advanced distribution management system implemented for the Central Otago network, the new combined control centre will be capable of operating both Aurora Energy's geographic networks.

We invested \$37.2 million in capital projects in FY16, including completion of a new, higher-capacity substation at Camp Hill near Hawea to cater for an increase in electricity demand from farming and population growth. The new substation was commissioned in November.

The major upgrade to electricity capacity for Omakau and the surrounding areas in Central Otago continued. Several projects were completed including a new, re-routed line crossing over the Manuhirikia River and new high-capacity underground cables along State Highway 85 in the Omakau township. A new substation at Lauder Flat Road, Omakau was constructed and commissioned in January.

We made further progress on a two-year project to improve the capacity and reliability of electricity supplies to the remote township of Glenorchy beside Lake Wakatipu.

During the year we initiated the first phase of several future major renewal projects. We advanced design work for a new Carisbrook zone substation to replace the existing Neville Street substation, for a new switching station at Riverbank Road, Wanaka and for upgrades at Cromwell, Queenstown and Arrowtown substations.

Renewal of support structures remain an ongoing priority for Aurora Energy to improve reliability and resilience. During FY16, 770 power poles were replaced or newly installed on the Aurora Energy network, as part of our age-based pole replacement programme. Our contractor, Delta, carried out more than 1,300 mechanical pole tests using Deuar technology and nearly 5,000 manual inspections. Up-to-date asset information improves the accuracy of our risk assessment and forward planning for pole replacements.

Vegetation growing in or near power lines is a risk to public safety and a major cause of unplanned outages, particularly when trees clash with lines during extreme weather. A total of \$4.1 million of preventative vegetation management work was completed to improve the reliability of the network in FY16, resulting in 30 kilometres of vegetation being cleared away from power lines.



Kārearea / New Zealand falcon

COMMUNITY SUPPORT

Aurora Energy makes its primary contribution to the community by supplying the electricity for everyday life. We also support the communities we serve through sponsorship focused on the areas of youth, education and culture.

For the eleventh consecutive year, Aurora Energy was principal sponsor of the Aurora Energy Otago Science and Technology Fair. The event encourages students from around the Otago region to explore science and technology and share their hard work and inspired thinking with their peers and the wider community. The 2015 fair saw 320 students compete from 24 schools in Otago. The Aurora Energy Premier Award for Best in Fair 2015 went to Year 7 Dunedin North Intermediate students Samuel Hulbe Pulver and Timothy Hulbe Pulver for their exhibition exploring non conscious gender bias. More than 200 young scientists received awards in recognition of their excellence and effort.

Aurora Energy has helped brighten the urban landscape through the addition of street art on our power boxes and substation walls. Street art not only adds a touch of colour to public spaces, but

helps reduce unwanted, unsightly tagging. This year, two new large-scale works of art were unveiled. The mural “Midnight Blooms” at our North East Valley substation created by artist Tara Douglas was painted by Filipa Crofsky. The “Poorly Penguin” mural at our Anderson’s Bay substation, part of a nationwide project by artist Tess Sheerin, highlighted the impact of pollution on marine wildlife.

The rare New Zealand falcon or kārearea inhabits the Queenstown Lakes and Central Otago areas of the Aurora Energy network. Kārearea are rare and face a range of threats including introduced predators, loss of habitat, illegal shooting and electrocution. In November, we formed a conservation partnership with the Department of Conservation to address the risk to kārearea when landing and taking off from uninsulated power structures. To date, we have retrofitted insulation to four sites in Glenorchy near Queenstown and developed new designs for overhead installations aimed at reducing the risk of the falcon’s wings or tail from bridging live wires and equipment.

SAFETY AND RISK

Electricity is by its nature dangerous and distribution networks are located over a wide geographic area in places where people live, work and play. Safety performance is a critical driver of Aurora Energy’s asset management plan and a top priority for employees, contractors and the public.

The new Health and Safety at Work Act came into force in April and strengthened the obligations for Aurora Energy as a Person Conducting a Business or Undertaking (or PCBU). Aurora Energy has management control of its high voltage electricity network and, as principal duty holder, shares responsibility for the safety of its contractors, the public and end-users.

Aurora Energy has a network-specific Health and Safety Plan, recognising its duties under the new legislation that has been endorsed by the Board and independently reviewed. The Board of Directors’ Health and Safety Committee met three times during the year. Aurora Energy complied with its public safety obligations under the Electricity Act 1992 during FY16, maintaining a public safety management system in accordance with the Electricity



Street art on North East Valley substation

Safety Regulations (2010). The intent of the system is to prevent serious harm to any members of the public or significant damage to their property. Our contractor, Delta holds and maintains the public safety management system on behalf of Aurora Energy to New Zealand Standard 7901:2008, and it was re-certified at the annual independent audit.

We sought further independent verification that our safety systems and management processes were robust during FY16. Under our Safety Assurance Programme, four independent audits were successfully conducted in the period. Our principal contractor, Delta, again lifted its safety performance with a further 25 per cent reduction in recordable injuries.

We began planning for a new public safety campaign to improve the safety of people working and living on or near our network. The campaign will build on existing public safety initiatives (including free advice, information and safety publications) to increase awareness of keeping safe around electricity.

Aurora Energy's resilience, and coordination with other emergency response agencies, is critical to our communities' ability to recover quickly after a major natural

disaster. In May, we participated in a civil defence exercise convened by Queenstown Lakes District Council. The scenario was based on a magnitude 7.4 earthquake occurring in the Gibbston Valley affecting road access and supply from the national grid. The exercise confirmed our own assessments of worst case scenarios for electricity supply to Queenstown in the event of a natural disaster and helped stakeholders to understand the respective roles of Aurora Energy and Transpower in power restoration. The Queenstown Lakes scenario builds on contingency planning completed in FY15 in the event that a major earthquake cuts supply from the national grid into Dunedin.

EMERGING TECHNOLOGIES

There are an ever-increasing number and range of new energy-related technologies and systems now being actively marketed in New Zealand.

Emerging technologies range from distributed generation sources such as rooftop photovoltaic systems and wind generation to grid-connected battery storage and electric vehicles. The costs of battery storage and components continue to fall, making these and

allied technologies more affordable and appealing to consumers. We see direct evidence of the developing trend, with the capacity of small solar systems connected to the Aurora Energy network increasing by 0.5 megawatts in FY16, very similar to the additions in the previous year.

Existing networks and industry structures are capable of evolving to accommodate these changes. A successful transition will require the cooperation and coordination of market participants, the development of suitable standards, an understanding of whole-of-system risks, and a flexible regulatory governance approach. Aurora Energy is working to identify the most efficient means of meeting the new and changing infrastructure demands that consumer investment in new technologies will place on the existing electricity system. We continued as an active contributor to future thinking about the challenges and opportunities for deployment of a smart grid in New Zealand through the New Zealand Smart Grid Forum and other industry working groups.

Our move to an advanced distribution management system and upgrades to our network control and communication systems



position us well for the further uptake of new energy technologies by our customers.

Aurora Energy is proud to supply electricity to local homes and businesses that is nearly 80 per cent generated from renewable energy sources. The arrival of easily available, mass market electric passenger vehicles in New Zealand heralds the start of a transport fuel revolution here. We see the potential for electricity to become the fuel of choice for New Zealand drivers, to the benefit of the environment and driving experience.

The establishment of charging infrastructure at key locations is underway throughout much of the country, including Otago, supporting a small but increasing number of electric vehicles. To support the transition, we connected the first public fast charger for electric vehicles in the South Island. In the four months since opening to the public in late February, the central Dunedin charging station delivered 280 rapid charges, or the equivalent of 12,800 kilometres of travel. Electric vehicle ownership in Dunedin and Otago is growing exponentially off a low base, increasing 560 per cent from 14 to 93 electric vehicles

during the year. We will be working to expand the fast charger network in our region either directly or by facilitating others to connect additional charging stations in key locations.

OUTLOOK

The near term outlook for Aurora Energy follows the trend of recent years. Overall energy demand is expected to remain at similar levels to FY16, with stable or declining energy demand in Dunedin and increasing energy demand in Central Otago. Future electricity demand on our urban Dunedin network is expected to be relatively static, in line with low population and economic growth projections. In Central Otago, more intensive land use and a growing population will likely see continued growth in electricity demand.

Over the next five years our asset management plan prioritises expenditure on replacing and upgrading older assets in Dunedin and building new assets to cater for growth in Central Otago. Our plans to reduce network-related risk, improve network resilience and further enhance reliability of electricity supply for customers will

continue to require high levels of operating expenditure and capital investment.

The Commerce Commission decided to reduce Aurora Energy's allowable revenue by 4.3 per cent at the start of the current five-year regulatory period. The material reduction in revenue will challenge our plans to make \$186 million in network improvements over the next five years and our ability to maintain projected dividend levels. At the same time, the Commerce Commission has lowered quality targets to unrealistic levels, not only for Aurora Energy, but several other networks. Ratcheting down targets is a blunt instrument, and fails to recognise the operating flexibility required to renew and maintain network infrastructure safely.

The New Zealand grid is evolving in response to the upsurge in new network technologies, new energy sources and the change in consumer preferences. Today's consumer is increasingly engaged in decisions about electricity and its use. They also expect to see the benefits of new technologies. Over the long term, we expect technology uptake to accelerate, driven by consumer demand and



as technologies in energy storage, generation and transport become cheaper, more widely available and deliver on their promised potential. While no one can predict with absolute certainty which energy solutions will move from niche appeal to mass market popularity, we can be certain that investment decisions, regulation and customer relationships will need to evolve in the face of a disrupted future.

Conventional pricing models for electricity network businesses are already being challenged by changing energy use. Consumers are using less grid-supplied power as energy efficiency increases and more consumers are generating their own power. The current pricing approach is based (mostly) on how much energy is used. That makes it harder to fairly recover the fixed costs of providing always available energy supply via the grid.

Consumer prices that properly reflect the value of the services they receive will help ensure economically efficient outcomes and avoid the imposition of costs on other consumers. Significant evolution of the regulatory model is likely. Both the Commerce Commission and Electricity Authority are turning their

attention to regulatory and price settings that can accommodate the transition, as are we. Aurora Energy recognises that any move to more cost-reflective pricing will need to be transparent, well-understood by consumers and phased in gradually, to avoid rate shocks.

We look forward to fulfilling our role in embracing new technology, and supporting the evolution of a more distributed, consumer-led energy system that supplies the energy for everyday life.

Grady Cameron
CHIEF EXECUTIVE

Ian Parton
CHAIRMAN

30 August 2016

TREND STATEMENT

YEARS ENDED 30 JUNE	Note	2016	2015	2014	2013	2012
Energy received into network	GWh	1,398	1,408	1,351	1,373	1,410
Energy received for delivery to consumers	GWh	1,365	1,361	1,313	1,331	1,350
Energy delivery reliability (average time without supply per consumer per annum)	Minutes	235.0	137.3	123.6	77.5	123.9
Total revenue	\$000	100,032	99,462	92,895	90,560	85,922
Trading profit before tax (before subvention payments)	\$000	16,262	18,420	18,024	19,077	18,432
EBIT/average funds employed		6.0%	6.9%	7.1%	7.4%	7.4%
Tax – current year provision	\$000	2,519	3,132	3,037	3,325	3,169
– prior year (over)/under provision	\$000	(12)	(180)	45	(164)	43
Net profit for the year (before after-tax value of subvention payments)	\$000	11,713	13,426	12,900	13,874	13,178
Net profit for the year (after subvention payments)	1 \$000	6,463	8,176	7,650	8,624	7,928
Cashflow from operating activities	\$000	23,286	20,392	24,278	20,228	21,825
Dividends paid	\$000	3,000	4,750	4,750	8,750	7,104
Equivalent dividends (actual dividends plus after-tax value of subvention payments)	\$000	8,250	10,000	10,000	14,000	12,354
Shareholder's equity	\$000	183,648	182,550	180,983	178,005	177,345
Total assets	\$000	436,452	413,855	390,882	383,272	373,653
Capital expenditure (net)	\$000	37,196	35,421	21,260	18,841	18,316
Return on average equity (before after-tax value of subvention payments)		6.4%	7.4%	7.2%	7.8%	7.5%
Equity to total assets		42.1%	44.1%	46.3%	46.4%	47.5%

NOTE:

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

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2016

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
GENERAL OBJECTIVES			
• The Statement of Intent (SOI) will be submitted to and approved by Dunedin City Holdings Limited (DCHL), ensuring consistency across the DCHL Group.	30 June 2015	Achieved	The Statement of Intent for the 2016 financial year was submitted to and accepted by DCHL prior to 30 June 2015.
• Monthly financial results will be provided to DCHL in line with the agreed timetable between Aurora Energy and the Shareholder.	Monthly	Achieved	Monthly financial results were provided to DCHL in line with the agreed timetable.
• Monthly board reports which review the operating activities of Aurora Energy for compliance with the goals and objectives stated in the SOI and the Strategic Plan will be prepared.	Monthly	Achieved	Board reports were produced and meetings were held each month to review the Company's compliance with goals and objectives stated in the SOI and Strategic plan.

NETWORK OPERATIONS (Regulatory Year Targets – Period Ended 31 March 2016)

• Consumer connections (ICP count)	85,000 average per annum	Achieved	86,375
• Energy received into the network	1,375 Gigawatt hours per annum	Achieved	1,388
• Load factor %	≥ 54.00% energy into network/peak kW hours	Achieved	54.37%
• Loss ratio %	≤ 6.0% energy into network less energy delivered/energy into network	Not achieved	6.1%
• Capacity utilisation %	≥ 30.0% peak network kW/installed distribution transformer capacity kVA	Achieved	30.7%

STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2016 – continued

PERFORMANCE MEASURE	TARGET	OUTCOME	DESCRIPTION
NETWORK RELIABILITY (Regulatory Year Targets – Period Ended 31 March 2016)			
• SAIDI			
- Class B interruptions planned	≤ 14.10 minutes	Not achieved	36.25 minutes
- Class C interruptions unplanned	≤ 76.31 minutes	Not achieved	110.60* minutes
- Total	≤ 90.41 minutes	Not achieved	146.85 minutes
• SAIFI			
- Class B interruptions planned	≤ 0.09	Not achieved	0.23 interruptions
- Class C interruptions unplanned	≤ 1.40	Not achieved	1.63* interruptions
- Total	≤ 1.49	Not achieved	1.86 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 the target. The raw results for class C SAIDI and SAIFI were 202.91 minutes and 2.02 interruptions respectively.

COMMUNITY, PEOPLE, SAFETY AND ENVIRONMENT OBJECTIVES

Community

• Support community initiatives.	\$40,000 of sponsorship per annum	Not achieved	\$15,452 was spent in support of community initiatives during the year. Aurora's main community sponsorship the Southern Lakes Festival of Colour is a biennial event not held this year.
• To undertake a review of activities for the purposes of being a good corporate citizen.	Reviewed	Achieved	The Company continually reviews its activities which include sponsoring cultural and education events.

Safety

• Reduce harm to contractors.	≤ 7.00 total recordable injury frequency rate (TRIFR) per 200,000 hours worked.	Achieved	Aurora's largest contractor achieved a TRIFR of 3.11 per 200,000 hours worked during the year.
• Zero serious harm events involving members of the public.	0	Achieved	There were no serious harm incidents during the year involving the public.

Environment

• No transgression of the environmental and resource law occurs.	No breaches	Achieved	There were no Resource Management Act breaches during the year.
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STATEMENT OF SERVICE PERFORMANCE

for the year ended 30 June 2016 – continued

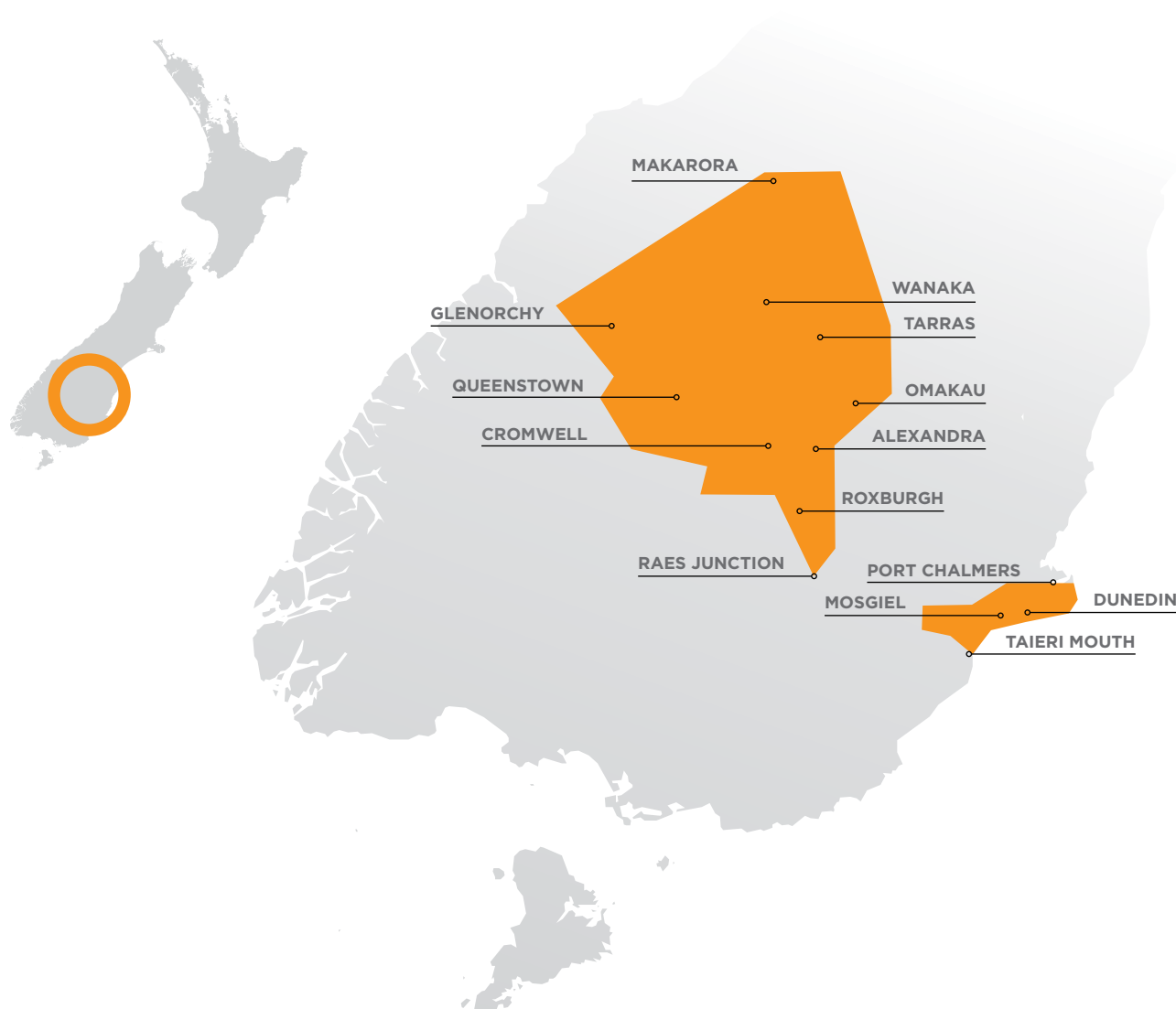
PERFORMANCE MEASURE	TARGET \$000	OUTCOME	RESULT \$000
FINANCIAL OBJECTIVES			
• EBITDA (before subvention)	39,010	Achieved	39,917
• Net surplus (before subvention)	9,971	Achieved	11,713
• Shareholder's funds	185,559	Not achieved	183,648
• Cash flow from operations (after subvention)	26,106	Not achieved	23,286
• Capital expenditure	≥ 41,145	Not achieved	37,196
• Term debt	179,050	Achieved	170,460
• Dividends and or subvention	7,500	Achieved	8,250
• Shareholder's funds to total assets	42.5%	Not achieved	42.1%
SPECIFIC OBJECTIVES			
• To review the activities undertaken by the Company to ensure health and safety responsibilities are met.		Achieved The Company continually monitors all health and safety aspects.	
• To prepare a stakeholder engagement plan to identify stakeholders and their priorities for informed Company decision making.		Achieved The Company implemented activities in accordance with its stakeholder engagement plan.	

NETWORK OVERVIEW

ELECTRICITY DISTRIBUTION NETWORK AT A GLANCE

for the year ended 31 March 2016

Number of consumer connections	86,375
Energy received for distribution	1,388 gigawatt hours
Total capacity of distribution transformers	947 megavolt amperes
Capacity utilisation	31%
Number of zone substations	40
Number of bulk supply points	5
Length of lines and cables	5,878 kilometres



NETWORK PERFORMANCE

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

12 months ended 31 March		2016	2015	2014	2013	2012
System Physical Measures						
Average length of lines and cables	km	5,878	5,815	5,796	5,543	5,628
Total capacity of distribution transformers	MVA	947	928	910	897	880
Distribution transformer capacity utilisation		31%	31%	31%	32%	33%
Consumer Measures						
Number of consumer connections		86,375	85,530	84,362	83,656	82,908
System maximum coincident demand	MW	291	286	279	284	290
Energy received for delivery	GWh	1,388	1,347	1,321	1,331	1,396
Average load factor		54%	54%	54%	53%	55%
Average minutes off per fault	CAIDI	74	95 ⁽²⁾	78	69	65 ⁽¹⁾
Average faults per annum	SAIFI	1.7	1.4	1.2	1.1	1.8
Average minutes off per annum	SAIDI	129 ⁽³⁾	124 ⁽²⁾	94	76	116 ⁽¹⁾

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) Extreme weather events in Dunedin on 12 May 2011 and in Central Otago on 25 October 2011 were responsible for 24 minutes of the SAIDI index and 3 minutes of the CAIDI index in 2012.

(2) 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.

(3) 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.

DIRECTORS' REPORT

for the year ended 30 June 2016

The Directors of Aurora Energy Limited are pleased to report on the financial results and associated matters for the year ended 30 June 2016.

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 2016	\$000
Trading profit	16,262
less subvention payment (pre-tax equivalent dividend)	7,292
Operating profit before income tax	8,970
less income tax expense	2,507
Net profit for year	6,463

STATE OF AFFAIRS

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

DIVIDENDS

Total dividends of \$3.000 million were declared and paid for the year ended 30 June 2016. In addition, a subvention payment of \$7.292 million was paid to a member of the Dunedin City Council group of companies. The dividend equivalent of this subvention payment is \$5.250 million, giving total equivalent dividends of \$8.250 million paid for the year. Equivalent dividends last year amounted to \$10.000 million.

RESERVES

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

	\$000
Cash flow hedge reserve - to (from)	(2,365)
Retained earnings - to (from)	3,463

DIRECTORS' REPORT

for the year ended 30 June 2016

REVIEW OF OPERATIONS

The Directors are satisfied with the operating results achieved for the year ended 30 June 2016. The net profit before after-tax value of subvention payments of \$11.713 million (2015: \$13.426 million) generated a return on average shareholders equity of 6.4% (2015: 7.4%). The after-tax value of subvention payments was \$5.250 million (2015: \$5.250 million).

The nature of electricity distribution assets is such that significant and ongoing capital expenditure is required to sustain reliability and provide for growth well in advance of resulting revenue increases. The Company has continued a major programme of capital works intended to cater for the current growth in electricity demand in Central Otago and the renewal and upgrade of existing network assets. A total of \$37.196 million (2015: \$35.421 million) was invested into network related assets during the year. Major projects included construction of the new Camp Hill substation, the commencement of works on another new substation at Omakau, and the continuation of system control, communication and protection upgrades.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2016 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 2016 or existed at that date are disclosed in the related parties section of this report.

DIRECTORS' REMUNERATION

The remuneration paid to Directors during the year was:

Dr Ian M Parton	\$ 36,285
Stuart J McLauchlan	\$ 24,534
David J Frow	\$ 24,535
Trevor J Kempton	\$ 21,470
Stephen Thompson	\$ 1,800
	<u>\$ 108,625</u>

DIRECTORS' REPORT

for the year ended 30 June 2016

AUDIT AND RISK COMMITTEE

Stuart McLauchlan, Ian Parton, David Frow and Trevor Kempton were members of the Audit and Risk Committee of the Board during the year. Stephen Thompson was appointed effective from 1 June 2016. The Audit and Risk Committee has the responsibility for agreeing the arrangements for audit of the Company's financial accounts. Its responsibilities include ensuring that appropriate audit consideration is given to the following issues:

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

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

HEALTH AND SAFETY BOARD COMMITTEE

David Frow, Ian Parton, Stuart McLauchlan and Trevor Kempton were members of the Health and Safety Board Committee during the year. Stephen Thompson was appointed effective from 1 June 2016. Its principal responsibility is to review and make recommendations to the Board on the appropriateness and effectiveness of the Company's health and safety strategy, performance and governance.

NOMINATION COMMITTEE

Ian Parton, Stuart McLauchlan, David Frow and Trevor Kempton were members of the Nomination Committee of the Board during the year. Stephen Thompson was appointed effective from 1 June 2016. Its principal responsibility is to identify and nominate, for approval by the Shareholder, external candidates to fill board vacancies as they arise.

EMPLOYEES' REMUNERATION

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

AUDITOR

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

DIRECTORS' REPORT

for the year ended 30 June 2016

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

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

For and on behalf of the Board of Directors



Ian Parton
CHAIRMAN



Stuart McLauchlan
DIRECTOR

30 August 2016

INFORMATION ON THE DIRECTORS

Director	Qualifications	Date Appointed	Declarations of Interests
Dr Ian M Parton Non-Executive Chairman	BE (Hons), PhD, Dist.F.IPENZ, CF.Inst.D.	October 2012	Chairman – Delta Utility Services Limited Director – Auckland Transport Limited Director – Construction Techniques Group Limited Director – Skellerup Holdings Limited Chancellor – University of Auckland
David J Frow Non-Executive Director	BSc.Eng, CF.Inst.D.	October 2012	Chairman and shareholder – Major Consulting Group Limited Chairman – Holmes Fire LP Director – Delta Utility Services Limited Director – ETEL Limited Director – ETEL Transformers Pty Ltd (Aus) Director – HydroWorks Limited Director – Rataworks Limited Senior Consultant – Strata Energy Consulting
Trevor J Kempton Non-Executive Director	BE (Hons), M.IPENZ, F.NZIM, CM.Inst.D.	November 2013	Director and shareholder – Long Beach Consulting Limited Director – Constructing Excellence (NZ) Limited Director – Delta Utility Services Limited Director – The Academy of Construction Excellence (NZ) Limited Director – Trevian Properties Limited Councillor – Otago Regional Council Shareholder – Naylor Love Enterprise Group of companies
Stuart J McLauchlan Non-Executive Director	BCom, FCA (PP), CF.Inst.D.	June 2007	Chairman and shareholder – Scott Technology Limited Chairman – Compass Agribusiness Management Limited Chairman – Dunedin International Airport Limited Chairman – NZ Sports Hall of Fame Chairman – Pharmac Chairman – University of Otago Foundation Studies Limited Chairman – UDC Finance Limited Director and shareholder – Dunedin Casinos Limited Director and shareholder – Rosebery Holdings Limited Director – AD Instruments Pty Limited Director – BPAC Clinical Solutions Management Limited Director – Cargill Hotel 2002 Limited Director – Delta Utility Services Limited Director – HTS 110 Limited Director – Ngai Tahu Tourism Board Director – Otago & Southland Employers Association Director – Scenic Circle Hotels Limited and subsidiaries Director – University of Otago Holdings Limited Director – USC Investments Limited Member – Marsh Advisory Board Partner – G S McLauchlan & Co Limited Pro Chancellor – University of Otago Trustee / Shareholder – Three Hills Limited Director – Energy Link Limited (resigned 18 March 2016)

INFORMATION ON THE DIRECTORS

Director	Qualifications	Date Appointed	Declarations of Interests
Stephen R Thompson Non-Executive Director	BCom, FCA (PP), CF.Inst.D.	June 2016	<p>Chairman and shareholder – Thompson Bloodstock Limited</p> <p>Chairman – Alpine Energy Limited</p> <p>Chairman – NETcon Limited</p> <p>Chairman – Timaru Electricity Limited</p> <p>Director and shareholder – Best View Limited</p> <p>Director and shareholder – Cairnmuir Road Winery Limited</p> <p>Director and shareholder – Passmore Consulting Services Limited</p> <p>Director – Canterbury Aluminium Limited</p> <p>Director – Delta Utility Services Limited</p> <p>Director – Ellisons Aluminium Central Limited</p> <p>Director – Ellisons Aluminium Limited</p> <p>Director – F.S. Investments Limited</p> <p>Director – Infratec Limited</p> <p>Director – Infratec Renewables (Rarotonga) Limited</p> <p>Director – Integrated Contract Solutions Limited</p> <p>Director – Keano's Trustee Company Limited</p> <p>Director – Millenium Solutions Limited</p> <p>Director – Owhiro River Limited</p> <p>Director – Southern Aluminium Joinery Limited</p> <p>Director – Wanaka Bay Limited</p> <p>Director – Westminster Resources Limited</p> <p>Director – Whitestone Contracting Limited</p>



FINANCIAL STATEMENTS

for the year ended 30 June 2016

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Statement of Comprehensive Income

for the year ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
Operating revenue	3	100,019	99,452
Financial revenue	4	13	10
Total revenue		100,032	99,462
Less expenses			
Operating expenses	5	74,436	71,560
Financial expenses	6	9,334	9,482
Total expenditure		83,770	81,042
Profit before tax and subvention		16,262	18,420
Subvention payment provided		7,292	7,292
Profit before tax		8,970	11,128
Income tax expense	9	2,507	2,952
Net profit/(loss) after tax for the year		6,463	8,176
Other comprehensive income			
Gain/(loss) on cashflow hedges		(2,361)	(1,861)
Gain/(loss) on terminated cashflow hedges		(4)	2
Total other comprehensive income		(2,365)	(1,859)
Total comprehensive income		4,098	6,317

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 2016

	Note	2016 \$000	2015 \$000
Equity at beginning of the year		182,550	180,983
Recognised income and expense			
Total comprehensive income		4,098	6,317
Less distribution to owner	8	3,000	4,750
Equity at end of the year		183,648	182,550

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

Balance Sheet

as at 30 June 2016

	Note	2016 \$'000	2015 \$'000
EQUITY			
Share capital	11	10,000	10,000
Cash flow hedge reserve	12	(3,269)	(904)
Retained earnings	13	176,917	173,454
Total equity		183,648	182,550
CURRENT LIABILITIES			
Trade and other payables	14	17,561	15,221
Taxation payable		666	1,376
Total current liabilities		18,227	16,597
NON-CURRENT LIABILITIES			
Cash flow hedge instruments	21	4,540	1,261
Term borrowings	16	170,460	155,500
Deferred tax liability	17	59,577	57,947
Total non-current liabilities		234,577	214,708
Total liabilities		252,804	231,305
TOTAL EQUITY AND LIABILITIES		436,452	413,855


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

Balance Sheet

as at 30 June 2016 – continued

	Note	2016 \$000	2015 \$000
CURRENT ASSETS			
Cash and cash equivalents	18	4	34
Trade and other receivables	19	11,803	12,752
Inventories	22	8	8
Other current assets	15	729	624
Intra group advances		85	399
Total current assets		12,629	13,817
NON-CURRENT ASSETS			
Investments	20	8	10
Deferred tax asset	17	1,309	397
Property, plant and equipment	23	422,506	399,631
Total non-current assets		423,823	400,038
TOTAL ASSETS		436,452	413,855

For and on behalf of the Board of Directors



Ian Parton
CHAIRMAN



Stuart McLauchlan
DIRECTOR

30 August 2016

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 2016

	Note	2016 \$000	2015 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from			
Receipts from customers		100,974	98,311
Interest and dividends received		13	10
Income tax refund		50	0
		101,037	98,321
Cash was disbursed to			
Payments to suppliers		60,223	58,705
Interest paid		9,046	9,350
Intra group tax loss/subvention payments made		276	859
Income tax paid		896	833
Net GST paid/(received)		(125)	345
Subvention payment		7,292	7,292
Inter Company advance		143	545
		77,751	77,929
Net cash inflows/(outflows) from operating activities	25	23,286	20,392
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from			
Sale of investments		2	0
		2	0
Cash was disbursed to			
Purchase of property, plant and equipment		35,278	32,365
		35,278	32,365
Net cash inflows/(outflows) from investing activities		(35,276)	(32,365)

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 2016 – continued

	Note	2016 \$000	2015 \$000
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from			
Proceeds from borrowings		44,860	49,525
		44,860	49,525
Cash was disbursed to			
Repayment of borrowings		29,900	32,825
Dividends paid		3,000	4,750
		32,900	37,575
Net cash inflows/(outflows) from financing activities		11,960	11,950
Net increase/(decrease) in cash, cash equivalents and bank overdraft		(30)	(23)
Cash and cash equivalents at beginning of the year		34	57
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	18	4	34

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 2016

1 REPORTING ENTITY

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

The financial statements have been prepared in accordance with the requirements of the Energy Companies Act 1992, the Companies Act 2013 and the Financial Reporting Act 1993.

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 30 August 2016.

BASIS OF ACCOUNTING

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

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

CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

REVENUE RECOGNITION

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

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

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

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

LEASING

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

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

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

BORROWING COSTS

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

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

GOODS AND SERVICES TAX (GST)

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

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

TAXATION

The tax expense comprises both current tax and deferred tax.

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

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

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Depreciation rates and methods used are:

	RATE	METHOD
Land	no depreciation charged	
Buildings	1% to 5%	straight line
Electricity network assets	1% to 20%	straight line
Plant and equipment	5% to 50%	straight line
Motor vehicles	5% to 25%	straight line
Office equipment and fittings	5% to 25%	straight line
Optical fibre network assets	2% to 10%	straight line
Capital work in progress	no depreciation charged	

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

IMPAIRMENT OF ASSETS

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

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

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

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

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

INVENTORIES

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

CASH AND CASH EQUIVALENTS

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

FINANCIAL INSTRUMENTS

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

TRADE AND OTHER RECEIVABLES

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

INVESTMENTS

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

TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

BORROWINGS

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

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

CASH FLOW HEDGE INSTRUMENTS AND HEDGE ACCOUNTING

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

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

The use of cash flow hedge instruments is governed by policy approved by the Board of Directors in consultation with the Company's Shareholder.

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

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

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

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

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

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

PROVISIONS

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

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

CHANGES IN ACCOUNTING POLICIES

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

STANDARDS 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 27 <i>Equity method in separate financial statements</i> Adoption date: periods beginning on or after 1 January 2016	Amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates. Aurora Energy Ltd no longer has any subsidiaries, joint ventures or associates, but may do in the future. Any amendments will be reflected in the treatment and disclosure of these transactions going forward.
Amendments to NZ IAS 16 <i>Leases</i> Adoption date: periods beginning on or after 1 January 2019	NZ IFRS 16 removes the classification of leases as either operating or finance leases – for the lessee – effectively treating all leases as finance leases. This is likely to have a material impact on the Company's financial statements and leading up to implementation the Company will review the new standard to ensure appropriate disclosure. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases
Amendments to NZ IAS 1 <i>Disclosure initiatives</i> Adoption date: periods beginning on or after 1 January 2016	<p>Changes were made in the following areas to provide clarity for preparers in exercising judgement when presenting their financial reports. Clarification was provided around:</p> <ul style="list-style-type: none">- Materiality in the preparation of the financial statements and when it should be applied;- The aggregation of line items in the financial statements;- Note ordering. <p>The Company will review the new clarifications and ensure the financial statements are appropriately presented, e.g. whether notes are in the appropriate order, if materiality has reasonably been used in notes such as the related party note 26 and whether line items on the face of the financial statements were reasonably grouped. No material changes are envisaged.</p>

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

2 SIGNIFICANT ACCOUNTING POLICIES - continued

STANDARD

Amendments to NZ IAS 15
*Revenue from Contracts
and Customers*

Adoption date: periods
beginning on or after
1 January 2017

NZ IFRS 9 (2010)

Financial Instruments

Adoption date: periods
beginning on or after
1 January 2018

BRIEF OUTLINE

The amendments establish principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. This amendment is unlikely to have a major impact on the recognition and reporting of the Company's revenue. The Company will however review revenue to ensure that it is recognised in line with the revised standards and contracts in place.

A revised version of NZ IFRS 9 will be released which includes changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of NZ IFRS 9 at the same time. The Company does not expect any material changes to current treatment or disclosure of its Financial Instruments.

	2016 \$000	2015 \$000
3 OPERATING REVENUE		
Sales revenue	98,703	98,503
Avoided transmission constraint and loss revenue	1,316	949
	100,019	99,452
4 FINANCIAL REVENUE		
Interest and dividends received	13	10

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

	2016 \$'000	2015 \$'000
5 OTHER EXPENSES		
Included in the operating expenses of the Company are the following items:		
Audit fees		
- for audit of financial statements	39	39
- for audit services in relation to regulatory (information disclosure) reporting	19	18
- for audit services in relation to price and quality thresholds and other regulatory reporting	15	14
Total audit fees	73	71
Transmission costs	33,800	33,041
Depreciation	14,321	13,565
Maintenance costs	14,028	13,898
Other contractor costs	727	472
Directors' fees	109	104
Bad debts written off	1	13
Lease expense	89	67
Increase/(decrease) in provision for doubtful, trade and other receivables	19	10
6 FINANCIAL EXPENSES		
Interest - other	12	0
Interest - related parties	9,326	9,479
Interest amortised from cash flow hedge close out	(4)	3
Total financial expenses	9,334	9,482
7 LEASE COMMITMENTS		
<i>Non-Cancellable Operating Lease Commitments</i>		
Payable within one year	68	58
Payable between one to five years	216	123
Payable later than five years	570	85
	854	266

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

		2016 \$000	2015 \$000
8 DIVIDENDS			
Interim dividend	December \$0.150/share (2015: \$0.250)	1,500	2,500
Final dividend	June \$0.150/share (2015: \$0.175)	1,500	1,750
	(2015: \$0.050)	0	500
	\$0.300/share for 2016 (2015: \$0.475)	3,000	4,750
9 INCOME TAX			
Operating profit before income tax		8,970	11,128
Tax thereon at 28% (2015: 28%)		2,512	3,116
<i>Plus/(less) the tax effect of differences</i>			
Expenditure (deductible)/non-deductible for taxation purposes		7	16
Under/(over) tax provision in prior years		(12)	(180)
Tax effect of differences		(5)	(164)
Tax expense		2,507	2,952
<i>Represented by</i>			
Current tax provision		886	1,659
Deferred tax provision		1,633	1,473
Under/(over) tax provision in prior years		(12)	(180)
Income tax		2,507	2,952
Effective tax rate		27.9%	26.5%

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 2016 – continued

	2016	2015
10 EARNINGS PER SHARE		
Basic earnings per share is calculated by dividing the net profit/(loss) attributable to the Shareholder of the Company by the weighted average number of ordinary shares on issue during the year.		
Number of shares		
Weighted average number of ordinary shares	10,000,000	10,000,000
Basic earnings per share in dollars	0.65	0.82

	2016 \$000	2015 \$000
11 EQUITY - Share Capital		
Issued capital - 10,000,000 ordinary shares	10,000	10,000
12 CASH FLOW HEDGE RESERVE		
Balance at beginning of the year	(904)	955
Net revaluations	(3,279)	(2,584)
Cash flow hedge closed out	(5)	3
Deferred tax arising on hedges (note 17)	919	722
Balance at end of the year	(3,269)	(904)

The cash flow hedge reserve is comprised of the cumulative net change in the fair value of effective cash flow hedging instruments relating to interest payments that have not yet occurred and the value received from cash flow hedges that have been closed out and which relate to future periods.

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

	2016 \$000	2015 \$000
13 RETAINED EARNINGS		
Balance at beginning of the year	173,454	170,028
Net profit for the year	6,463	8,176
Dividend distributions	(3,000)	(4,750)
Balance at end of the year	176,917	173,454
14 TRADE AND OTHER PAYABLES		
Trade payables	5,778	5,406
Due to related parties	11,783	9,815
	17,561	15,221
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		
GST receivable	729	624
	729	624
16 TERM BORROWINGS (secured)		
Dunedin City Treasury Limited - related party	170,460	155,500
The term borrowings are secured by a General Security Agreement over all the assets of the Company. Currently, the Company has a facility available of \$185.0 million.	170,460	155,500
The repayment periods on the term borrowings are:		
Repayable between one to two years	0	0
Repayable between two to five years	170,460	155,500

The weighted average interest rate for the loan inclusive of any current portion, was 6.08% (2015: 6.26%).

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

17 DEFERRED TAX

	Opening Balance Sheet \$000	Charged to Equity \$000	Charged to Income \$000	Closing Balance Sheet Assets \$000	Closing Balance Sheet Liabilities \$000	Closing Balance Sheet Net \$000
YEAR ENDED 30 JUNE 2016:						
Property, plant and equipment	(53,730)	0	(799)	0	(54,529)	(54,529)
Provisions	(4,172)	0	(838)	37	(5,047)	(5,010)
Revaluations of interest rate swaps	352	919	0	1,271	0	1,271
Close out of interest rate swaps	0	0	0	0	0	0
Balance at end of the year	(57,550)	919	(1,637)	1,309	(59,577)	(58,268)
YEAR ENDED 30 JUNE 2015:						
Property, plant and equipment	(53,301)	0	(429)	0	(53,730)	(53,730)
Provisions	(3,350)	0	(822)	44	(4,216)	(4,172)
Revaluations of interest rate swaps	(370)	722	0	352	0	352
Close out of interest rate swaps	0	0	0	1	(1)	0
Balance at end of the year	(57,021)	722	(1,251)	397	(57,947)	(57,550)

18 CASH AND CASH EQUIVALENTS

	2016 \$000	2015 \$000
Cash and bank	4	34
	4	34

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

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

	2016 \$000	2015 \$000
19 TRADE AND OTHER RECEIVABLES		
Trade receivables	11,881	12,710
Less estimated impairment	(123)	(104)
	11,758	12,606
Due from related parties		
- Dunedin City Council and Group entities	45	145
- Other related parties	0	1
	11,803	12,752
The Directors consider that the carrying amount of the trade and other receivables approximates their fair value. The estimated doubtful debts provision relates entirely to individually impaired trade receivable balances.		
Past due, but not impaired, receivables are:		
Age analysis:		
30-60 days	32	15
60-90 days	23	8
90 days plus	304	313
	359	336
20 INVESTMENTS		
Investments – listed companies	8	10
	8	10
Investments – listed companies		
The Company has acquired small shareholdings in several listed electricity-sector companies. These holdings are considered long-term.		
21 CASH FLOW HEDGE INSTRUMENTS		
Interest rate swaps revaluations - receivable/(payable)	(4,540)	(1,261)
	(4,540)	(1,261)
22 INVENTORIES		
Network spare parts	8	8
	8	8

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

23 PROPERTY, PLANT AND EQUIPMENT

	Land \$000	Buildings \$000	Network \$000	Plant Equipment \$000	Motor Vehicles \$000	Office Equipment \$000	Optical Fibre Network \$000	Construction in Progress \$000	Total \$000
YEAR ENDED 30 JUNE 2016:									
Cost									
Balance at beginning of year	5,282	11,530	474,344	2,243	191	16	4,962	20,769	519,337
Purchases	120	0	31,371	38	0	0	0	5,667	37,196
Transfers	0	660	0	0	0	0	0	(660)	0
Total cost	5,402	12,190	505,715	2,281	191	16	4,962	25,776	556,533
Accumulated depreciation									
Balance at beginning of year	0	1,618	115,537	1,760	74	16	701	0	119,706
Depreciation	0	141	13,911	108	9	0	152	0	14,321
Total accumulated depreciation	0	1,759	129,448	1,868	83	16	853	0	134,027
Balance at end of year	5,402	10,431	376,267	413	108	0	4,109	25,776	422,506
YEAR ENDED 30 JUNE 2015:									
Cost									
Balance at beginning of year	5,282	11,530	450,530	2,224	191	16	4,948	9,195	483,916
Purchases	0	0	23,814	19	0	0	0	11,588	35,421
Transfers	0	0	0	0	0	0	14	(14)	0
Total cost	5,282	11,530	474,344	2,243	191	16	4,962	20,769	519,337
Accumulated depreciation									
Balance at beginning of year	0	1,488	102,401	1,623	64	16	549	0	106,141
Depreciation	0	130	13,136	137	10	0	152	0	13,565
Total accumulated depreciation	0	1,618	115,537	1,760	74	16	701	0	119,706
Balance at end of year	5,282	9,912	358,807	483	117	0	4,261	20,769	399,631

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 2016 – continued

	2016 \$000	2015 \$000
24 CAPITAL EXPENDITURE COMMITMENTS		
Capital expenditure contracted for at balance date but not provided for in the financial statements	10,888	18,191
	10,888	18,191
25 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/(loss) for the year	6,463	8,176
<i>Items not involving cash flows</i>		
Depreciation	14,321	13,565
Increase/(decrease) in deferred tax	718	529
Other non-cash items	(2,365)	(1,859)
Increase/(decrease) in cash flow hedge valuation	3,279	2,584
<i>Impact of changes in working capital items</i>		
(Increase)/decrease in trade and other receivables	948	(1,194)
Increase/(decrease) in trade and other payables	2,340	2,740
Increase (decrease) in provision for tax	(710)	(194)
(Increase)/decrease in other current assets	(105)	(556)
(Increase)/decrease in inter Company advance	315	(343)
<i>Items classified as investing or financing activities</i>		
Capital creditors in accounts payable	(1,918)	(3,056)
Net cash inflows/(outflows) from operating activities	23,286	20,392

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

26 RELATED PARTY TRANSACTIONS

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

TRANSACTIONS WITH DUNEDIN CITY COUNCIL

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

YEAR ENDED 30 JUNE	2016 \$000	2015 \$000
Purchases of goods and services from Dunedin City Holdings Limited:		
Management fees	200	200
Subvention/tax loss offset payment	268	247
	468	447
Purchases of goods and services from Dunedin City Council:		
Rates and property leases	813	783
Subvention/tax loss offset payment	0	303
Interest	3	0
	816	1,086
Purchases of goods and services from other Dunedin City Council Group entities:		
Capital work	27,554	24,096
Network management and operation	20,721	20,226
Interest/facility fees	9,323	9,479
Subvention/tax loss offset payments	465	512
Contracting services	1,159	837
Management fees	120	119
Accounting, administration and secretarial	343	265
Sundry and consulting	95	54
Lease of meters	75	46
Subvention expense purchased	7,292	7,292
	67,147	62,926

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

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

	2016 \$000	2015 \$000
26 RELATED PARTY TRANSACTIONS - continued		
At period end the amounts payable by Aurora to Group entities:		
Dunedin City Council Group entities	186,783	166,576
	186,783	166,576
Sales of services to Dunedin City Council:		
Other	54	40
	54	40
Sales of services to Dunedin City Council Group entities:		
Rent	26	26
Service failure penalties	113	224
Other	14	22
	153	272
At period end, the amounts receivable by Aurora Energy Limited from Dunedin City Council Group entities are:		
Dunedin City Council	25	4
Other Dunedin City Council Group entities:	104	541

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

Aurora Energy Limited undertakes transactions with other related parties.

TRANSACTIONS WITH COMPANIES IN WHICH DIRECTORS HAVE AN INTEREST:

Mr S J McLauchlan is Pro Chancellor of the University of Otago. In the ordinary course of business during the financial period covered by this report, services valued at \$7,139 were provided to the University of Otago (2015: \$22,066). No monies were outstanding as at 30 June 2016 (2015: \$746).

Mr McLauchlan is a Director and Shareholder of Rosebery Holdings Limited. During the financial period covered by this report, services of \$24,535 were purchased from Rosebery Holdings Limited (2015: \$23,756). No monies were outstanding as at 30 June 2016 (2015: nil).

Mr McLauchlan is a Trustee / Shareholder in Three Hills Limited. In the ordinary course of business during the financial period covered by this report, services valued at \$68,265 were provided to Three Hills Limited (2015: nil). \$54,953 was outstanding as at 30 June 2016 (2015: nil).

Mr D J Frow is a Director of ETEL Limited. During the financial period covered by this report, no services were purchased from ETEL Limited (2015: \$53,448). No monies were outstanding as at 30 June 2016 (2015: nil).

Mr T J Kempton is a Councillor on Otago Regional Council. During the financial period covered by this report, services to the value of \$27,689 were purchased from Otago Regional Council (2015: \$26,434). \$300 was outstanding as at 30 June 2016 (2015: nil).

Mr Kempton is a Director and Shareholder of Long Beach Consulting Limited. During the financial period covered by this report, services of \$21,470 were purchased from Long Beach Consulting Limited (2015: \$20,756). No monies were outstanding as at 30 June 2016 (2015: nil).

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

27 FINANCIAL INSTRUMENT RISK

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

INTEREST RATE RISK

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

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

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

	2016 \$000	2015 \$000
Maturing in less than one year	0	0
Maturing between one and five years	0	0
Maturing after five years	50,000	50,000
	50,000	50,000

CREDIT RISK

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

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

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

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

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

	2016 \$000	2015 \$000
Cash and cash equivalents	4	34
Trade and other receivables	11,803	12,752
Short term investments	8	10
Inter Company advances	84	399
	11,899	13,195

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

27 FINANCIAL INSTRUMENT RISK - continued

CREDIT QUALITY OF FINANCIAL ASSETS

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

	2016 \$000	2015 \$000
Counterparties with credit ratings		
Cash and cash equivalents AA-	4	34
Trade and other receivables AA-	25	4
Counterparties without credit ratings		
Trade and other receivables Existing counterparties with no defaults in the past	11,901	12,852
Investment Existing counterparties with no defaults in the past	8	10

LIQUIDITY RISK

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

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

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

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

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

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

27 FINANCIAL INSTRUMENT RISK - continued

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

Maturity Dates	Less than 1 Month \$000	1 to 3 Months \$000	3 Months to 1 Year \$000	1 to 5 Years \$000	More than 5 Years \$000	No Maturity \$000	Total \$000
Financial assets							
Cash and cash equivalents	4	0	0	0	0	0	4
Trade and other receivables	11,803	0	0	0	0	0	11,803
Long term investments	0	0	0	0	0	8	8
Inter Company advance	0	0	84	0	0	0	84
Other current assets	729	0	0	0	0	0	729
	12,536	0	84	0	0	8	12,628
Financial liabilities							
Trade and other payables	17,561	0	0	0	0	0	17,561
Taxation payable	0	0	666	0	0	0	666
Term borrowings	0	0	0	0	0	170,460	170,460
Cash flow hedge	0	0	0	0	0	4,540	4,540
	17,561	0	666	0	0	175,000	193,227

The following table analyses the exposure of the Company's financial liabilities to liquidity risk as at 30 June 2015:

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	34	0	0	0	0	0	34
Trade and other receivables	12,752	0	0	0	0	0	12,752
Long term investments	0	0	0	0	0	10	10
Inter Company advance	0	0	399	0	0	0	399
Other current assets	624	0	0	0	0	0	624
	13,410	0	399	0	0	10	13,819
Financial liabilities							
Trade and other payables	15,221	0	0	0	0	0	15,221
Taxation payable	0	0	1,376	0	0	0	1,376
Term borrowings	0	0	0	0	0	155,500	155,500
Cash flow hedge	0	0	0	0	0	1,261	1,261
	15,221	0	1,376	0	0	156,761	173,358

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

27 FINANCIAL INSTRUMENT RISK - continued

SENSITIVITY ANALYSIS

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

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

	Fair Value at Balance Date \$000	+100bps Profit \$000	+100bps Equity \$000	-100bps Profit \$000	-100bps Equity \$000
Financial liabilities					
Cash flow hedge instruments	4,540	0	2,413	0	(2,549)
Term borrowings (unhedged)	120,460	(1,205)	0	1,205	0
	125,000	(1,205)	2,413	1,205	(2,549)

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).

	2016			
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial liabilities/(assets)				
Derivative financial liabilities	0	4,540	0	4,540
	0	4,540	0	4,540
	2015			
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial liabilities/(assets)				
Derivative financial liabilities	0	1,261	0	1,261
	0	1,261	0	1,261

Notes To The Financial Statements

for the year ended 30 June 2016 – continued

28 SEGMENT REPORTING

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

29 CAPITAL MANAGEMENT STRATEGY

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

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

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

30 EVENTS AFTER BALANCE DATE

There were no significant events after balance date.

Independent Auditor's Report



To the readers of Aurora Energy Limited's financial statements and performance information for the year ended 30 June 2016

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

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the company on pages 25 to 53, that comprise the balance sheet as at 30 June 2016, 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 performance information of the company on pages 13 to 15.

In our opinion:

- the financial statements of the company:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; 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 International Financial Reporting Standards.
- the performance information of the company presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2016.

Our audit was completed on 30 August 2016. This is the date at which our opinion is expressed.

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

Independent Auditor's Report

AUDITOR'S REPORT

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

Basis of opinion

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

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the appropriateness of the reported performance information within the company's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

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

Independent Auditor's Report



Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the company that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparation of the performance information for the company.

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

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

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out assignments in regards to the Annual Compliance Statement and the Electricity Distribution Information Disclosure Requirements, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the company.

Scott Tobin
Audit New Zealand
On behalf of the Auditor General
Dunedin, New Zealand

Company Directory

DIRECTORS

Dr Ian Parton (Chair).
Stuart McLauchlan
David Frow
Trevor Kempton
Stephen R Thompson

CHIEF EXECUTIVE

Grady Cameron

COMPANY SECRETARY

Gary Dixon

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



