



Aurora Energy Limited

Statement of Intent

for the Year Ending 30 June 2014

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1 MISSION

TO BECOME THE INFRASTRUCTURE INDUSTRY SPECIALIST

2 NATURE AND SCOPE OF ACTIVITIES

Aurora Energy Limited (the Company) undertakes activities related to the development and ownership of electricity distribution assets and other infrastructural assets.

3 CORPORATE GOVERNANCE STATEMENT

The Company is an electricity company within the meaning of the *Electricity Industry Reform Act 1998* and is deemed to be an energy company for the purposes of some sections of the *Energy Companies Act 1992*. It is not a Council Controlled Trading Organisation (CCTO) as defined by the *Local Government Act 2002* (the Act).

Certain provisions of the Act apply to the Company as a result of Section 72 of the Act and require the Company to provide a Statement of Intent, which complies with the Act.

The Directors' role is defined in Section 58 of the Act which requires that all decisions relating to the operation of a CCTO shall be made pursuant to the authority of the directorate of the CCTO and its Statement of Intent. In addition to the obligations of the Act, the *Electricity Reform Act 1998*, and the *Energy Companies Act 1992*, the Company is required to comply with the provisions of the *Companies Act 1993* which places other obligations on the Directors.

The Directors are responsible for the preparation of the Statement of Intent which, along with the three-year financial plan, is provided to the Company's Shareholder, Dunedin City Holdings Limited. Monthly, six monthly and annual reports of financial and operational performance are provided to the Shareholder.

The Directors of the Company are responsible for the overall control of the Company but no cost-effective internal control system will permanently preclude all errors or irregularities. The control systems operating within the Company reflect the specific risks associated with the business of the Company.

4 CORPORATE GOALS

The principal goal of the Company is to operate as a successful business, achieving the objectives of its Shareholder as specified in this Statement of Intent. The specific corporate goals of the Company are as follows:

General

- 4.1 To ensure that the Statement of Intent and operating policies for the Company reflect the policies and objectives of the Shareholder for the business.
- 4.2 To comply with the Statement of Intent and adhere to the operating strategies.
- 4.3 To keep the Shareholder informed of matters of substance affecting the Company.
- 4.4 To perform continual reviews of the operating strategies, financial performance and service delivery of the Company.
- 4.5 To grow the Company into a leading New Zealand business while at the same time taking into account the free cash flows required to meet the objectives of the ultimate shareholder.
- 4.6 To further diversify and expand the Company's activities in the ownership of utility assets.

Economic

- 4.7 To maximise the financial returns achieved and the value added by the Company. Particular attention will be given to cash flow performance.
- 4.8 To maintain the Company's financial strength through sound and innovative financial management.

Social and Environmental

- 4.9 To encourage non-discriminatory, culturally sensitive, equal opportunity and safe work practices by its service providers.
- 4.10 To act as a socially responsible and environmentally aware corporate citizen and to contribute to, or assist where possible, with the Dunedin City Council community outcomes (as listed in the Annual Plan).
- 4.11 To bring to the attention of the Shareholder any strategic or operational matters where there may be a conflict between the Dunedin City Council's community outcomes (as listed in the Annual Plan) and those of the Company and to seek the Shareholder's view on these. The Company will be mindful that the ultimate shareholder is the custodian of the community's interest and accepts that this may create a greater need for consultation with the ultimate shareholder than might be required in a normal commercial situation.

5 SPECIFIC OBJECTIVES FOR THE YEAR ENDING 30 JUNE 2014

In pursuit of its corporate goals, the Company has the following objectives for the next 12 months:

General

- 5.1 To review the Statements of Intent and Strategic Plans for consistency with the objectives of Dunedin City Holdings Limited.
- 5.2 To review the operating activities of the Company for compliance with the goals and objectives stated in the Statement of Intent and Strategic Plan.
- 5.3 To report all matters of substance to the Shareholder.

Economic

- 5.4 To achieve all financial projections.
- 5.5 To pursue ownership or management of an additional group of utility assets.
- 5.6 To monitor the economic value added by the Company and to monitor financial performance against rates of return established by Dunedin City Holdings Ltd.
- 5.7 To ensure that the reporting requirements of the Company and of the Shareholder are met.
- 5.8 To maximise the utilisation of electricity distribution assets while ensuring that service quality meets the needs of users.

Social and Environmental

- 5.9 To ensure no transgression of environmental and resource laws occurs.
- 5.10 To review the activities undertaken by the Company for purposes of being a good socially and environmentally responsible corporate citizen.

6 PERFORMANCE MEASURES

The following long-term indicators and targets will demonstrate continual management improvement.

General

6.1 To report matters of substance to the Shareholder within five days of occurrence.

Social and Environmental

6.2 To undertake appropriate under-grounding of overhead distribution lines.

6.3 A review of the activities undertaken by the Company for the purposes of being a good socially and environmentally minded corporate citizen will be completed by 30 June 2014.

7 FINANCIAL PROJECTIONS

The projections in Sections 7 and 8 have been prepared using a number of realistic assumptions about the future and relate to events and actions which have not yet occurred and may not occur. In deriving these projections, judgement has been applied to the uncertain future commercial environment in which the Company operates.

| Financial Year Ending 30 June | 2014 | 2015 | 2016 |
|--------------------------------------|-------------|-------------|-------------|
| | \$000 | \$000 | \$000 |
| EBITDA | 43,429 | 45,503 | 47,010 |
| Net surplus | 14,898 | 15,576 | 15,971 |
| Shareholder's funds | 182,203 | 188,279 | 194,750 |
| Dividends/subvention | 10,000 | 9,500 | 9,500 |

8 RATIO OF SHAREHOLDER'S FUNDS TO TOTAL ASSETS

| At 30 June | 2014 | 2015 | 2016 |
|-------------------------------------|-------------|-------------|-------------|
| Shareholder's Funds to Total Assets | 45.8% | 45.8% | 45.5% |

"Shareholder's funds" are represented by the paid up capital, reserves created by the revaluation of specific assets, and retained earnings.

"Total assets" means the aggregate amount of all current and non-current assets.

The Company has adopted a target Shareholder Funds to Total Assets ratio (Equity ratio) of 50%.

9 DIVIDEND POLICY

The Directors will apply the following principles when approving dividend amounts for payment:

- Borrowing to pay dividends should be avoided.
- Individual company policy may be based either on a proportion of net operating cash flow or after tax profit
- Asset realisation amounts are to be considered for distribution where re-investment is not required
- The maintenance of agreed equity ratios as a minimum position. It will be expected that the annual dividend payments will equate to 75% of after tax profit or net operating cash flow subject to the maintenance of agreed equity ratios as a minimum position. Budgeted dividend levels between DCHL and its subsidiaries will be agreed as part of the annual business planning cycle. Any surplus cash generated after debt reduction will be expected to be passed to DCHL and not retained in the subsidiaries.
- Interim dividends will be paid by 31 December and 30 June based on forecast with a final dividend based on actual year end result thereafter.

10 REPORTING TO THE SHAREHOLDER

10.1 **Annual** – prior to 1 December 2012

- (i) Draft Statement of Intent.

10.2 **Annual** – prior to 30 June 2013

- (i) Statement of Intent.

10.3 **Monthly**

- (i) Income Statement
- (ii) Balance Sheet
- (iii) Statement of Cash Flows
- (iv) Activity report.

10.4 **Half yearly** – **within** two months of the end of the six month period

- (i) Directors' Report - a review of performance over the half year
- (ii) Income Statement
- (ii) Statement of Movements in Capital
- (iv) Balance Sheet
- (v) Statement of Cash Flows
- (vi) Notes to the Financial Statements.

10.5 **Annual – within** three months of the end of the financial year

- (i) Directors' Report - a review of the Company's performance over the full year, including a comparison of performance against objectives and key performance measures.
- (ii) Income Statement.
- (iii) Statement of Movements in Capital.
- (iv) Balance Sheet.
- (v) Statement of Cash Flows.
- (vi) Notes to the Financial Statements.
- (vii) Auditor's Report on the above Financial Statements.

11 ACCOUNTING POLICIES

11.1 General Accounting Policies

The accounting policies recognised by the New Zealand Institute of Chartered Accountants of New Zealand complying with NZ Financial Reporting Standards will be adopted by the Company.

11.2 Particular Accounting Policies

The particular accounting policies which materially affect the measurement and reporting of financial performance and financial position, are consistent across the Dunedin City Holdings Limited group and are fully listed in the Company's annual report and website.

12 ACQUISITION/SALE OF SHARES/ASSETS IN ANY COMPANY OR ORGANISATION

The Company will only invest in the shares of another company or organisation if the shares are considered to be likely to produce added value to the Company. In order to maximise benefit to the Shareholder, shares or assets may also be sold in response to, or in anticipation of, ongoing changes in the marketplace.

If the Directors intend that the Company or its subsidiaries should subscribe for or otherwise acquire issued capital or an interest in any company or organisation (other than minimum holdings in listed companies in related industries) exceeding a total investment of \$5 million, they will obtain prior approval of the Shareholder.

If the Directors intend that the Company or its subsidiaries should acquire assets, they will obtain prior approval of the Shareholder where an investment into the new assets exceeds \$5 million.

13 TRANSACTIONS WITH RELATED PARTIES

Dunedin City Council is the sole shareholder in Dunedin City Holdings Limited. Dunedin City Holdings Limited is the sole shareholder in the Company. Transactions between the Company, Dunedin City Council and other Dunedin City Council controlled enterprises will be conducted on a wholly commercial basis. Charges from Dunedin City Council and its other companies, and charges to Dunedin City Council and its other companies will be made for services provided as part of the normal trading activities of the Company.

| Related Party | Transaction |
|--------------------------------|---|
| Delta Utility Services Limited | Provision of operating and management services and functions. |
| Dunedin City Holdings Limited | Provision of management services in accordance with the agreement between the parties and other functions appropriate between parent and subsidiary |
| Dunedin City Treasury Limited | Provision of treasury services. |

14 GROUP PURCHASING

The Company undertakes to operate "group" purchasing of goods and services unless it is demonstrated conclusively to the Shareholder that the total combined cost to the group and to Dunedin City Council of such group purchasing is greater than the total combined cost to the group and to Dunedin City Council of ceasing to purchase such goods and services as a group, including the cost to the group and to Dunedin City Council of ceasing any such group purchasing.

15 OTHER MATTERS AGREED AS BETWEEN THE DIRECTORATE AND THE SHAREHOLDER

- 15.1 The undertaking by the Company of any activity of a nature or scope not provided for in the Company's mission or goals will be subject to the prior approval of the Shareholder.
- 15.2 The approval of the Shareholder is required before disposal by the Company of any segment of its business or shares in a subsidiary or associate company where the value of the asset to be disposed of exceeds the investment delegated authority set out in Section 12 above.
- 15.3 The Dunedin City Council has requested the Company to install an open access fibre optic broadband communications network in the Dunedin urban area. In recognising the initial short term cash flows resulting from investments of this nature are negative, the Dunedin City Council agrees that the total annual cost to the Company of developing this network shall be reduced from agreed annual dividends.

16 ESTIMATE OF COMMERCIAL VALUE OF THE INVESTMENT

The commercial value of the Shareholders' investment in the Company is considered by the Directors to be not less than the Shareholder's funds as published in the last Annual Report.

17 USE OF OTAGO MANUFACTURED GOODS AND SERVICES

The Company will endeavour to use Otago manufactured goods and services subject to price, quality and other strategic considerations being met.

18 COMPENSATION SOUGHT

The Company does not have any activities in respect of which its Board wishes to seek compensation from any local authority.