



Aurora Energy Ltd
Annual Report 2004



Aurora 



Aurora Energy Limited's

principal activity is the ownership and strategic management of electricity distribution network assets in the City of Dunedin and in Central Otago. Its function is to transfer electricity from the national grid to the end-use consumer, and its customers are New Zealand's electricity retailers.

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

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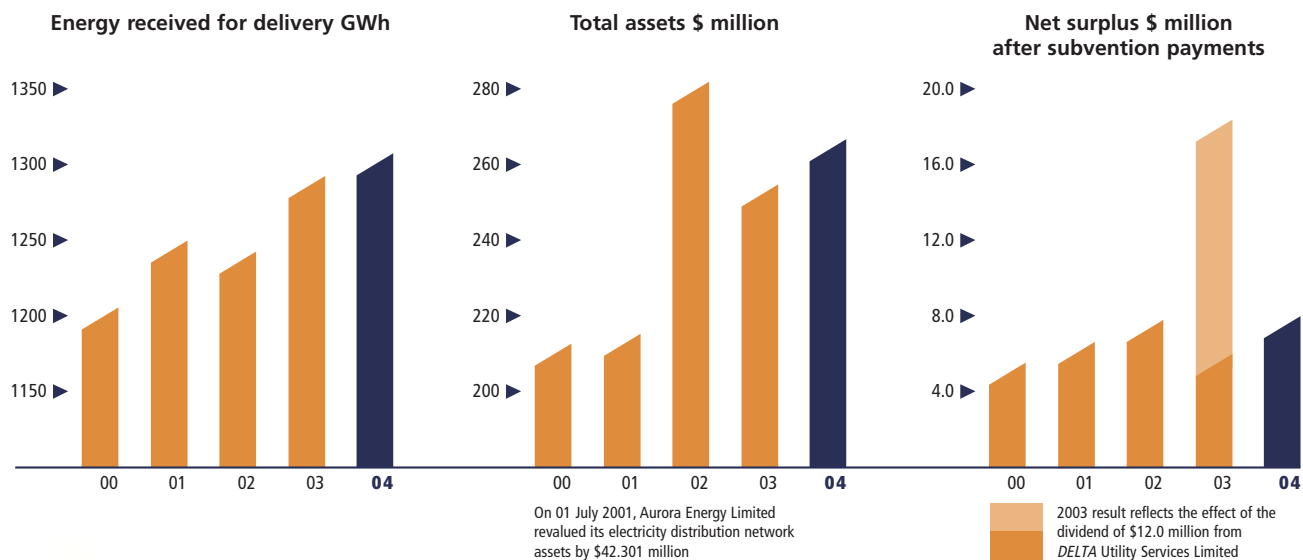
The cover picture is the phenomenon of *aurora australis* seen over the City of Dunedin on 28 July 2004.

The spectacular streamers of pulsating light are caused by collisions between air molecules and charged particles from the sun that are trapped in the earth's magnetic field.

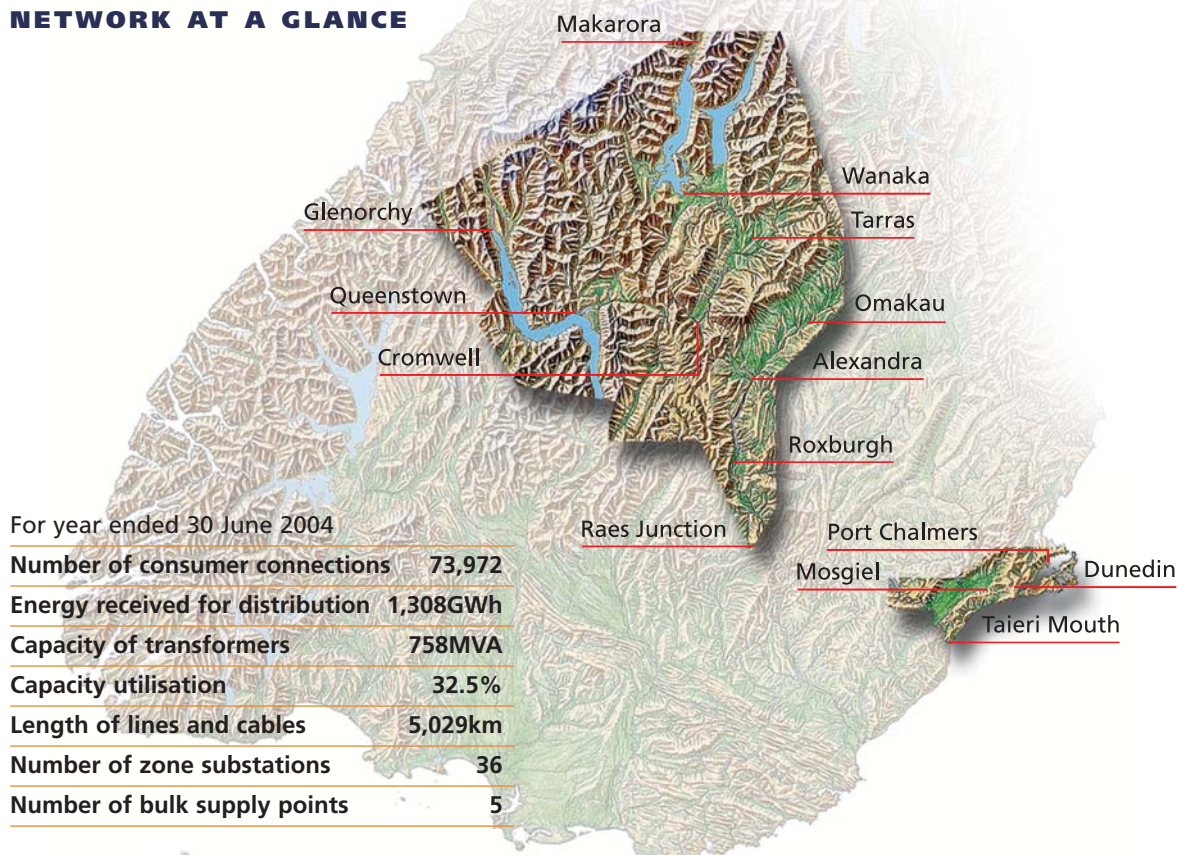
It is unusual for an aurora to be active as far north as Dunedin — 45° 54' S Lat

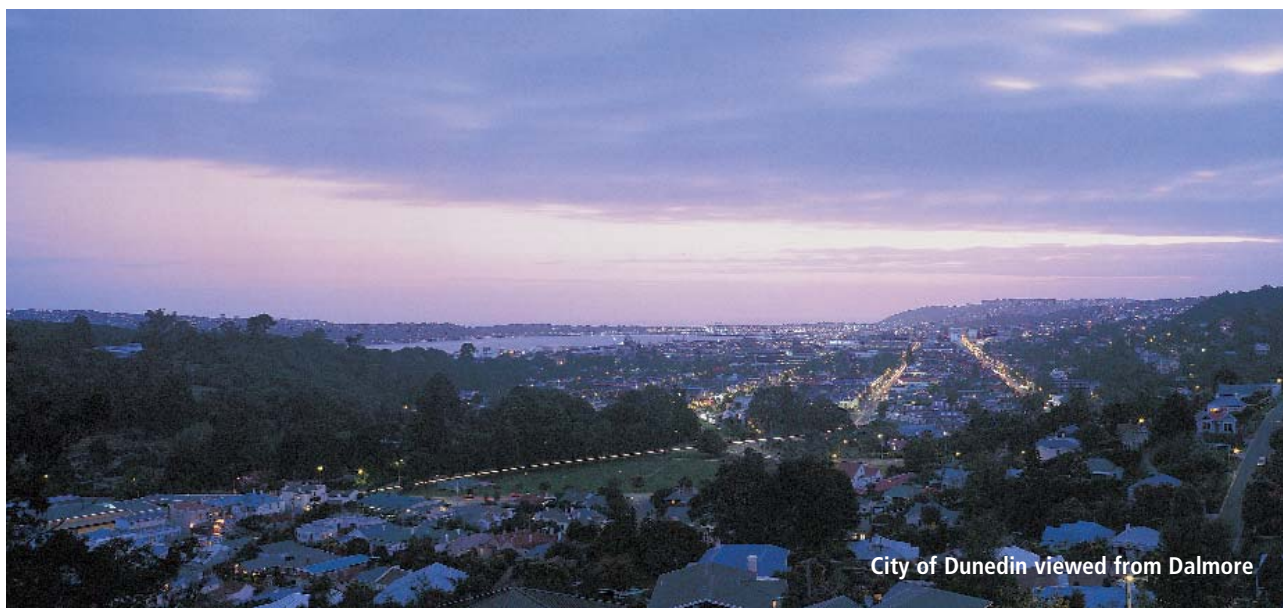
Photograph courtesy of *Otago Daily Times*

AURORA ENERGY LIMITED 2004 HIGHLIGHTS AT A GLANCE



ELECTRICITY DISTRIBUTION NETWORK AT A GLANCE





City of Dunedin viewed from Dalmore

AURORA ENERGY LIMITED CHAIRMAN'S REPORT

For the year ended 30 June 2004

Financial Results for the Year

I am very pleased to report another year of strong performance for Aurora, after the exceptional result of the previous year.

The audited net surplus for the year was \$7.963 million (2003: \$17.971 million) after providing for a subvention payment of \$1.388 million (2003: \$1.147 million) to the shareholder.

The 2003 net surplus included a non-recurring benefit of \$12.0 million, resulting from the sale of the interest in *DELTA* Utility Services Limited.

Dividends

The shareholder has continued to benefit from Aurora's excellent financial results, with dividends equivalent to \$7.9 million being paid this year. In prior years, *DELTA*'s performance was reflected in Aurora's dividends.

Operating Performance

The operational performance of Aurora's line business has continued to improve. Profit improvement has occurred without increase in the distribution components of line charges. Growth in the size of the system and the volume of electricity delivered has been matched by improved asset utilisation.

Management and operation of Aurora's network assets is carried out by *DELTA* under a fixed-price performance-based contract. Aurora's requirements regarding ongoing quality of supply, predetermined maintenance standards and statutory compliance are specified, with substantial financial penalties for

non-performance. Professional asset management is now accepted practice in the efficient management of infrastructural assets and Aurora's directors believe that use of specialist asset management contractors, such as *DELTA*, is best practice.

Industry Restructuring

Regulation of line businesses is undertaken by the Commerce Commission, based on an assessment of the value of the assets that the business owns, using the Optimised Deprival Value (ODV) methodology. This is effectively depreciated replacement cost based on regulated asset cost prices and regulated lives of the assets. Aurora has maintained for many years that the cost price is too low and the asset lives too short, resulting in the value of the assets being significantly understated.

Recently, the Commission increased unit costs used in the calculation of ODV, resulting in an approximate 20% increase in the ODV of Aurora's assets. Whilst this new value remains considerably below the economic value of the assets, the change is a step in the right direction.

During the year, the Commission extended its price control of distribution businesses by limiting any increases in distribution components of income to 'CPI-X' while requiring that reliability of supply be maintained. Aurora was assigned an 'X' of 1%. Whilst such price control may not be the best solution, and does not reward good quality supply, it is vastly better than profit regulation which, at best, destroys value in well managed companies.

Aurora considers that it has been disadvantaged by the determination, due to the theoretical nature of the total factor productivity relativity on which the X determinations have been made. Some results

of the process appear to be clearly wrong and little explanation exists for such results, due to the nature of the process. Faulty determinations affect the economic wellbeing and the future investment decisions of line businesses.

This type of intervention in line businesses is in stark contrast to the price increases which have continued in the retail sector — a sector with the characteristics of an oligopoly, with government agencies comprising the majority of the participants.

It is a fact of life in the new environment for distribution companies, that the time and cost involved in the interface with the Commerce Commission and other government regulatory bodies will increase and that, ultimately, end-users will pay for this. In the meantime, a micro industry of consultants and advisers has developed to both assist companies to deal with the ever-increasing intervention in commercial affairs of line companies and to assist government with its intervention.



Aurora and Coronet Peak worked in partnership to build a new zone substation to facilitate the demand of Coronet Peak's new snowmaking machines



Aurora continues to develop and upgrade its electricity supply

network

recognising the critical importance of delivering a reliable and cost efficient energy supply to our urban and rural customers

Aurora's new zone substation at Queensberry
— part of the \$8 million Wanaka network upgrade

Network Waitaki

Late in the financial year Aurora made a conditional bid for the assets and business of northern neighbour Network Waitaki Ltd, after it became public that it intended to dissolve the joint venture NetworkSouth Limited with Alpine Energy during 2005.

The intention of Aurora's bid was to provide a sensible alternative to costly re-establishment of a management structure after the intended dissolution.

In spite of making a very strong bid, quite significantly in excess of the existing value of the business, the directors of Network Waitaki decided that sale was not an option under any circumstance and immediately launched an emotional advertising and marketing campaign. The issue rapidly deteriorated to a philosophic debate about control, with value being a largely foreign concept.

With this illustration of the unlikelihood of further rationalisation of electricity distribution in the south, Aurora will look for opportunities in other infrastructural sectors.

Otago Power Limited

During the year, the Otago Power Limited liquidation has progressed and Aurora Energy received payments totalling \$0.546 million. The liquidation is not yet complete, but any further payments will be modest.

Generation

The *Electricity Reform Act* now enables Aurora to become more involved in the generation of electricity than it was able to do after the Max Bradford reforms of 1998. Aurora has a particular interest in the generation of electricity from renewable energy sources on its network, as a means of reducing capital expenditure and improving reliability. A number of opportunities have been considered, however, despite substantial increases in energy prices, none of these is economic at current energy prices and low line charges.



Otago is enjoying unprecedented growth of residential subdivisions requiring a busy programme of developing new electricity distribution infrastructures. This includes Queenstown's Lake Hayes subdivision (pictured top) and the new Sunninghurst housing estate at Fairfield, Dunedin (below).

Further opportunities will become apparent as technology improves and energy prices increase, and a watching brief is being kept on all developments in this area and opportunities actively sought and evaluated.

The solar house initiatives in Dunedin and Alexandra continue.



However, substantial cost reduction is necessary for this form of energy to become economically sustainable in our region due, in some part, to low line charges.

Demand Management

The demand-management programme for major consumers, which was piloted by Aurora during the 2002 winter, and abandoned during the 2003 winter due to the serious energy shortage, was re-implemented during 2004 with considerable success.

Designed to help consumers reduce their electricity delivery costs by managing their own congestion-

co-incident demand, the internet-based pilot provides weekly and monthly forecasts of expected network congestion.

Consumers can use these predictions to plan to reduce their electricity demand during network congestion, so reducing their future line charges.

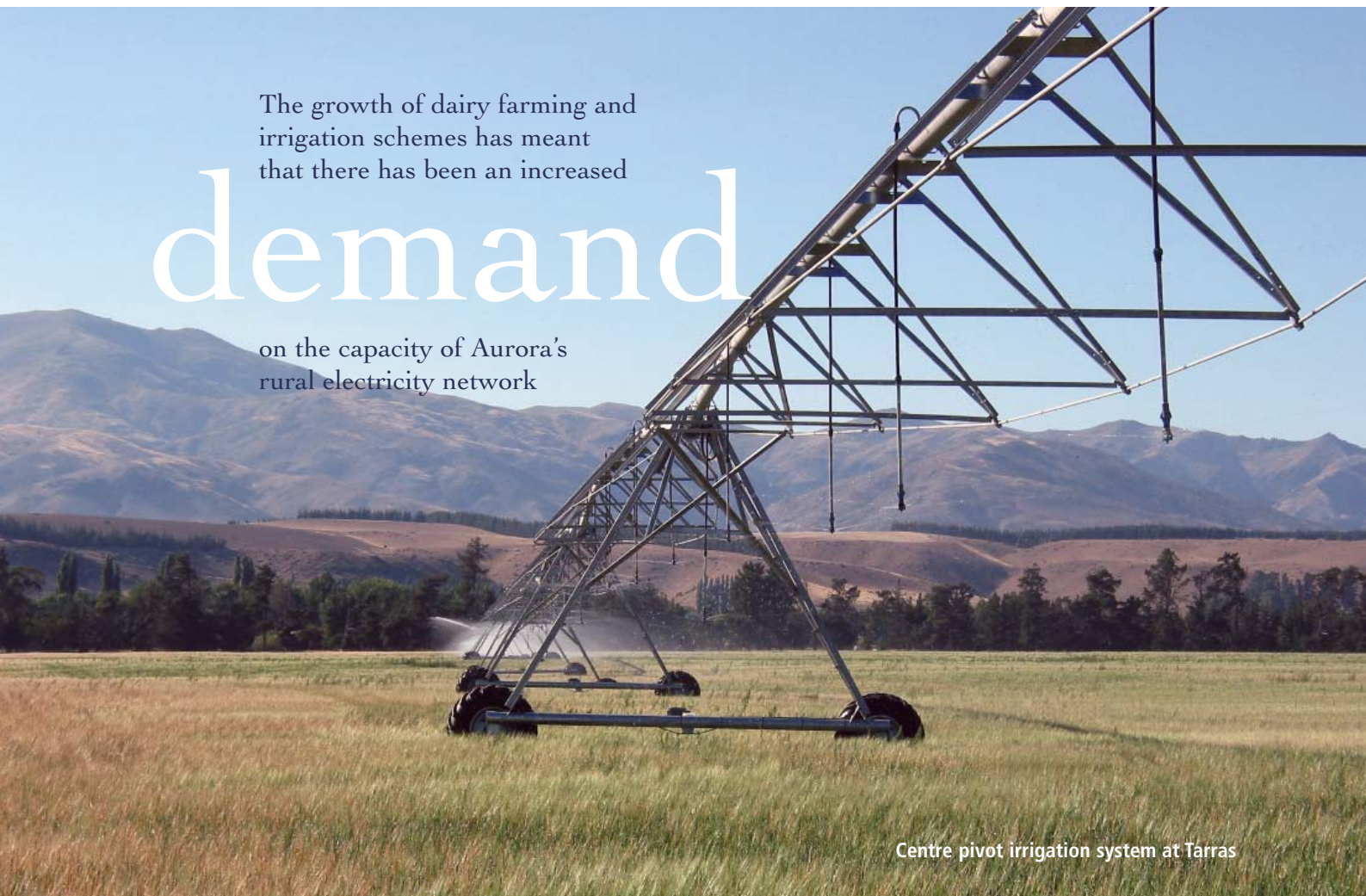
Client Consultation

A formal and internet-based client consultation service was launched by Aurora in 2002 in regard to its *Asset Management Plan*, following criticism by electricity retailers and others that electricity distributors do not facilitate consultation over their service and expenditure plans. Aurora was the first New Zealand distributor to offer this service — it was widely advertised, yet the response to date has been nil.

The Commerce Commission has now issued a 'request for proposals' from consultants, to review all line business asset management plans. This makes clear that such plans are principally a regulatory tool and not really of use to consumers.

The growth of dairy farming and irrigation schemes has meant that there has been an increased
demand

on the capacity of Aurora's rural electricity network



Centre pivot irrigation system at Tarras

Customer Compensation

For many years, Aurora has made service failure payments to customers affected by excessive interruptions to electricity supply, where the failure is a result of factors within Aurora's reasonable control. These payments are made to the customers' electricity retailers whose responsibility it is to pass them on.

During the year, a total in excess of \$25,000 was paid to retailers, along with details of the 415 affected consumers to whom the payments related.

Aurora recognises its obligation to maintain zone substations which complement neighbouring environments. The company contracts a colour consultant to design colourways for these structures



Aurora Energy supports the
community
through a number of sponsorships, including the
Otago Museum website and the Otago Festival of Science

Community Contribution

Aurora has continued to sponsor a variety of community initiatives, principally focussing on youth and education. Sponsorships during the year included:

- Regional sponsorship of the New Zealand Education Scholarship Trust
- Regional sponsorship of school science fairs
- Life Education Trust
- Otago Museum public internet facilities
- Project K which provides support to at-risk teenagers.

Aurora is committed to being a good corporate citizen in the communities in which it operates. Full consideration of all environmental and community issues is given in all of its operations, with particular emphasis on environmental issues with new projects.

In addition, Aurora has continued its policy of committing annual funds to the placing underground of lines. During the year, the following projects were undertaken at a cost of \$1.65 million:

- Musselburgh Rise
- Great King Street (Howe-Duke streets)
- Thomas Burns Street
- Highgate (Oban-Dunblane streets)
- Castle Street (Frederick-Hanover streets)
- Cumberland Street (Howe-Dundas streets)
- High Street (Clark-Melville streets)
- Neplusultra Street

The overhead lines
are gone from
outside the
Northern Oaks
Ground, Dunedin



In 2003-04 Aurora invested \$1.65 million in its ongoing programme to replace overhead lines with underground cables to improve aesthetically sensitive environments

The value of underground lines is beautifully illustrated at Fernhill, Queenstown

Financial Position

Aurora's financial position remains very strong, with assets of \$263.6 million and debt of \$99.1 million.

Trading results are expected to remain strong as a consequence of investment in growth. Its above-average supply quality and below-average prices should help to insulate Aurora from intervention in its business. The effect of the *Commerce Act (Electricity Lines Thresholds) Notice 2003* on the financial strength of Aurora is relatively minor.

Capital expenditure continued strongly throughout the year, principally in the Queenstown and Wanaka areas, reflecting the ongoing economic development there. Growth in the Wanaka basin is such that the supply from Cromwell was extensively upgraded with completion of the project occurring in the current financial year. This upgrade both improved the reliability of supply and will enable Aurora to supply load increases over the next 10 to 15 years.

Capital expenditure for the year was \$16.6 million and is expected to revert to more normal levels of between \$9 million and \$11 million per year over the

coming years, subject to growth in the region not exceeding current levels.

Outlook

The outlook for Aurora is for another successful year in 2005. The projected cashflows are particularly strong and bode well for continuing good returns to the shareholder.

Aurora's objectives to expand ownership and diversity of infrastructural assets will continue to be pursued. The economic cycle of assets of these types requires that long-term strategies are implemented for any change of ownership and consolidation of them into specialised infrastructural asset ownership.

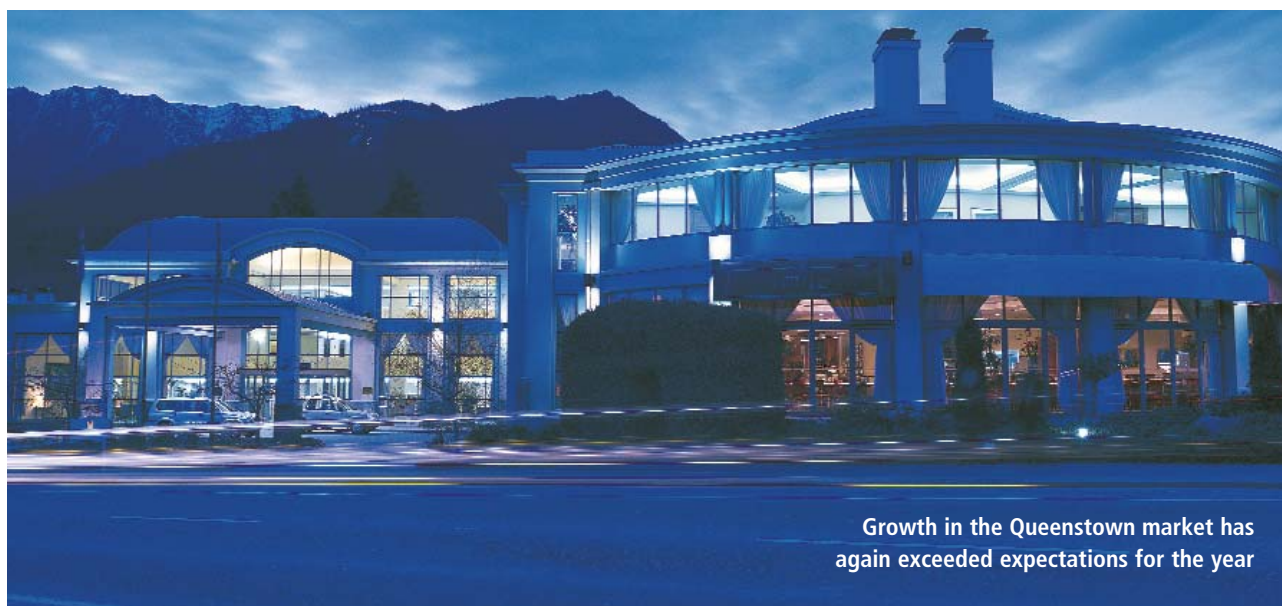


R S Polson, Chairman, 25 August 2004



• Aurora Energy Limited increased its
investment
with the value of its assets growing to \$263.6m

Wanaka's new zone substation



Growth in the Queenstown market has again exceeded expectations for the year

AURORA ENERGY LIMITED DIRECTORS' REPORT

For the year ended 30 June 2004

The directors of Aurora Energy Limited are pleased to report on the financial results and associated matters for the year ended 30 June 2004.

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 2004	\$000
Trading surplus	17,907
Less subvention payments	1,388
Operating surplus before income tax	16,519
Less income tax	8,556
Net surplus for year after income tax	7,963

State of Affairs

The directors believe that the state of affairs of the company is satisfactory.

Dividends

Total dividends declared and paid for the year ended 30 June 2004 were \$7.006 million. In addition, a subvention payment of \$1.388 million to Dunedin City Holdings Limited has been provided for. The dividend equivalent of this is \$0.930 million, giving total equivalent dividends of \$7.936 million to be paid to the shareholder for the year. Equivalent dividends last year amounted to \$19.964 million inclusive of special dividends amounting to \$9.5 million.

Reserves

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

	\$000
Asset revaluation reserve — to (from)	(709)
Retained earnings — to (from)	1,666

Review of Operations

The directors are pleased with the operating results achieved for the year ended 30 June 2004.

Growth in Central Otago, particularly in Queenstown and Wanaka, has again exceeded our initial expectations for the current year.

Otago Power Limited

Shares in Otago Power Limited were acquired during the 2002 financial year.

Otago Power Limited is in the process of liquidation and the return of proceeds to shareholders. During the year, imputed dividends of \$0.546 million were received as part of this process. These distributions exceeded the carrying value of the investment.

The final outcome of the liquidation of Otago Power Limited remains unknown. The residual investment has been recognised at one cent a share.

Financial Statements

The audited financial statements for the year-ended 30 June 2004 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 — page 30.

No significant contracts involving directors' interests were entered into during the year ended 30 June 2004, or existed at that date.

Directors

Mr Graeme Marsh retired from the board of directors at the Annual General Meeting on 8 October 2003. Mr Marsh was appointed to the board in 1999. The board wishes him well in his retirement and thanks him for his wise counsel and input over the past four years.

Mr Michael Coburn was appointed to the board in October 2003 to fill the vacancy.

Messrs Ray Polson and Ross Liddell retire by rotation in accordance with the constitution of the company. Both are eligible and offer themselves for re-appointment.

Directors' Remuneration

Remuneration paid to directors during the year was:

Raymond S Polson	\$21,295
Ross D Liddell	\$13,665
Michael O Coburn	\$8,183
<i>(appointed October 2003)</i>	
John W Gilks	\$10,785
Paul R Hudson	\$10,785
Graeme J Marsh	\$2,602
<i>(retired October 2003)</i>	
Sukhinder Turner	\$10,785
Total	\$78,100

Audit Committee

Messrs Gilks, Polson and Liddell comprise the audit committee of the board. The audit committee has the responsibility for approving 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.

Employees' Remuneration

No staff are employed by Aurora Energy Limited. The management of the company is carried out under contract by *DELTA* Utility Services Limited.

Auditor

The Auditor-General is appointed Auditor pursuant to S70 of the *Local Government Act 2002*. The Auditor-General has contracted the audit to Audit New Zealand.

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.



**Aurora Energy Limited
Board of Directors
(from left)**

**John Gilks
Mike Coburn
Ray Polson
Sukhi Turner
Ross Liddell
Paul Hudson**

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.

On behalf of the directors

**R S Polson
Chairman
25 August 2004**

**R D Liddell
Deputy Chairman**

COMPANY DIRECTORY

Directors

Raymond S Polson (Chair)
Ross D Liddell (Deputy Chair)
Michael O Coburn
John W Gilks
Paul R Hudson
Sukhinder K Turner

Secretary

Stephen M Wilson

Registered Office

10 Halsey Street, Dunedin, New Zealand

Banker

Westpac Banking Corporation

Taxation Advisor

Deloitte

Solicitor

Gallaway Cook Allan

Auditor

Audit New Zealand for The Controller
and Auditor-General

Network Performance Statistics

For the year ended 31 March

		2004	2003	2002	2001	2000
System Physical Measures:						
Average length of lines and cables	km	5,029	4,875	4,743	4,634	4,317
Average capacity of distribution transformers	MVA	758	740	726	708	687
Capacity utilisation (2)		32.5%	36.7%	36.2%	35.7%	35.0%
Consumer Measures:						
Average number of consumer connections		73,972	72,794	71,431	70,208	69,494
System maximum demand (2)	MW	246.2	271.9	262.7	252.8	240.4
Energy received for delivery	GWh	1,303	1,300	1,240	1,234	1,190
Average load factor (3)		60.2%	54.6%	53.9%	55.7%	56.5%
Average minutes off per fault (4)	CAIDI	56.6	48.7	47.9	58.6	94.9
Average faults per annum (5)	SAIFI	1.72	2.08	1.85	1.40	2.19
Average minutes off per annum (6)	SAIDI	97.3	101.3	88.7	82.4	208.1

Notes:

- (1) These statistics are generally as required to be disclosed by the Commerce Commission Information Disclosure Requirements.
- (2) Peak system demands were reduced during the 2003 winter hydro shortage and thus significantly influenced the calculation for capacity utilisation.
- (3) Consumer load factor varies with general weather patterns.
- (4) Consumer Average Interruption Duration Index. The high value in 2000 resulted from the exceptional wind and snow storms of 2-4 July 1999.
- (5) System Average Interruption Frequency Index.
- (6) System Average Interruption Duration Index. The high value in 2000 resulted from the exceptional wind and snow storms of 2-4 July 1999.

Trend Statement

For the year ended 30 June

		2004	2003	2002	2001	2000
Energy received for delivery	GWh	1,308	1,281	1,243	1,250	1,202
Energy delivery reliability — average time without supply per customer p.a.	minutes lost	103.2	90.2	93.9	91.4	215.7
Total revenue (3)	\$ million	62.3	70.0	59.5	54.9	52.3
Trading surplus before tax and before subvention payments (3)	\$ million	17.9	26.0	15.8	14.0	11.6
EBIT/Average funds employed	\$ million	9.8%	12.5%	9.3%	9.9%	8.9%
Net surplus for the year before subvention payments (3)	\$ million	8.9	18.7	8.8	8.0	6.8
Net surplus for the year after subvention payments (3)	\$ million	8.0	18.0	7.8	6.7	5.5
Cashflow from operating activities (3)	\$ million	22.8	34.1	15.9	14.4	20.1
Special dividend	\$ million	0	9.5	0	0	0
Ordinary dividend	\$ million	7.0	9.7	8.7	7.1	6.2
Total dividend (3)	\$ million	7.0	19.2	8.7	7.1	6.2
Equivalent dividends — actual dividends plus after-tax value of subvention payments (3)	\$ million	7.9	20.0	9.7	8.4	7.5
Shareholder's equity (2)	\$ million	122.4	121.5	122.7	84.5	80.2
Total assets (2)	\$ million	263.6	255.6	280.6	215.7	213.3
Return on average equity (3)		7.1%	14.7%	7.6%	8.1%	6.7%
Equity to total assets		46%	48%	44%	39%	38%

Notes:

- (1) Aurora Energy is part of the Dunedin City Holdings group of companies. Aurora Energy makes pre-tax subvention payments to its parent company which have the effect of reducing the net surplus for the year.
- (2) On 1 July 2001, Aurora Energy Limited revalued its electricity distribution network assets by \$42.301 million.
- (3) The 2003 result includes the effect of the special dividend of \$9.5 million from DELTA Utility Services Limited.

Statement of Service Performance

For the year ended 30 June 2004

SPECIFIC OBJECTIVES

- 1 To review the Statement of Intent and Strategic Plan for consistency with the objectives of Dunedin City Council.
- 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.
- 3 To report all matters of substance to the shareholder.
- 4 Achieve all financial projections.

EBITDA	
Net surplus after income tax	
Shareholder's funds	
Dividends	
Shareholder's funds to total assets	
- 5 To obtain ownership or management of an additional group of utility assets.
- 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.
- 7 To ensure that the reporting requirements of the company and shareholder are met.
- 8 To maximise the utilisation of electricity distribution assets while ensuring that reliability meets the needs of users.
- 9 No transgression of the environmental and resource law occurs.
- 10 To undertake appropriate undergrounding of overhead lines.
- 11 Undertake a review of activities for the purposes of being a good corporate citizen.

OUTCOMES

Achieved The Statement of Intent and Strategic Plan were reviewed and confirmed as being consistent with the objectives of Dunedin City Council.

Achieved The operating activities are in accordance with the goals and objectives stated in the Statement of Intent and Strategic Plan.

Achieved Matters of substance were reported to the shareholder within the required timeframe.

Achieved	Target
\$33,558,000	\$29,543,000
\$7,963,000	\$6,038,000
\$122,414,000	\$121,158,000
\$7,006,000	\$6,000,000
46%	54%

Not achieved

Achieved	Target
\$10,117,000	\$5,322,000

Achieved Company reporting was undertaken within the time-frames as stated in the Statement of Intent.

Achieved The distribution assets are constantly monitored to ensure that maximum utilisation is achieved within the bounds of safety and reliability.

Achieved The company is not aware of any resource law actions.

Achieved Undergrounding projects were undertaken in the city of Dunedin.

Achieved The company continually reviews its activities including sponsoring social and education events and the undergrounding of overhead lines for environmental purposes.

Statement of Financial Performance

For the year ended 30 June 2004

	Note	2004 \$000	2003 \$000
Revenue	1	62,335	70,002
Expenses	2	44,428	43,962
Trading surplus		17,907	26,040
Subvention payments		1,388	1,147
Operating surplus before income tax		16,519	24,893
Income tax	3	8,556	6,922
Net surplus for the year		7,963	17,971

Statement of Movements in Equity

For the year ended 30 June 2004

	Note	2004 \$000	2003 \$000
Equity at beginning of the year		121,457	122,742
Surplus and revaluations			
Net surplus for the year		7,963	17,971
Asset revaluations	4	0	(60)
Total recognised revenues and expenses for the year		7,963	17,911
Other movements			
Dividend distributions		(7,006)	(19,196)
Total other movements for the year		(7,006)	(19,196)
Equity at end of the year		122,414	121,457

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

Statement of Financial Position

As at 30 June 2004

	Note	2004 \$'000	2003 \$'000
EQUITY	4	<u>122,414</u>	<u>121,457</u>
REPRESENTED BY:			
Current assets			
Cash and short-term deposits		54	26
Accounts receivable	5	7,719	5,734
Tax refund due		207	405
Short-term investments	6	55	55
Total current assets		<u>8,035</u>	<u>6,220</u>
Non-current assets			
Investments	6	9	9
Property, plant and equipment	7	255,606	249,375
Total non-current assets		<u>255,615</u>	<u>249,384</u>
Total assets		<u>263,650</u>	<u>255,604</u>

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

Statement of Financial Position

As at 30 June 2004

	Note	2004 \$000	2003 \$000
Total assets		263,650	255,604
Current liabilities			
Accounts payable		9,491	8,107
Provision for dividend		0	296
Other liabilities	9	584	341
Taxation payable		0	0
Total current liabilities		10,075	8,744
Non-current liabilities			
Deferred taxation	8	32,061	25,703
Term liabilities	10	99,100	99,700
Total non-current liabilities		131,161	125,403
Total liabilities		141,236	134,147
NET ASSETS		122,414	121,457

For and on behalf of the board of directors



R S Polson
Chairman
25 August 2004



R D Liddell
Deputy Chairman

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

Statement of Cash Flows

For the year ended 30 June 2004

	Note	2004 \$'000	2003 \$'000
Cashflows from operating activities			
<i>Cash was provided from:</i>			
Receipts from customers		60,002	58,580
Interest received		22	27
Dividend received		547	15,631
		<hr/> 60,571	<hr/> 74,238
<i>Cash was disbursed to:</i>			
Payments to suppliers and employees		28,856	30,502
Interest paid		6,889	7,486
Income tax paid		2,000	2,168
		<hr/> 37,745	<hr/> 40,156
Net cash inflows/(outflows) from operating activities	11	<hr/> 22,826	<hr/> 34,082
Cashflows from investing activities			
<i>Cash was provided from:</i>			
Sale of property, plant and equipment		160	1,559
Sale of investments		0	35,494
		<hr/> 160	<hr/> 37,053
<i>Cash was disbursed to:</i>			
Purchase of property, plant and equipment		15,556	14,944
Purchase of investments		0	9,509
		<hr/> 15,556	<hr/> 24,453
Net cash inflows/(outflows) from investing activities		<hr/> (15,396)	<hr/> 12,600

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

Statement of Cash Flows

For the year ended 30 June 2004

	Note	2004 \$000	2003 \$000
Cashflows from financing activities			
<i>Cash was provided from:</i>			
Proceeds from borrowings		24,650	24,990
<i>Cash was disbursed to:</i>			
Repayment of borrowings		25,250	52,520
Dividend distributions		6,802	19,182
		<u>32,052</u>	<u>71,702</u>
Net cash inflows/(outflows) from financing activities		<u>(7,402)</u>	<u>(46,712)</u>
Net increase/(decrease) in cash held		<u>28</u>	<u>(30)</u>
Cash at beginning of the year		26	56
CASH AT END OF THE YEAR		<u><u>54</u></u>	<u><u>26</u></u>
<i>Composition of cash</i>			
Cash and short-term deposits		54	26
CASH AT END OF THE YEAR		<u><u>54</u></u>	<u><u>26</u></u>

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

Statement of Accounting Policies

For the year ended 30 June 2004

The financial statements are for the reporting entity Aurora Energy Limited. The financial statements have been prepared in accordance with the requirements of the *Energy Companies Act 1992*, the *Companies Act 1993* and the *Financial Reporting Act 1993*.

MEASUREMENT BASE

The financial statements have been prepared on the basis of historical cost modified by the revaluation of certain property, plant and equipment.

ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are:

(i) Investments

Term investments are stated at the lower of cost or net realisable value. Where in the opinion of the directors there has been a permanent diminution in the value of investments this is recognised in the statement of financial performance.

(ii) Property, Plant and Equipment

Valuation

Fixed assets owned by the company will be revalued by the directors from time to time, to amounts not in excess of those expected to be recouped by future use or sale. These amounts will generally be based on the net present value of future cash flows or the estimated replacement value, reduced by the portion of the asset consumed.

Movements will be taken to the revaluation reserve. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the statement of financial performance. The timing of the revaluations will be at the discretion of the directors within the requirements of Generally Accepted Accounting Practice (GAAP).

Consistent with these policies, on 1 July 2001 Aurora Energy revalued its electricity distribution network assets to the fair market value determined by the chartered accounting firm of KPMG. In the opinion of the directors and their professional advisors, this best represents the fair value of those assets.

The change in value resulting from these revaluations was credited to the revaluation reserves of the company after adjusting for depreciation previously claimed. The revalued assets are carried at their revalued amount less accumulated depreciation. Electricity distribution network additions since 1 July 2001 are carried at their cost less depreciation.

Depreciation

Depreciation of property, plant and equipment is calculated on a straight-line basis so as to allocate the cost or revaluation of assets over their estimated useful lives.

The rates of depreciation used for significant asset classes are:

- Freehold buildings 1% — 2.5%
- Network assets 1.5% — 15%
- Plant and equipment 2.5% — 25%
- Motor vehicles 5% — 30%

For income tax purposes, the company claims the maximum depreciation allowable by the Inland Revenue Department. Gains and losses on disposal of fixed assets are taken into account in determining the operating result for the year.

Statement of Accounting Policies

For the year ended 30 June 2004

(iii) Accounts Receivable

Accounts receivable are valued at anticipated realisable value after providing for doubtful debts. Bad debts are written-off during the period in which they are identified.

(iv) Distinction Between Capital and Operating Expenditure

Capital expenditure is defined as all expenditure on the creation of a new asset and any expenditure which results in a significant improvement in the original function of a total asset.

Operating expenditure is defined as expenditure which maintains an asset in working condition and all expenditure incurred in operating the company.

(v) Income Tax

The income tax expense is charged in the statement of financial performance in respect of current year's earnings after allowing for permanent differences. Deferred taxation is determined on a comprehensive basis using the liability method. Deferred tax assets attributable to timing differences or income tax losses are only recognised where there is virtual certainty of realisation.

(vi) Goods and Services Tax (GST)

The financial statements have been prepared with revenue and expense items exclusive of GST.

In the statement of financial position, accounts receivable and accounts payable are inclusive of GST.

All other assets and liabilities are exclusive of GST.

(vii) Financial Instruments

The company is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, debtors, creditors and loans. All financial instruments are recognised in the statement of financial position. All revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

(viii) Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases are recognised as expenses in the periods in which they are incurred.

(ix) Changes in Accounting Policies

There have been no changes in accounting policies. All policies have been applied on a basis consistent with that used in previous years.

Notes to the Financial Statements

For the year ended 30 June	2004 \$000	2003 \$000
1 REVENUE		
Sales revenue	61,766	57,402
Interest on advances to related parties	9	18
Interest on other investments	13	9
Gain on sale of assets	0	69
Dividends	547	13,631
Gain/(Loss) on realisation of investments	0	(1,127)
	62,335	70,002
2 EXPENSES		
Included in the expenses of the company are the following items:		
Audit fees		
— Statutory audit	22	18
— Other services	0	8
Depreciation	10,280	8,850
Directors' remuneration	78	75
Interest	6,759	7,416
Rental expense and operating leases	37	31
Increase/(Decrease) in provision for doubtful debts	(3)	(50)
Bad debts written-off	3	56
3 INCOME TAX		
Operating surplus before income tax	16,519	24,893
Tax at 33%	5,451	8,215
Plus/(Less) the tax effect of permanent differences		
Revenue not assessable for taxation	(2,923)	(5,837)
Expenditure not deductible for taxation	6,018	4,534
Tax effect of permanent differences	3,095	(1,303)
Tax adjusted for permanent differences	8,546	6,912
Under/(Over) tax provision in prior years	10	10
Income tax	8,556	6,922
Income tax is represented by		
Current tax	2,198	1,948
Deferred tax	6,358	4,974
Income tax	8,556	6,922

A subvention payment of \$1,387,644 (2003 : \$1,147,306) to Dunedin City Holdings Limited has been provided for.

Imputation credit account

Balance at beginning of the year	(2,104)	(3,329)
Taxation payments made	2,000	2,168
Credits attached to dividends paid	(2,889)	(8,555)
Credits attached to dividends received	59	7,612
Balance at end of the year	(2,934)	(2,104)

The debit balance in the Imputation Credits account results from the participation of Aurora Energy Limited in the Aurora Energy Limited tax group with DELTA Utility Services Limited. The group is required to have a credit balance at 31 March, which it did have.

Notes to the Financial Statements

As at 30 June	2004 \$000	2003 \$000
4 EQUITY		
Issued capital		
10,000,000 ordinary shares	10,000	10,000
Asset revaluation reserve		
Balance at beginning of the year	110,856	110,916
Net revaluation	0	(60)
Transfer to retained earnings on disposal of fixed assets	(709)	0
Balance at end of the year	110,147	110,856
Retained earnings		
Balance at beginning of the year	601	1,826
Net surplus for the year	7,963	17,971
Dividend distributions	(7,006)	(19,196)
Transfer from asset revaluation reserve	709	0
Balance at end of the year	2,267	601
TOTAL EQUITY	122,414	121,457
5 ACCOUNTS RECEIVABLE		
Trade receivables	7,723	5,735
Provision for doubtful debts	(30)	(33)
	7,693	5,702
Due from other related parties	26	32
	7,719	5,734
6 INVESTMENTS		
Short-term investment	55	55
Investment — listed companies	9	9

Short-term investment in Otago Power Limited:

During the 2002 year, the company purchased 5,632,567 shares in Otago Power Limited, as part of its unsuccessful take-over bid.

Otago Power is being liquidated with the liquidation proceeds being returned to shareholders.

During the 2004 year, partially imputed dividends of \$0.546 million were received as part of this process.

The investment is included in the company's accounts at its estimated net liquidation value of approximately one cent per share. Final proceeds are expected to be received by the end of December 2004.

Investments — listed companies:

The company has acquired small shareholdings in several publicly-listed electricity-sector companies. These holdings are considered long-term and the investments are shown at cost.

Notes to the Financial Statements

7 PROPERTY, PLANT AND EQUIPMENT

	As at 30 June 2004			As at 30 June 2003		
	Cost or Valuation	Deprec'n	Book Value	Cost or Valuation	Deprec'n	Book Value
	\$000	\$000	\$000	\$000	\$000	\$000
At valuation						
Freehold land	2,734	0	2,734	2,734	0	2,734
Buildings	9,955	299	9,656	9,955	199	9,756
Network assets	244,511	23,816	220,695	225,930	16,104	209,826
Plant and equipment	1,380	353	1,027	1,380	235	1,145
Motor vehicles	0	0	0	0	0	0
Furniture and fittings	0	0	0	0	0	0
At cost						
Freehold land	184	0	184	184	0	184
Buildings	244	24	220	232	20	212
Network assets	19,657	2,718	16,939	20,909	1,676	19,233
Plant and equipment	409	112	297	239	67	172
Motor vehicles	0	0	0	0	0	0
Furniture and fittings	6	1	5	1	1	0
Plant construction in process	3,849	0	3,849	6,113	0	6,113
Total property, plant and equipment	282,929	27,323	255,606	267,677	18,302	249,375

The directors consider the carrying value of the land and buildings to be fair value.

As at 30 June	2004	2003
	\$000	\$000

8 DEFERRED TAX

Balance at beginning of year	25,703	20,729
Movement from income tax	6,358	4,974
Balance at end of year	<u>32,061</u>	<u>25,703</u>

9 OTHER LIABILITIES

Current liabilities		
GST payable	584	341
	<u>584</u>	<u>341</u>

Notes to the Financial Statements

As at 30 June	2004	2003
	\$000	\$000

10 TERM LIABILITIES

Balance at beginning of the year	99,700	127,230
Current year borrowing	24,650	24,990
Current year repayment	(25,250)	(52,520)
Balance at end of the year	<u>99,100</u>	<u>99,700</u>

A borrowing facility exists which allows the company to draw funds up to the amount of \$110.0 million. At year end, \$99.1 million had been drawn on the facility. Any borrowings made under the facility are secured by a second-ranked General Security Agreement over all of the assets of the company.

The company is party to a security arrangement to support Dunedin City Treasury Limited's Multi-Option Instrument Issuance Agreement.

The weighted average interest rate on term debt at 30 June 2004 was 7.12% (2003 : 7.26%).

The repayment period on the term liabilities is between two and ten years, as follows:

1 - 2 years	0	0
2 - 5 years	0	0
5 years and greater	99,100	99,700
	<u>99,100</u>	<u>99,700</u>

For the year ended 30 June

11 RECONCILIATION OF NET SURPLUS FOR THE YEAR TO CASHFLOWS FROM OPERATING ACTIVITIES

Net surplus for the year	7,963	17,971
<i>Items not involving cashflows</i>		
Depreciation	10,280	8,850
Increase in deferred tax	6,358	4,974
<i>Impact of changes in working capital items</i>		
(Increase)/Decrease in accounts receivable	(1,985)	3,325
(Increase)/Decrease in tax refund due	198	(220)
Increase/(Decrease) in accounts payable	1,384	(1,105)
Increase/(Decrease) in other liabilities	243	(54)
Increase/(Decrease) in tax payable	0	0
Related party advance included in accounts payable	(500)	0
<i>Items classified as investing activities</i>		
Capital creditors included in accounts payable	(1,115)	(717)
Gain on sale of assets	0	(69)
Loss on sale of fixed assets	0	0
(Gain)/Loss on investment	0	1,127
Net cash inflows/(outflows) from operating activities	<u>22,826</u>	<u>34,082</u>

Notes to the Financial Statements

As at 30 June	2004	2003
	\$000	\$000

12 CONTINGENT LIABILITIES

The company has no contingent liabilities at balance date (2003 : nil).

13 CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure contracted for at balance date,
but not provided for in the financial statements

3,617	6,027
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14 LEASE COMMITMENTS

Non-cancellable operating lease commitments

Payable within one year	24	24
Payable between one to two years	24	24
Payable between two to five years	68	72
Payable later than five years	66	86
	182	206

15 SEGMENT INFORMATION

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

16 FINANCIAL INSTRUMENTS

Financial instruments that potentially subject the company to credit risk
principally consist of cash, accounts receivable and investments.

Credit Risk

Contracts have been entered into with various counter-parties having such
credit ratings and in accordance with dollar limits set by the board of directors.

Currency Risk

The company have no exposure to currency risk on financial instruments
that would result from changes to foreign exchange rates.

Interest Rate Risk

The company has exposure to interest rate risk resulting from possible fluctuations in market interest rates.
The interest rates on the company's borrowings are disclosed in note 10. To minimise risk exposure, \$95.0
million of the debt has been borrowed at fixed rates for terms exceeding two years. The board of directors
reviews interest rate protection on a regular basis.

There are no interest rate options or interest rate swap agreements in place as at 30 June 2004 (2003 : nil).
Interest rate risk is managed by Dunedin City Treasury Limited on behalf of the company.

Notes to the Financial Statements

As at 30 June	2004	2003
	\$000	\$000

Collateral

The company does not generally require collateral or other security to support service contracts. While the company may be subject to credit losses up to the notional value of the services or goods supplied in the event of non-performance by counter-parties, it does not expect such losses to occur.

Concentration of Credit Risk

Financial instruments which potentially subject the company to concentrations of credit risk principally consist of cash, accounts receivable and investments.

The company places its cash and short-term investments with high credit quality financial institutions and sovereign bodies and limits the amount of investment with any one financial institution.

The company has several customers who are required to comply with specific prudential requirements which are included in written agreements with them and are subject to normal on-going credit control procedures.

Fair values

Financial assets

Carrying amount

Cash	54	26
Accounts receivable	7,719	5,734
Investments	64	64

Fair values

Cash	54	26
Accounts receivable	7,719	5,734
Investments	64	64

Financial liabilities

Carrying amount

Accounts payable	9,491	8,107
Term liabilities	99,100	99,700

Fair values

Accounts payable	9,491	8,107
Term liabilities	99,100	99,700

The carrying amount of the company's financial assets and financial liabilities are equivalent to their fair value.

Notes to the Financial Statements

For the year ended 30 June	2004	2003
	\$000	\$000

17 RELATED PARTY TRANSACTIONS

Aurora Energy Limited is a wholly-owned subsidiary of Dunedin City Holdings Limited.
Dunedin City Holdings Limited is a wholly-owned subsidiary of Dunedin City Council.

Major transactions with the Dunedin City Council Group:

Aurora Energy Limited undertakes transactions with the Dunedin City Council and other Dunedin City Council controlled entities on an arms-length commercial basis.

During the year, the company purchased the following services from the Dunedin City Council Group:

Management fee	260	272
Water supplies and contracting	248	169
Rates and property leases	81	94
Interest/Facility fees payable	6,808	7,448
Subvention payments made	1,388	1,147
Network management and operation	10,540	10,404
Lease of meters	40	42
Accounting, administration and secretarial	116	119
Capital work	11,157	10,001
Sundry and consulting	101	219
Commission paid	0	250
	<u>30,739</u>	<u>30,165</u>

Aurora Energy Limited also provided the following services to the Dunedin City Council Group:

Interest receivable	9	18
Rent	64	74
Distribution of electricity	63	62
Service failure penalties	21	3
Shut down charges	49	0
	<u>206</u>	<u>157</u>

During the year, Aurora Energy Limited undertook the following financial transactions within the Dunedin City Council Group:

Funds drawn from Dunedin City Treasury Limited	24,650	24,990
Funds repaid to Dunedin City Treasury Limited	(25,250)	(52,520)
Dividends paid to Dunedin City Holdings Limited	(7,006)	(19,196)

At year-end the following amounts were owed to and from related parties in the Dunedin City Council Group:

Payable to related parties in the Dunedin City Council Group	<u>106,425</u>	<u>105,760</u>
Receivable from related parties in the Dunedin City Council Group		
Accounts receivable	<u>26</u>	<u>32</u>

Notes to the Financial Statements

No related party debts have been written off or forgiven during the period (2003 : nil).

Aurora Energy Limited undertakes transactions with other related parties in the normal course of business and on an arms-length commercial basis.

Mr R S Polson is a partner in the accounting firm Polson Higgs & Co. In the ordinary course of business during the financial year covered by this report, consulting services valued at \$17,067 were purchased from Polson Higgs & Co (2003 : \$13,566). \$7,309 was due at the end of the year (2003 : \$2,475).

Mr R D Liddell is a partner in the accounting firm Deloitte. In the ordinary course of business during the financial period covered by this report, accounting and financial services valued at \$28,305 were purchased from Deloitte (2003 : \$35,399). \$4,869 was due at the end of the year (2003 : \$2,500).

Mr Marsh was a Member of the Advisory Board of Marsh Limited. During the financial period covered by this report, insurance services valued at \$336,000 were purchased from Marsh Limited (2003 : \$242,999). No monies were outstanding at 30 June 2004 (2003 : nil).

Information on the Directors

<i>Director and qualifications</i>	<i>Position held and date appointed</i>	<i>Declarations of Interests</i>
Raymond S Polson BCom, CA(PP)	Non-Executive Chairman October 1994	Chair, Polson Higgs & Co Chair, DELTA Utility Services Ltd Chair, Incompass Ltd Chair, Wensley Developments (The Glebe) Ltd Chair, Wensley Developments (The Beacon) Ltd Chair, Wensley Developments (The Shore) Ltd Chair, Wensley Developments (The Club) Ltd Chair, Wensley Developments (The Marina) Ltd Director, Wensley Developments Ltd
Ross D Liddell BCom, CA(PP), ACIS, F.Inst.D.	Non-Executive Deputy Chairman October 1994	Managing Partner, Deloitte Chair, City Forests Ltd Chair, Dunedin City Treasury Ltd Chair, James Maurice Properties Ltd Chair, Palmer & Son Ltd Chair, Palmers Mechanical Ltd Chair, Palmer MH Ltd Deputy Chair, DELTA Utility Services Ltd Director, A B Lime Ltd Director, Blackhead Quarries Ltd Director, Browns Barkly Ltd Director, Citibus Newton Ltd Director, Dunedin City Holdings Ltd
Michael O Coburn FNZIM	Non-Executive Director October 2003	Deputy Chair, Otago Rescue Helicopter Ltd Director, Arthur Barnett Ltd Director, Citibus Newton Ltd Director, City Forests Ltd Director, DELTA Utility Services Ltd Director, Dunedin City Holdings Ltd Director, Hirequip NZ Ltd Director, Lake Hayes Estate Ltd Director, New Zealand Land Trust Ltd Director, Paper Plus (NZ) Ltd Director, Protective Sports Apparel Ltd Director, Skyline Enterprises Ltd

Information on the Directors

<i>Director and qualifications</i>	<i>Position held and date appointed</i>	<i>Declarations of Interests</i>
John W Gilks FCA, F.Inst.D.	Non-Executive Director June 1990 — April 1994 May 2002	Chair, Port Otago Ltd Deputy Chair, Fisher & Paykel Appliances Holdings Ltd Director, Citibus Newton Ltd Director, City Forests Ltd Director, <i>DELTA</i> Utility Services Ltd Director, Dublin Bay Investments Ltd Director, Dunedin City Holdings Ltd Director, Fisher & Paykel Finance Ltd Director, Hector Paskel Ltd Director, Pacific Edge Biotechnology Ltd Director, Philip Laing House Ltd
Paul R Hudson JP, BCom, CA	Non-Executive Director June 1990 — October 1992 November 1999	Chair, Dunedin City Holdings Ltd Chair, Citibus Newton Ltd Chair, Dunedin Council of Social Services Chair, Community House Trust Director, City Forests Ltd Director, <i>DELTA</i> Utility Services Ltd Councillor, Dunedin City Council Partner, Presence on George Street
Sukhinder K Turner DCNZM, BA	Non-Executive Director November 1999	Mayor, Dunedin City Director, <i>DELTA</i> Utility Services Ltd Director, Dunedin City Holdings Ltd Director, Citibus Newton Ltd Director, City Forests Ltd Member, University of Otago Council



Auditor's Report

To the readers of Aurora Energy Limited's financial statements
for the year ended 30 June 2004

The Auditor-General is the auditor of Aurora Energy Limited (the company). The Auditor-General has appointed me, Bede Kearney, 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 his behalf for the year ended 30 June 2004.

Unqualified Opinion

In our opinion:

- the financial statements on pages 15 to 29:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - the company's financial position as at 30 June 2004;
 - the results of its operations and cash flows for the year ended on that date.
- the performance information of the group on page 14 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 30 June 2004.
- based on our examination, the company kept proper accounting records.

The audit was completed on 27 August 2004, and is the date at which our opinion is expressed.

The basis of the opinion is explained below. In addition, we outline the responsibilities of the board of directors and the auditor, and explain our independence.

Basis of Opinion

We carried out in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and performance information did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and performance information. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data.
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data
- reviewing significant estimates and judgements made by the board of directors;
- confirming year-end balances
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all required disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information.

We evaluated the overall adequacy of the presentation of information in the financial statements and performance information.

We obtained all the information and explanations we required to support the opinion above.

Responsibilities of the Board of Directors and the Auditor

The board of directors is responsible for preparing the financial statements in accordance with the generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the company as at 30 June 2004. They must also give a true and fair view of the results of its operation and cash flows for the year ended on that date. The board of directors is also responsible for preparing performance information that gives a true and fair view of service performance achievements for the year ended 30 June 2004. The board of directors responsibilities arise from the Energy Companies Act 1992 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 45 (1) of the Energy Companies Act 1992.

Independence

When carrying out the audit we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationships or interests in the company.

Audit New Zealand
On behalf of the Auditor-General, Christchurch, New Zealand