

The logo for Aurora Energy Limited features the word "Aurora" in a large, white, sans-serif font. Below it, the words "ENERGY LIMITED" are written in a smaller, white, all-caps, sans-serif font. To the right of the text, there are several small, white, four-pointed starburst symbols.

Aurora
ENERGY LIMITED

Aurora Energy Limited

**Statement of Intent
for the year ending
30 June 2018**

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1 INTRODUCTION

Aurora Energy Ltd ('the Company') is an Energy Company formed and registered in accordance with the Energy Companies Act 1992. It is also a wholly owned subsidiary of Dunedin City Holdings Ltd which is wholly owned by the Dunedin City Council.

Energy Companies are required by law to produce a Statement of Intent (SOI). A SOI is an annual planning document.

The Company's Constitution states that the Directors shall deliver to the Shareholder a draft Statement of Intent in accordance with the requirements of the Local Government Act 1974 and the Energy Companies Act 1992, not later than one month after the commencement of each financial year of the Company.

2 PURPOSE OF STATEMENT OF INTENT

The SOI demonstrates the accountability to the Shareholder and the public by outlining the Company's activities and intentions for the next three financial years. It provides an opportunity for the Shareholder to influence the Energy Company's direction by commenting on the draft version of the SOI. The SOI provides the basis for the accountability of the Directors to the Shareholder for the performance of the organisation.

The Energy Company is required by law to report in its annual report on its performance targets set in the SOI.

3 OBJECTIVES

As defined in Section 36 of the Energy Companies Act 1992, the principal objective of an Energy Company is to operate as a successful business having regard, among other things, to the desirability of ensuring the efficient use of energy. In operating its business, the Company also recognises the objectives of a Council Controlled Trading Organisation to:

- a) achieve the objective of its shareholder, both commercial and non-commercial, as specified in the statement of intent; and
- b) be a good employer (as per clause 36 of Schedule 7 LGA); and
- c) exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and
- d) ... conduct its affairs in accordance with sound business practice.

Health and Safety is integral to the way Aurora intends to conduct its business.

4 NATURE AND SCOPE OF ACTIVITIES

The principal activities of the Company are the ownership, development and strategic management of electricity distribution network assets in Dunedin and Central Otago. Our function is to transport electricity from the national grid to the end-use consumer, ensuring a safe, efficient, reliable and cost effective distribution network. Customers include large directly billed consumers, distributed generators and New Zealand's electricity retailers.

Aurora's total assets were \$436.5 million as at 30 June 2016, and the Company generated revenues of \$100.0 million for the year then ended.

Effective from 1 July 2017, the Company will self-perform the asset management and network operations functions previously outsourced to Delta Utility Services Ltd.

Under the Commerce Commission's Electricity Information Disclosure Requirements, Aurora is required to publish, at least bi-annually, a 10 year Asset Management Plan (AMP). Aurora's AMP sets out the way in which it ensures that long-lived assets are managed sustainably.

Aurora invites comment on its AMP from electricity retailers (on behalf of their customers) and provides opportunity for public comments via its website.

5 CORPORATE GOVERNANCE STATEMENT

In addition to the obligations of the Energy Companies Act 1992, the Company is also subject to the requirements of the Companies Act 1993 and is governed by directors in accordance with the law and best practise.

The role of a director of an Energy Company is defined in Section 37 of the Energy Companies Act 1992. This section states that all decisions relating to the operation of the Energy Company shall be made pursuant to the authority of the directorate of the Energy Company and its Statement of Intent. The Board is responsible for the preparation of the SOI which requires approval from the company's shareholder, Dunedin City Holdings Ltd.

The Board meets on a regular basis to direct and control the company's activities. Directors are appointed by the shareholder, Dunedin City Holdings Ltd.

The Board accepts that it is responsible for the overall control system operating within the company but recognises that no cost-effective internal control system will permanently preclude all errors or irregularities. The control systems reflect the specific risks associated with the business of the company.

The shareholder reviews and approves the SOI and three year financial plan. Six-monthly and annual reports of financial and operating performance are provided to the shareholder.

6 PERFORMANCE TARGETS AND OTHER MEASURES

| Goals | Objectives | Performance Measures |
|--|--|---|
| <i>Health and Safety, Community and Environment (Targets for Year Ending 31 March)</i> | | |
| To ensure public safety | Zero serious harm events involving members of the public | Number of serious injury events (excluding car versus pole traffic accidents) involving members of the public Targets: 2018 0 2019 0 2020 0 |
| To ensure contractor and staff safety | Reduce levels of recordable harm | Total Recordable Injury Frequency Rate (TRIFR) per 200,000 hours worked Targets: 2018 4.75 2019 4.50 2020 4.25 |
| To make a positive contribution to our community | Maintain community support through sponsorships and community initiatives including biennial Southern Lakes Festival of Colour, Aurora Energy Otago Science & Technology Fair and the street art programme on Aurora Energy assets | Sponsorship \$ per annum Targets: 2018 \$10,000 2019 \$20,000 2020 \$10,000 |
| To promote the uptake of electric vehicles | Install public rapid charging station for electric vehicles in Dunedin; facilitate connection of third party providers' charging stations on the Aurora Energy network | Number of Aurora Energy and third party public charging facilities connected to Aurora Energy network Targets: 2018 2 2019 3 2020 4 |

| Goals | Objectives | Performance Measures |
|---|--|---|
| <i>Health and Safety, Community and Environment (Targets for Year Ending 31 March) - Continued</i> | | |
| | Maintain full compliance with the Resource Management Act | Number of breaches of the Resource Management Act Targets: 2018 0 2019 0 2020 0 |
| | Maintain a conservation partnership with Department of Conservation to reduce the risk of New Zealand Falcon electrocution | New Zealand Falcon safety – number of site installations Targets: 2018 +3 2019 +3 2020 +3 |
| <i>Network Operations (Targets for Year Ending 31 March)</i> | | |
| To successfully transition Aurora to a self-performing asset management and network operating business | Direct employment of the resources necessary to self-perform asset management and network operating functions Implementation of new services procurement models | Transition complete, asset management and network operations self-performed from 1 July 2017, New procurement models implemented by 30 June 2018 |
| To maximise the utilisation of electricity distribution assets while ensuring that service quality meets the needs of users | Consumer Connections (ICP Count) | Average number of customer connections per annum Targets: 2018 88,000 2019 88,500 2020 89,000 |

| Goals | Objectives | Performance Measures |
|--|--|---|
| Network Operations (Targets for Year Ending 31 March) - Continued | | |
| | Total energy volume received into the Network | Gigawatt hours per annum Targets: 2018 1,400 2019 1,400 2020 1,400 |
| | Network efficiency: maintain high overall asset utilisation (load factor %) | Energy into network / peak kW hours Targets: 2018 ≥ 54% 2019 ≥ 54% 2020 ≥ 54% |
| | Network efficiency: minimise overall network losses (loss ratio %) | Energy into network less energy delivered / energy into network Targets: 2018 ≤ 6.0% 2019 ≤ 6.0% 2020 ≤ 6.0% |
| | Network efficiency: maintain high distribution transformer capacity utilisation (capacity utilisation %) | Peak network kW / installed distribution transformer capacity kVA Targets 2018 ≥ 30% 2019 ≥ 30% 2020 ≥ 30% |
| | Customer responsiveness: achievement of average network restoration times of <4 hours for urban customers and <6 hours for rural customers | Number of events outside urban and rural restoration targets that result in service payments to customers Targets 2018 60 2019 60 2020 60 |

| Goals | Objectives | Performance Measures |
|---|--|---|
| Network Reliability (Targets for Year Ending 31 March) | | |
| To deliver electricity supplies to consumers on the Aurora network of a reliability standard that meets the service level targets in the company's 2017-2027 Asset Management Plan. | SAIDI <i>System Average Interruption Duration Index</i> - Class B Interruptions (Planned) | Average minutes without electricity per consumer Targets: 2018 ≤ 138.4 minutes 2019 ≤ 138.4 minutes 2020 ≤ 134.9 minutes |
| Please note Network Reliability performance measures for the period are expected to be impacted by a significant uplift in the company's asset renewal program. | - Class C Interruptions (Unplanned) | Average minutes without electricity per consumer Targets: 2018 ≤ 76.41 minutes 2019 ≤ 76.41 minutes 2020 ≤ 76.41 minutes |
| | - Total | Average minutes without electricity per consumer Targets: 2018 ≤ 214.81 minutes 2019 ≤ 214.81 minutes 2020 ≤ 211.31 minutes |
| To deliver electricity supplies to consumers on the Aurora network of a reliability standard that meets the service level targets in the company's 2017-2027 Asset Management Plan. | SAIFI <i>System Average Interruption Frequency Index</i> - Class B Interruptions (Planned) | Average frequency of outages per consumer Targets: 2018 ≤ 0.52 2019 ≤ 0.52 2020 ≤ 0.52 |
| Please note Network Reliability performance measures for the period are expected to be impacted by a significant uplift in the company's asset renewal program. | - Class C Interruptions (Unplanned) | Average frequency of outages per consumer Targets: 2018 ≤ 1.40 2019 ≤ 1.40 2020 ≤ 1.40 |

| Goals | Objectives | Performance Measures |
|--|---|---|
| <i>Network Reliability (Targets for Year Ending 31 March) - Continued</i> | | |
| | - Total | Targets 2018 ≤ 1.92 2019 ≤ 1.92 2020 ≤ 1.92 |
| <i>Economic Development</i> | | |
| To promote economic development | Provide essential electricity infrastructure to support Dunedin City Council's strategy to be one of the world's great small cities | Refer to the safety and network reliability targets above |
| <i>The Shareholder</i> | | |
| Full implementation of recommendations from the Deloitte report 'Review of Aurora Energy Ltd / Delta Utility Services Ltd – Network Safety Concerns' to Dunedin City Holdings Ltd released in December 2016 | Implementation and progress reporting in respect of the recommendations set out at section 1.5.9 of the Deloitte report | Confirmation from Deloitte and/or Shareholder that they are satisfied all recommendations from the Deloitte Report have been addressed |
| Engage with the Shareholder annually on opportunities for the Company to contribute, or assist where possible, with Council's community outcomes (as listed in the Annual Plan) and the Ministers' expectations | Consult with the Shareholder on matters to be included in the Company's Statement of Intent | Shareholder approval of the Company's Statement of Intent Targets: 2018 Approved 2019 Approved 2020 Approved |
| Bring to the attention of the Shareholder any strategic or operational matters where there may be conflict between the Council's community outcomes and/or the Ministers' expectations and those of the Company and seek the Shareholder's view on these | Consult with the Shareholder at the earliest possible time on matters where conflict may or could result | Potential conflicts notified to the Shareholder Targets: 2018 No unnotified potential conflicts 2019 No unnotified potential conflicts 2020 No unnotified potential conflicts |

| Goals | Objectives | Performance Measures |
|--|--|--|
| <i>The Shareholder - Continued</i> | | |
| Keep the Shareholder informed of all substantive matters | On a “no surprises” basis, advise the Shareholder promptly of any substantive matter that has the potential to impact negatively on the Shareholder and the Company with a particular focus on the media | Substantive matters reported to the Shareholder within 24 hours Targets: 2018 All substantive matters reported within 24 hours 2019 All substantive matters reported within 24 hours 2020 All substantive matters reported within 24 hours |

7 PERFORMANCE MEASURES

In its Annual Report the company will record its performance relating to the targets stated in Section 6.

8 FINANCIAL FORECASTS

Note: Revised dividend and financial projections are under preparation as at January 2017.

a) The ratio of Shareholder's Funds to Total Assets and the definition of those terms

| | Year ending 30/06/2018 | Year ending 30/06/2019 | Year ending 30/06/2020 |
|-------------------------------------|---------------------------|---------------------------|---------------------------|
| Shareholder's Funds to Total Assets | 35% | 32% | 29% |

The Company has adopted a target Shareholder's Funds to Total Assets ratio (equity ratio) of 50%, but expects this ratio will fluctuate depending on a variety of circumstances including asset renewal and investment cycles. During periods of higher capital expenditure, the equity ratio will likely be lower and, at other times, may exceed the current target, although this is not likely to happen within the current three year forecasting period.

"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.

b) Estimate of the amount or proportion of accumulated profits and capital reserves that is intended to be distributed to the Shareholder

| | Year ending 30/06/2018 \$000 | Year ending 30/06/2019 \$000 | Year ending 30/06/2020 \$000 |
|-----------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Dividend/subvention distributions | Nil | Nil | Nil |

c) Other financial forecasts

| | Year ending 30/06/2018 \$000 | Year ending 30/06/2019 \$000 | Year ending 30/06/2020 \$000 |
|---------------------------|------------------------------------|------------------------------------|------------------------------------|
| EBITDA | 29,679 | 28,402 | 31,710 |
| Net profit after tax | 590 | (2,974) | (3,054) |
| Cash flow from operations | 29,267 | 23,937 | 23,580 |
| Capital expenditure | 74,916 | 64,870 | 54,770 |
| Term borrowings | 249,850 | 300,500 | 339,900 |
| Shareholder's funds | 186,899 | 183,925 | 180,872 |

The projections provided have been prepared using the most recent Company budget information and incorporate a number of assumptions about the future metrics of key business profitability drivers. In deriving these projections, advice and judgement has been applied to predict the future state of the commercial market environment in which the Company operates.

9 DIVIDEND POLICY

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

- As a guideline, annual dividend payments will be budgeted at up to 75% of after-tax profit, subject to the Directors' obligations to act in accordance with their statutory duties and in the best interests of the Company. Current expenditure forecasts are such that no dividends are budgeted for the next three years.
- Dividends will be paid by 31 December and 30 June (based on forecast) with provision for a further final dividend based on actual year-end results.

10 REPORTING TO THE SHAREHOLDER

| | Monthly | Quarterly | Half Yearly | Annual |
|--|---------|-----------|-------------|------------------------|
| Statement of Financial Performance | X | X | X | X |
| Statement of Financial Position | X | X | X | X |
| Statement of Cash Flows | X | X | X | X |
| Statement of Service Performance against SOI targets | | X | X | X |
| Statement of Movement in Equity | | | X | X |
| Notes to the Financial Statements | | | X | X |
| Directors' Report | | | X | X |
| Auditor's Report | | | | X |
| Statement of Intent (Draft) | | | | Prior to 1 December |
| Statement of Intent (Final) | | | | Prior to 30 June |

11 ACCOUNTING POLICIES

a) General Accounting Policies

The Company is a Tier-1 For-profit entity as defined by the External Reporting Board and reports in accordance with Tier 1 For-profit Accounting Standards. The Company's accounting policies are based on NZ IFRS standards and interpretations, as recognised by Chartered Accountants Australia + New Zealand.

NZ IFRS standards and interpretations are subject to change and therefore the Company's accounting policies are also subject to change during the period of the SOI.

b) Particular Accounting Policies

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

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

The Company will only invest in the shares of another company or invest in an entity if the investment is 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, on-going changes in the marketplace.

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.

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.

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 of \$5 million.

13 COMPENSATION SOUGHT

At the request of the Shareholder, the Company may undertake activities that are not consistent with its normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of undertaking such activities.

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

14 COMMERCIAL VALUE OF SHAREHOLDER'S INVESTMENT

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

15 OTHER MATTERS AS AGREED BY THE SHAREHOLDER AND THE BOARD

- a) The undertaking by the Company of any activity of a nature or scope not provided for in the Company's mission or goals would be subject to the prior approval of the Shareholder.
- b) The approval of the Shareholder is also required before the Company could dispose of any segment of its business or shares in a subsidiary or associated company where the value of the asset to be disposed of exceeds the investment delegated authority set out in Section 11 above.
- c) The Company has entered into a Deed of Understanding between itself, the Dunedin City Council, Dunedin City Holdings Limited and members of the Group, imposing upon the Company certain restrictions, requirements and obligations to be set out in the Deed.

16 TRANSACTIONS WITH RELATED PARTIES

Dunedin City Council is the sole Shareholder of Dunedin City Holdings Limited.

Dunedin City Holdings Limited is the sole Shareholder of Aurora Energy Limited, City Forests Limited, Delta Utility Services Limited, Dunedin City Treasury Limited, Dunedin Venues Management Limited and Dunedin Stadium Property Limited. Dunedin City Holdings Limited owns 72% of Taieri Gorge Railway Limited and 50% of Dunedin International Airport Limited.

Transactions between the Companies, Dunedin City Council and other Dunedin City Council controlled enterprises will be on a wholly commercial basis.

Charges from Dunedin City Council and its other entities and charges to Dunedin City Council and its other entities will be made for goods and services provided as part of the normal trading activities of each Company.

Related Party Transactions

| | |
|----------------------------|--|
| Delta Utility Services Ltd | Operations and maintenance, asset management, construction and administration services |
| Dunedin City Council | Council rates for properties owned by the Company |
| Dunedin City Holdings Ltd | Functions appropriate between parent companies and subsidiaries |
| Dunedin City Treasury Ltd | Provision of debt funding to the Company generating interest payments to DCTL. |

17 GROUP FACILITY USE

The Company will undertake 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 Dunedin City Council of such Group purchasing is greater than the total combined cost to the Group and Dunedin City Council of ceasing to purchase such goods and services as a Group including the cost to the Group and Dunedin City Council of ceasing any such group purchasing.

APPENDIX 1: DUNEDIN CITY COUNCIL VISION: DUNEDIN IS ONE OF THE WORLD'S GREAT SMALL CITIES

The vision of the Dunedin City Council Long Term Plan is to make Dunedin an attractive place to work, live, study and visit.

This is achieved by the following Strategic Framework:



APPENDIX 2: STRATEGIC FRAMEWORK

| Strategy | Priority | Explanation |
|---|--|--|
| Social Wellbeing Strategy (2013) | Connected people | Making people feel connected and involved in community and city affairs. |
| | Vibrant and cohesive communities | Building better communities both at a local/geographic level and communities of interest. |
| | Healthy and safe people | Promoting good health and ensuring people feel safe, and are safe. |
| | Standard of living | Promoting a good work/ life balance and full employment. |
| | Affordable and healthy homes | People are living in warm and healthy homes and affordable housing options are available to all. |
| Economic Development Strategy (2012) | Business vitality | Improving the ease of doing business. Growing the value of exports. |
| | Alliances for innovation | Improving linkages between industry and research. Increasing scale in innovative and tradable sectors. |
| | A hub for skills and talent | Increasing the retention of graduates. Building the skills base. Growing migrant numbers. |
| | Linkages beyond our borders | Increasing international investment. Establishing strategic projects with other cities. |
| | A compelling destination | Marketing Dunedin and exporting education uplift. |
| Te Ao Tūroa - Environment Strategy (early draft themes) | Connecting people with the environment | Dunedin's community enjoys and is connected with the natural environment. |
| | Guardianship of the environment | Dunedin's community actively works together to understand, enhance and celebrate the values of the natural environment. |
| | Protecting and enhancing the environment | Dunedin protects, restores and enhances its natural heritage, biodiversity, landscapes and ecosystems. |
| | Responding to environmental changes | Dunedin limits its impact on, and adapts to, environmental changes, including climate change. |
| | Sustainable resource use | Dunedin reduces reliance on non-renewable resources, minimises waste and uses water responsibly |
| Ara Toi – Arts & Culture Strategy | Identity pride | Building unity and community pride by celebrating the city's character, diversity and individuality through arts and culture. |
| | Access and inclusion | Enabling self-expression and sharing of ideas to connect diverse people. |
| | Creative economy | Capitalising on the economic growth of the arts and culture sector. |
| | Inspired connections | Utilising existing networks and fostering new connections to facilitate creativity. |
| Spatial Plan (2012) | A liveable city | A healthy and safe environment; quality air and water; a connected community; recreation, leisure & learning, opportunities; healthcare, and warm housing. |
| | An environmentally sustainable and resilient city | Resilient ecosystems and communities; actively responding to climate change; reducing dependence on non-renewable resources; seismic-strengthened heritage buildings. |
| | A memorable and distinctive city | Protecting significant landscapes; quality architecture and urban design; memorable and engaging public art; celebrating Tangata Whenua and European heritage; actively re-using built heritage. |
| | A city that enables a prosperous and diverse economy | Maintaining and growing our rural economy, industrial base and world class communications; attracting and retaining internationally-focused people; supporting and benefiting from the tertiary education sector. |
| | An accessible and connected city | An urban form that supports accessibility from a range of modes and sustainable transport choices; a safe and efficient road network; affordable and convenient public transport; it is safe and pleasant to walk and cycle. |
| | A vibrant and exciting city | A successful arts and culture scene, vibrant central city and local centres. |
| | | |
| Parks & Recreation Strategy (early draft themes) | Well-connected open spaces | Managing green and open spaces to provide for social interaction and physical health and wellbeing. |
| | Accessible recreational facilities | Making recreational open spaces and facilities accessible to all. |
| | Collaborate to provide and protect | Working collaboratively to improve recreation and environmental outcomes. |
| Integrated Transport Strategy (2013) | Safety | Prioritising safety improvements according to risk. |
| | Travel choices | Prioritising investment and space to improve the provision of active modes and public transport. |
| | Connectivity of centres | Improving connections within and between centres and the central city for public transport and active modes. |
| | Freight | Efficiently and effectively moving freight. |
| | Resilient network | Integrating land use and transport to reduce demand for vehicle travel and increasing the resilience of the transport network. |
| Three Waters Strategy (2010) | Meeting water needs | Meeting the safe and quality water needs of the city for the next 50 years from existing water sources. |
| | Adaptable supply | Being able to adapt our water supply to a variety of future climate change and population scenarios. |
| | Environmental protection | Improving the quality of our discharges to minimise the impact on the environment. |
| | Maintaining service levels | Ensuring that, as a minimum, key service levels are maintained into the future. |
| | Kaitiakitaka | Adopting an integrated approach to management of the three waters and embrace the concept of kaitiakitaka. |