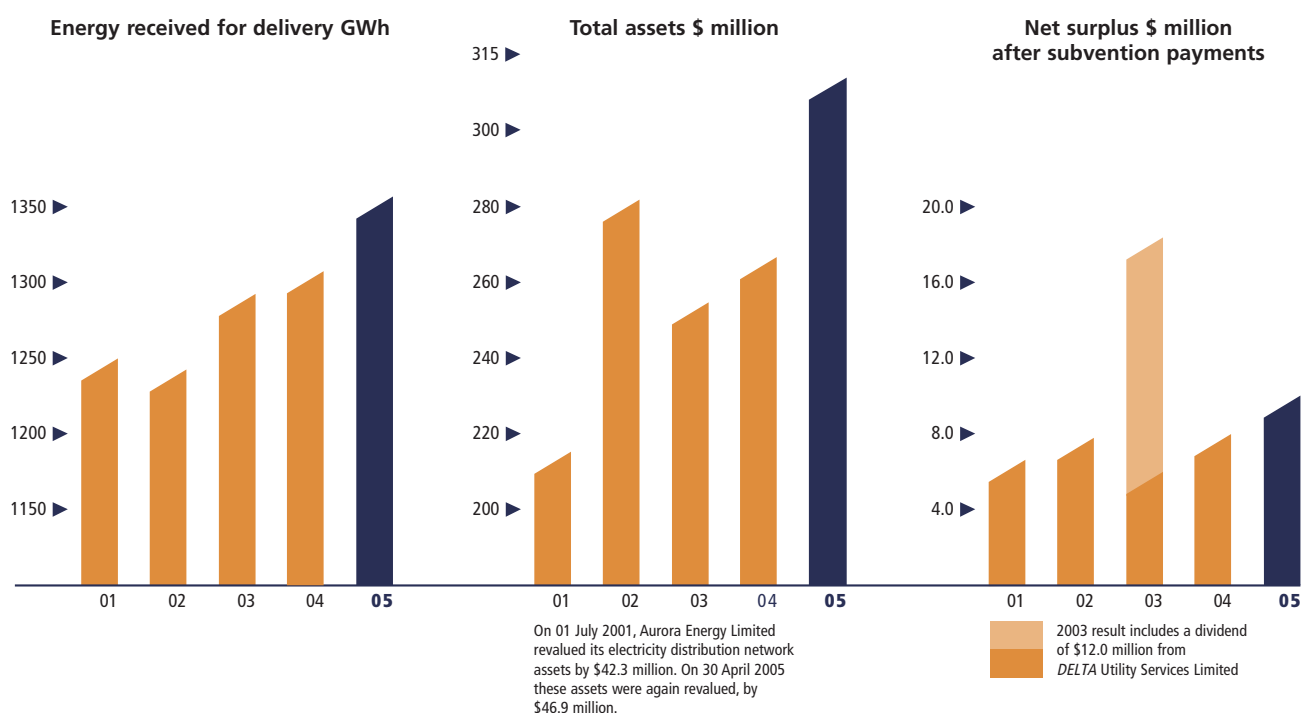


Aurora





## AURORA ENERGY LIMITED 2005 HIGHLIGHTS AT A GLANCE



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## **AURORA ENERGY LIMITED CHAIRMAN'S REPORT**

For the year ended 30 June 2005

### **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 increased by 27% to \$10.14 million (2004 : \$7.96 million) after providing for a subvention payment of \$1.06 million (2004 : \$1.39 million) to the shareholder.

### **Dividends**

The shareholder has continued to benefit from Aurora's excellent financial results, with dividends equivalent to \$14.58 million (2004 : \$7.94 million) being paid, inclusive of a special dividend of \$8 million. Over the past five years, total dividends to the shareholder exceed \$46 million.

### **Operating Performance**

The operational performance of Aurora's line business has continued to improve. Profit improvement has occurred while supply quality has also been improved and the distribution components of line charges have remained within the Commerce Commission guidelines.

The quality of Aurora's electricity distribution network, as represented by the average number of minutes an electricity consumer is without supply per year, has improved modestly over the last five years, though the result is greatly affected by major wind storms, which vary year by year. However, Aurora's quality remains approximately 20% better than equivalent New Zealand networks.

Management and operation of Aurora's network assets is carried out by *DELTA* Utility Services Limited 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 by *DELTA*. Professional asset management is now accepted practice for the efficient management of infrastructural assets and directors believe that use of specialist asset management contractors, such as *DELTA*, is best practice.

### **Growth**

During the year, Aurora invested in its first electricity distribution network outside of the Otago area, when it completed a subdivision in Te Anau, Southland. The opportunity arose as a result of growth in the subdivision market in the Wakatipu and Te Anau areas, presenting opportunities to network owners to acquire newly-constructed networks outside their normal area of operation. The Te Anau opportunity demonstrated that Aurora is competitive in an area where developer relations can be the prime determinant of outcome. Other such opportunities are being pursued.

### **Industry Issues**

Regulation of line businesses is undertaken by the Commerce Commission, based on an assessment of the value of the assets using the Optimised Deprival Value (ODV) methodology — which is effectively depreciated replacement cost based on regulated





asset replacement costs and regulated asset lives. Aurora has maintained for many years that the regulated asset lives are too short, resulting in the value of Aurora's assets being materially understated. Under the Commerce Commission's limitation of increases in distribution components of income to "CPI-X" Aurora was assigned an "X" of 1%. 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 were made. In particular, quality of supply was ignored in the analysis, whereas Aurora's supply quality is over 20% better than average.

Faulty determinations affect the economic well-being 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, and where government-owned businesses comprise the majority of the participants.

Aurora has met all Commerce Commission reporting requirements under the price and quality thresholds regime and has not breached any threshold.



ing page: Sunninghurst subdivision, Fairfield. Top: A new stage at the Meadowstone Estate, Wanaka. Above: One of two new commercial subdivisions at Cromwell.

### Otago Power Limited

The final liquidation of Otago Power Limited has not been progressed by the liquidator during the year due to outstanding liabilities. Accordingly, Aurora still holds an investment in this non-trading company, having already received significant distributions of capital. Any further distribution will be modest.

### Regulation

Between May 2004 and May 2005, residential energy prices by generator/retailers increased by approximately 12.5%, bringing the increase since May 2000 to over 51%. Throughout this period, the energy price increase has been four times the increase in Consumer Price Increase, while Aurora's line charges have increased at slightly less than CPI. Also, throughout this period, the government response has been to subject the lines companies like Aurora to more and more regulation, while leaving the generators (three of which are government-owned) to raise their prices at will.

The 36% increase in line charges for another electricity distributor, which was recently announced by the new owners, flies in the face of the Commerce Commission price threshold and is a clear challenge to its determination. Aurora awaits with interest what action the Commerce Commission will take and it will be unfortunate if such actions by a few lead to further regulation of all distributors in what is already a heavily regulated industry.

### Generation

The Electricity Reform Act enables Aurora to become more involved in the generation of electricity than it was able to do after the Bradford reforms of 1998, but only through arrangements that prevent the directors of Aurora or the managers of Aurora's assets from being closely involved. This restriction is presently being challenged by another electricity distributor.

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. Further opportunities will become apparent as technology improves and energy prices increase.

The solar house initiatives in Dunedin and Alexandra continue but substantial cost reduction is necessary for this form of energy to become economically sustainable in our region due, in part, to low line charges. See [www.electricity.co.nz/solarhome.htm](http://www.electricity.co.nz/solarhome.htm)

### Demand Management

The demand management programme for major consumers remains a 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.

During the year, Aurora added to its website some information about energy efficient lighting, after discovering that such information was not widely understood. This action has been praised by energy efficiency consultants, but is of limited value while electricity retailers continue to act as an adjunct to generation.

See [www.electricity.co.nz/lighting.htm](http://www.electricity.co.nz/lighting.htm)

### 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. Regrettably, the



A reliable and cost-effective electricity network is critical to Otago industry.



response to date has been nil.

During the past year, Aurora went to considerable effort consulting and negotiating revised use-of-system arrangements with retailers, with the new arrangements to be based on the industry model arrangements issued under government directive. Only one of the five main retailers has executed the revised agreement to date, indicating that it is the diverse views of retailers that are the impediment to industry-common agreements.

### Customer Complaints

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 electricity retailers, under the contract with them for delivery of electricity. During the year, a total in excess of \$51,553 was paid to retailers, along with details of the 896 consumers whose interruptions the payments related to. Aurora has also participated in the Electricity and Gas Complaints Commission scheme since inception, and receives feedback from the Commission on its performance in regard to complaints received by

them. The Commission continues to advise that it receives few complaints about distribution businesses in general, and none about Aurora in the past year that justified Commission intervention.

### Community Contribution

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

- 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 undergrounding of lines. During the year, the following projects were undertaken in conjunction with the local authority,



Left: Award-winning Hillside Engineering, Dunedin. Above: Port Otago's container terminal, Port Chalmers.

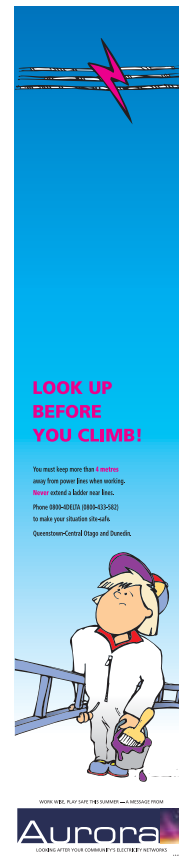
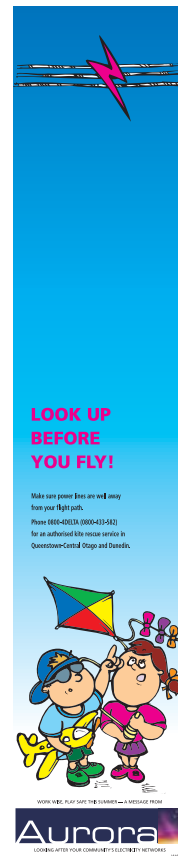
at a cost of \$1.38 million:

- Thomas Burns Street, Dunedin
- Highgate (Oban–Dunblane Streets), Dunedin
- Cumberland Street (Howe–Dundas Streets), Dunedin
- Pitt Street (George Street–Heriot Row), Dunedin
- King Edward Street (Macandrew Road–Bayview Road), Dunedin
- Kaikorai Valley Road (Felton Street–Brockville Road), Dunedin.

Undergrounding work also continued in Central Otago, including in Ardmore Street in Wanaka. The ongoing programme of replacing pole-mounted transformers with ground transformers in Wanaka also continued with another six units being commissioned.

### Safety Campaigning

Aurora took the initiative on several occasions to promote safety with electricity. This included a campaign to promote safety with overhead power lines during the 2004 Christmas holidays (*three of the advertisements are pictured right*) and an extensive



Wanaka's Ardmore Street showing the open sky benefits of underground cabling



campaign to advise the public of the new *Electricity (Hazard from Trees) Regulations* which became law in July 2005.

New safety and identification signage was installed at Aurora's 36 zone substations throughout Central Otago and Dunedin.

#### Financial Position

Aurora's financial position remains very strong, with total assets of \$314 million and debt of \$100 million. Trading results are expected to remain strong as a consequence of investment in growth. Aurora's above-average supply quality and below-average prices should help to insulate Aurora from intervention in its business.

Capital expenditure continued strongly throughout the year, principally for growth in the Queenstown and Wanaka areas, reflecting the ongoing economic development there. Growth in the Wakatipu basin sees three new zone substations developments in hand to strengthen distribution and augmentation of the point of supply agreed with Transpower.



A new transformer in Wanaka and substation signage



Aurora continues to support young people's education and events, including the Otago Athletics Championships, Schools' Science Fair and pipe band championships



Capital expenditure for the year was \$12.6 million and is expected to remain in the range of between \$10 million and \$13 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 2006. 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 D Liddell, Deputy Chairman, 31 August 2005



New communication tower at Queenstown Zone Substation



In a recent survey of farmers by Consumer, Aurora was placed second as the most reliable rural electricity network from New Zealand's 28 distribution companies



## AURORA ENERGY LIMITED DIRECTORS' REPORT

For the year ended 30 June 2005

The directors of Aurora Energy Limited are pleased to report on the financial results and associated matters for the year ended 30 June 2005.

### Principal Activities of the Company

The principal activities of the company are the ownership and strategic management of its electricity distribution network assets.

<b>Results for the year ended 30 June 2005</b>	<b>\$000</b>
Trading surplus	19,668
less subvention payments	1,063
<b>Operating surplus before income tax</b>	<b>18,605</b>
less income tax	8,465
<b>Net surplus for year after income tax</b>	<b>10,140</b>

### 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 2005 were \$13.863 million. In addition, a subvention payment of \$1.063 million to Dunedin City Holdings Limited has been provided for. The dividend equivalent of this is \$0.712 million, giving total equivalent dividends of \$14.575 million to be paid to the Shareholder for the year inclusive of a special dividend amounting to \$8.0 million. Equivalent dividends last year amounted to \$7.936 million.

### Reserves

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

	<b>\$000</b>
Asset revaluation reserve - to (from)	46,885
Retained earnings - to (from)	(3,723)

### Review of Operations

The directors are pleased with the operating results achieved for the year ended 30 June 2005.

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

Network reliability, as measured by the System Average Interruption Duration Index (SAIDI), continues to improve due to the considerable investment occurring in both strengthening and expanding the network. SAIDI is the Ministry of Energy specified metric that measures the average time in minutes per year that each connection to the network is without power.

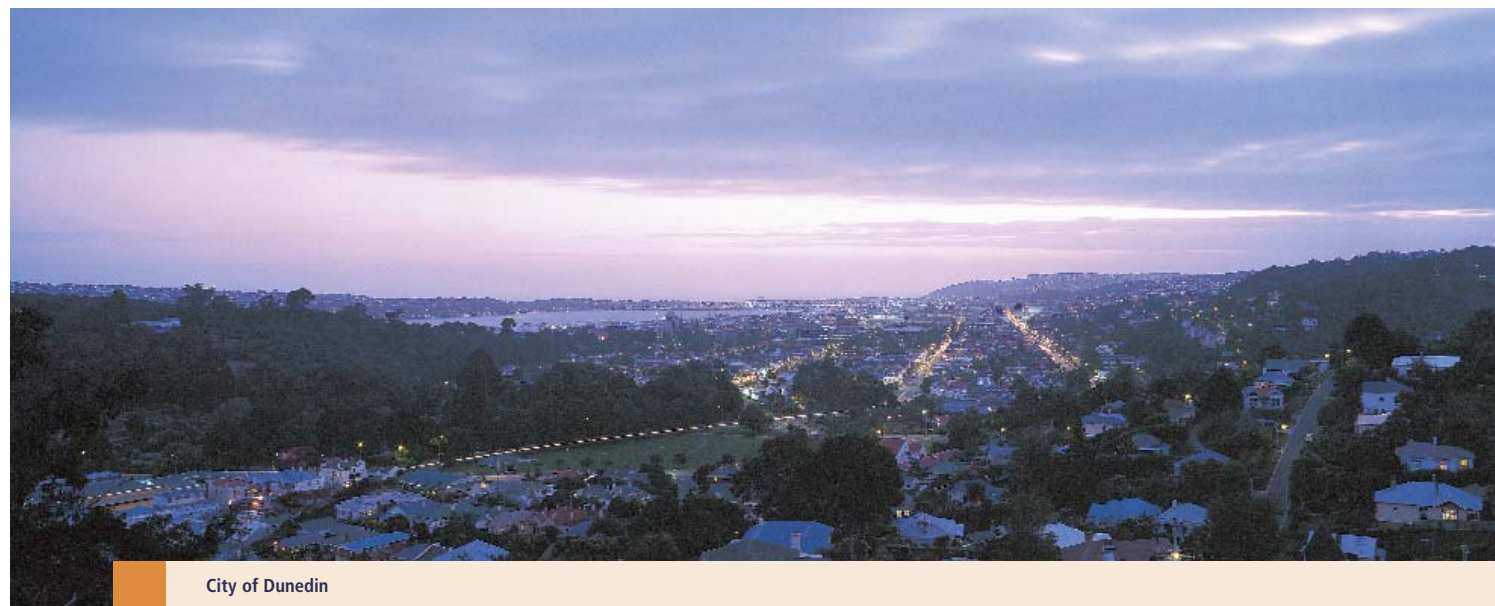
The value of the network assets of the company was reviewed in April 2005, resulting in a revaluation in the carrying amount of these assets of \$46.885m.

There were no breaches during the year of the price and reliability thresholds set by the Commerce Commission.

### Financial Statements

The audited financial statements for the year ended 30 June 2005 are attached to this report.





City of Dunedin

### 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.

No significant contracts involving directors' interests were entered into during the year ended 30 June 2005 or existed at that date.

### Directors' Remuneration

Remuneration paid to directors during the year was:

Raymond S Polson	\$25,118
Ross D Liddell	\$15,013
Michael O Coburn	\$13,336
John W Gilks	\$13,336
Paul R Hudson	\$13,336
Sukhinder Turner	\$13,336
(retired 30 June 2005)	
<b>Total</b>	<b>\$93,475</b>

### Retiring Directors

Mrs Sukhinder Turner retired from the board of directors on 30 June 2005. Mrs Turner was appointed to the board in 1999. The board wishes her well in her future endeavours and thanks her for her counsel and input over the past six years.

Messrs John Gilks and Paul Hudson retire by rotation in accordance with the Constitution of the company. Both are eligible and offer themselves for re-appointment.

Dr Norman Evans was appointed to the board on 13 July 2005.

### Audit Committee

Messrs Gilks, Polson and Liddell comprise the audit committee of the board. The audit committee has the responsibility for agreeing the arrangements for audit of the company's financial accounts.

Its responsibilities include ensuring that appropriate audit consideration is given to the following issues:

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

During the year, Taylor McLachlan Limited was appointed as internal auditor to the company. Specific areas for its focus were identified and progress on reviewing these is satisfactory.

### Employees' Remuneration

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

### Auditor

The Auditor-General is appointed Auditor pursuant to 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 D Liddell  
Deputy Chairman  
31 August 2005**

**J W Gilks  
Director**

#### **COMPANY DIRECTORY**

##### **Directors**

###### **Chair:**

Raymond S Polson *BCom, CA(PP)*

###### **Deputy Chair:**

Ross D Liddell *BCom, CA(PP), ACIS, F.Inst.D.*

###### **Directors:**

Michael O Coburn *FNZIM*

John W Gilks *FCA, F.Inst.D*

Paul R Hudson *JP, BCom, CA*

Sukhinder K Turner *DCNZM, BA*  
(retired 30 June 2005)

##### **Registered Office**

10 Halsey Street, Dunedin, New Zealand

##### **Banker**

Westpac Banking Corporation

##### **Solicitor**

Gallaway Cook Allan

##### **Auditor**

Audit New Zealand for The Controller  
and Auditor-General

##### **Taxation Advisor**

Deloitte



# Network Performance Statistics

For the year ended 31 March

		Note (1)	2005	2004	2003	2002	2001
<b>System Physical Measures</b>							
Average length of lines and cables	km		5,146	5,029	4,875	4,743	4,634
Average capacity of distribution transformers	MVA		780	758	740	726	708
Capacity utilisation		(2)	34.2%	32.5%	36.7%	36.2%	35.7%
<b>Consumer Measures</b>							
Average number of consumer connections			75,117	73,972	72,794	71,431	70,208
System maximum demand	MW	(2)	266.9	246.2	271.9	262.7	252.8
Energy received for delivery	GWh		1,345	1,270	1,300	1,240	1,234
Average load factor		(3)	57.4%	58.7%	54.6%	53.9%	55.7%
Average minutes off per fault	CAIDI	(4)	55.2	56.6	48.7	47.9	58.6
Average faults per annum	SAIFI	(5)	1.46	1.72	2.08	1.85	1.40
Average minutes off per annum	SAIDI	(6)	80.5	97.3	101.3	88.7	82.4

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.

(5) System Average Interruption Frequency Index.

(6) System Average Interruption Duration Index.

# Trend Statement

For the year ended 30 June

		2005	2004	2003	2002	2001
Energy received for delivery	GWh	1,357	1,308	1,281	1,243	1,250
Energy delivery reliability — average time without supply per customer p.a.	minutes lost	85.9	103.2	90.2	93.9	91.4
<b>Total revenue (3)</b>	<b>\$ million</b>	<b>64,080</b>	62,335	58,002	57,473	54,859
Trading surplus before tax (before subvention payments) (3)	\$ million	19,668	17,907	14,040	13,838	14,057
EBIT/Average funds employed (3)	\$ million	8.9%	9.5%	9.49%	8.7%	9.9%
<b>Net surplus for the year</b> (before subvention payments) (3)	<b>\$ million</b>	<b>10,852</b>	8,893	6,739	6,805	7,995
<b>Net surplus for the year</b> (after subvention payments) (3)	<b>\$ million</b>	<b>10,140</b>	7,963	5,971	5,823	6,650
Cashflow from operating activities (3)	\$ million	23,816	22,826	24,582	15,932	14,394
Special dividend	\$ million	8,000	0	0	0	0
Ordinary dividend	\$ million	5,863	7,006	7,196	6,682	7,066
Total dividend (3)	\$ million	13,863	7,006	7,196	6,682	7,066
<b>Equivalent dividends — actual dividends plus after-tax value of subvention payments (3)</b>	<b>\$ million</b>	<b>14,575</b>	7,936	7,964	7,664	8,413
Shareholder's equity (2)	\$ million	165,576	122,414	121,457	122,742	84,534
Total assets (2)	\$ million	314,076	263,650	255,604	280,590	215,674
Return on average equity (3)	\$ million	7.04%	6.5%	4.8%	5.6%	8.1%
Equity to total assets		53%	46%	48%	44%	39%

## Notes:

- (1) Aurora Energy Limited is part of the Dunedin City Holdings group of companies. Aurora Energy Limited 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; and, on 30 April 2005, Aurora Energy Limited revalued its electricity distribution network assets by \$46.885 million.
- (3) DELTA Utility Services Limited was a fully-owned subsidiary of Aurora Energy Limited until July 2003, at which time all of the shares were sold to Dunedin City Holdings Limited. Dividends received from DELTA Utility Services Limited and paid to Dunedin City Holdings Limited during the time of Aurora Energy Limited's ownership of DELTA Utility Services Limited are not included in this trend statement.



# Statement of Service Performance

For the year ended 30 June 2005

## 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
 

	Achieved \$000	Target \$000
EBITDA	35,042	29,882
Net surplus after income tax	10,140	5,932
Shareholder's funds	165,576	120,107
Dividends	13,863	6,000
Shareholder's funds to total assets	53%	46%
- 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 states in the Statement of Intent and Strategic Plan.

**Achieved** Matters of substance were reported to the Shareholder within the required timeframe

Achieved \$000	Target \$000
35,042	29,882
10,140	5,932
165,576	120,107
13,863	6,000
53%	46%

**Not achieved**

Achieved \$000	Target \$000
9,390	5,322

**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 transgressions.

**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 2005

	Note	2005 \$000	2004 \$000
Revenue	1	64,080	62,335
Expenses	2	44,412	44,428
<b>Trading surplus</b>		<b>19,668</b>	<b>17,907</b>
Subvention payments		1,063	1,388
<b>Operating surplus before income tax</b>		<b>18,605</b>	<b>16,519</b>
Income tax	3	8,465	8,556
<b>Net surplus for the year</b>		<b>10,140</b>	<b>7,963</b>

## Statement of Movements in Equity

For the year ended 30 June 2005

	Note	2005 \$000	2004 \$000
<b>Equity at beginning of the year</b>		<b>122,414</b>	<b>121,457</b>
<b>Surplus and revaluations</b>			
Net surplus for the year		10,140	7,963
Asset revaluations	4	46,885	0
Total recognised revenues and expenses for the year		57,025	7,963
<b>Other movements</b>			
Dividend distributions		(13,863)	(7,006)
Total other movements for the year		(13,863)	(7,006)
<b>Equity at end of the year</b>		<b>165,576</b>	<b>122,414</b>

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

## Statement of Financial Position

As at 30 June 2005

	Note	2005 \$000	2004 \$000
<b>Equity</b>	<b>4</b>	<b>165,576</b>	<b>122,414</b>
<b>REPRESENTED BY</b>			
<b>Current assets</b>			
Cash and short term deposits		106	54
Accounts receivable	5	7,940	7,719
Tax refund due		0	207
Short term investments	6	55	55
<b>Total current assets</b>		<b>8,101</b>	<b>8,035</b>
<b>Non-current assets</b>			
Investments	6	9	9
Property, plant and equipment	7	305,966	255,606
<b>Total non-current assets</b>		<b>305,975</b>	<b>255,615</b>
<b>Total assets</b>		<b>314,076</b>	<b>263,650</b>

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



# Statement of Financial Position

As at 30 June 2005

	Note	2005 \$000	2004 \$000
<b>Total assets</b>		<b>314,076</b>	<b>263,650</b>
<b>Current liabilities</b>			
Accounts payable		10,552	9,491
Other liabilities	9	600	584
Taxation payable		144	0
<b>Total current liabilities</b>		<b>11,296</b>	<b>10,075</b>
<b>Non-current liabilities</b>			
Deferred taxation	8	37,204	32,061
Term liabilities	10	100,000	99,100
<b>Total non-current liabilities</b>		<b>137,204</b>	<b>131,161</b>
<b>Total liabilities</b>		<b>148,500</b>	<b>141,236</b>
<b>NET ASSETS</b>		<b>165,576</b>	<b>122,414</b>

For and on behalf of the Board of Directors



R D Liddell  
Deputy Chairman  
31 August 2005



J W Gilks  
Director

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

## Statement of Cash Flows

For the year ended 30 June 2005

	Note	2005 \$000	2004 \$000
<b>Cashflows from operating activities</b>			
<i>Cash was provided from:</i>			
Receipts from customers		63,652	60,002
Interest received		35	22
Dividend received		196	547
Income tax refund		128	0
		<hr/> 64,011	<hr/> 60,571
<i>Cash was disbursed to:</i>			
Payments to suppliers and employees		31,028	28,856
Interest paid		6,067	6,889
Income tax paid		3,100	2,000
		<hr/> 40,195	<hr/> 37,745
<b>Net cash inflows/(outflows) from operating activities</b>	<b>11</b>	<hr/> <b>23,816</b>	<hr/> <b>22,826</b>
<b>Cashflows from investing activities</b>			
<i>Cash was provided from:</i>			
Sale of property, plant and equipment		0	160
		<hr/> 0	<hr/> 160
<i>Cash was disbursed to:</i>			
Purchase of property, plant and equipment		10,301	15,556
		<hr/> 10,301	<hr/> 15,556
<b>Net cash inflows/(outflows) from investing activities</b>		<hr/> <b>(10,301)</b>	<hr/> <b>(15,396)</b>

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

## Statement of Cash Flows

For the year ended 30 June 2005

	Note	2005 \$000	2004 \$000
<b>Cashflows from financing activities</b>			
<b>Cash was provided from:</b>			
Proceeds from borrowings		27,300	24,650
<b>Cash was disbursed to:</b>			
Repayment of borrowings		26,400	25,250
Dividend distributions		14,363	6,802
		<u>40,763</u>	<u>32,052</u>
<b>Net cash inflows/(outflows) from financing activities</b>		<u>(13,463)</u>	<u>(7,402)</u>
<b>Net increase/(decrease) in cash held</b>		<u>52</u>	<u>28</u>
Cash at beginning of the year		54	26
<b>CASH AT END OF THE YEAR</b>		<u><u>106</u></u>	<u><u>54</u></u>
<b>Composition of cash</b>			
Cash and short term deposits		106	54
<b>CASH AT END OF THE YEAR</b>		<u><u>106</u></u>	<u><u>54</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 2005

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. The timing of revaluations will be at the discretion of the directors within the requirements of Generally Accepted Accounting Practice (GAAP).

Changes in value resulting from these revaluations are credited to the asset revaluation reserve of the Company after adjusting for depreciation previously claimed. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the statement of financial performance.

The revalued assets are carried at their revalued amount less accumulated depreciation.

#### *Electricity Distribution Assets*

Consistent with these policies, on 30 April 2005 Aurora Energy revalued its electricity distribution network assets, excluding land and buildings, 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. Electricity distribution network additions since 1 May 2005 are carried at cost less depreciation.

#### *Electricity Distribution Land and Buildings*

Land and buildings associated with the electricity distribution network were revalued on 1 July 2001 to the fair market valuation as determined by the chartered accounting firm of KPMG. These revalued assets are carried at their revalued amount less accumulated depreciation.

Additions to land and buildings associated with electricity distribution assets since 1 May 2001, are carried at cost less accumulated depreciation.

#### *Other Land and Buildings*

Land and buildings not associated with the electricity distribution network are carried at cost less accumulated depreciation.

#### *Depreciation*

Depreciation of property, plant and equipment is calculated on a straight line basis to allocate the value of assets over their estimated useful lives.

# Statement of Accounting Policies

For the year ended 30 June 2005

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% — 5%
- 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.

**(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 2005

	2005 \$000	2004 \$000
<b>1 REVENUE</b>		
Sales revenue	63,849	61,766
Interest on advances to related parties	12	9
Interest on other investments	23	13
Gain on sale of assets	0	0
Dividends	196	547
Gain/(Loss) on realisation of investments	0	0
	<u>64,080</u>	<u>62,335</u>
<b>2 EXPENSES</b>		
Included in the expenses of the company are the following items:		
Audit fees		
- statutory audit	23	22
- other services	10	0
Depreciation	9,228	10,280
Directors' remuneration	94	78
Interest	6,146	6,759
Rental expense and operating leases	23	37
Increase/(Decrease) in provision for doubtful debts	0	(3)
Bad debts written off	0	3
<b>3 INCOME TAX</b>		
Operating surplus before income tax	18,605	16,519
Tax at 33%	6,140	5,451
<b>Plus/(Less) the tax effect of permanent differences</b>		
Revenue not assessable for taxation	(2,192)	(2,923)
Expenditure not deductible for taxation	4,439	6,018
Tax effect of permanent differences	<u>2,247</u>	<u>3,095</u>
Tax adjusted for permanent differences	8,387	8,546
Under/(Over) tax provision in prior years	78	10
Income tax	<u>8,465</u>	<u>8,556</u>
<b>Income tax is represented by</b>		
Current tax	3,322	2,198
Deferred tax	5,143	6,358
Income tax	<u>8,465</u>	<u>8,556</u>
A subvention payment of \$1,062,500 (2004 : \$1,387,644) to Dunedin City Holdings Limited has been provided for.		
<b>Imputation credit account</b>		
Balance at beginning of the year	(2,934)	(2,104)
Prior Year adjustments	63	0
Taxation payments made	3,100	2,000
Credits attached to dividends paid	(3,361)	(2,889)
Credits attached to dividends received	9	59
Taxation refunds received	(128)	0
Balance at end of the year	<u>(3,251)</u>	<u>(2,934)</u>

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 had a credit balance at 31 March.



# Notes to the Financial Statements

For the year ended 30 June 2005

2005	2004
\$000	\$000

## 4 EQUITY

### Issued capital

10,000,000 ordinary shares

10,000	10,000
--------	--------

### Asset revaluation reserve

Balance at beginning of the year

110,147	110,856
---------	---------

Net revaluation

46,885	0
--------	---

Transfer to retained earnings on disposal of

Fixed assets

0	(709)
---	-------

Balance at end of the year

157,032	110,147
---------	---------

### Retained earnings

Balance at beginning of the year

2,267	601
-------	-----

Net surplus for the year

10,140	7,963
--------	-------

Dividend distributions

(13,863)	(7,006)
----------	---------

Transfer from asset revaluation reserve

0	709
---	-----

Balance at end of the year

(1,456)	2,267
---------	-------

### TOTAL EQUITY

165,576	122,414
---------	---------

## 5 ACCOUNTS RECEIVABLE

Trade receivables

7,942	7,723
-------	-------

Provision for doubtful debts

(30)	(30)
------	------

7,912	7,693
-------	-------

Due from other related parties

28	26
----	----

7,940	7,719
-------	-------

## 6 INVESTMENTS

Short term investment in Otago Power Ltd

55	55
----	----

Investment – listed companies

9	9
---	---

### Short-term Investment

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 2005 year, partially imputed dividends of \$0.195 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 2005.

### 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

For the year ended 30 June 2005

## 7 PROPERTY, PLANT AND EQUIPMENT

	As at 30 June 2005			As at 30 June 2004		
	Cost or Valuation	Depreciation	Book Value	Cost or Valuation	Depreciation	Book Value
	\$000	\$000	\$000	\$000	\$000	\$000
<b>At valuation</b>						
Freehold land	2,734	0	2,734	2,734	0	2,734
Buildings	9,955	398	9,557	9,955	299	9,656
Network assets	283,254	1,542	281,712	244,511	23,816	220,695
Plant and equipment	1,883	30	1,853	1,380	353	1,027
<b>At cost</b>						
Freehold land	184	0	184	184	0	184
Buildings	256	30	226	244	24	220
Network assets	4,352	1,606	2,746	19,657	2,718	16,939
Plant and equipment	31	1	30	409	112	297
Motor vehicles	6	0	6	0	0	0
Furniture and fittings	6	2	4	6	1	5
Plant construction in process	6,914	0	6,914	3,849	0	3,849
Total property, plant and equipment	309,575	3,609	305,966	282,929	27,323	255,606

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

## 8 DEFERRED TAX

Balance at beginning of year	32,061	25,703
Movement from income tax	5,143	6,358
Balance at end of year	<u>37,204</u>	<u>32,061</u>

## 9 OTHER LIABILITIES

Current liabilities		
GST payable	600	584
	<u>600</u>	<u>584</u>

# Notes to the Financial Statements

For the year ended 30 June 2005

2005	2004
\$'000	\$'000

## 10 TERM LIABILITIES

Balance at beginning of the year	99,100	99,700
Current year borrowing	27,300	24,650
Current year repayment	(26,400)	(25,250)
Balance at end of the year	<u>100,000</u>	<u>99,100</u>

A borrowing facility exists which allows the company to draw funds up to the amount of \$110 million. At year end, \$100.0 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 2005 was 7.44% (2004 : 7.12%).

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	100,000	99,100
	<u>100,000</u>	<u>99,100</u>

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

<b>Net surplus for the year</b>	<b>10,140</b>	<b>7,963</b>
<i>Items not involving cashflows</i>		
Depreciation	9,228	10,280
Increase in deferred tax	5,143	6,358
<i>Impact of changes in working capital items</i>		
(Increase)/Decrease in accounts receivable	(221)	(1,985)
(Increase)/Decrease in tax refund due	207	198
Increase/(Decrease) in accounts payable	1,061	1,384
Increase/(Decrease) in other liabilities	16	243
Increase/(Decrease) in tax payable	144	0
Related party advance included in accounts payable	500	(500)
<i>Items classified as investing activities</i>		
Capital creditors included in accounts payable	(2,402)	(1,115)
Gain on sale of assets	0	0
Loss on sale of fixed assets	0	0
(Gain)/Loss on investment	0	0
<b>Net cash inflows/(outflows) from operating activities</b>	<b><u>23,816</u></b>	<b><u>22,826</u></b>



# Notes to the Financial Statements

For the year ended 30 June 2005

2005	2004
\$'000	\$'000

## 12 CONTINGENT LIABILITIES

The company has no contingent liabilities at balance date (2004 : nil).

## 13 CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure contracted for at

Balance date but not provided for in the financial statements

3,616	3,617
-------	-------

## 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	70	68
Payable later than five years	41	66
	<u>159</u>	<u>182</u>

## 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. To minimise risk exposure, \$80.0 million of the debt has been borrowed at fixed rates for terms exceeding two years.

Beyond September 2007, interest rate protection is in place for varying amounts through to December 2014 (2004 : nil).

The board of directors reviews interest rate protection on a regular basis.

### 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.

# Notes to the Financial Statements

For the year ended 30 June 2005

## 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.

	2005 \$000	2004 \$000
<b>Fair values</b>		
<b>Financial assets</b>		
<i>Carrying amount</i>		
Cash	106	54
Accounts receivable	7,940	7,719
Investments	64	64
<i>Fair values</i>		
Cash	106	54
Accounts receivable	7,940	7,719
Investments	64	64
<b>Financial liabilities</b>		
<i>Carrying amount</i>		
Accounts payable	10,552	9,491
Term liabilities	100,000	99,100
<i>Fair values</i>		
Accounts payable	10,552	9,491
Term liabilities	100,000	99,100

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 2005

## 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 services from the Dunedin City Council Group:

	2005 \$000	2004 \$000
Management fee	260	260
Water supplies and contracting	196	248
Rates and property leases	80	81
Interest/Facility fees payable	6,197	6,808
Subvention payments made	1,063	1,388
Network management and operation	10,677	10,540
Lease of meters	45	40
Accounting, administration and secretarial	136	116
Capital work	10,497	11,157
Sundry and consulting	62	101
	<u>29,213</u>	<u>30,739</u>

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

Interest receivable	12	9
Rent	67	64
Distribution of electricity	69	63
Service failure penalties	39	21
Shut down charges	66	49
	<u>253</u>	<u>206</u>

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

Funds drawn from Dunedin City Treasury Limited	27,300	24,650
Funds repaid to Dunedin City Treasury Limited	26,400	25,250
Dividends paid to Dunedin City Holdings Limited	13,863	7,006

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>108,387</u>	<u>106,425</u>
Receivable from related parties in the Dunedin City Council Group		
Accounts receivable	<u>28</u>	<u>26</u>

# Notes to the Financial Statements

For the year ended 30 June 2005

No related party debts have been written off or forgiven during the period (2004 : 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. In the ordinary course of business during the financial year covered by this report, no consulting services were purchased from Polson Higgs (2004 : \$17,067). No monies were due at the end of the year (2004 : \$7,309).

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 \$19,036 were purchased from Deloitte (2004 : \$28,305). \$6,156 was due at the end of the year (2004 : \$4,869).



# Information on the Directors

For the year ended 30 June 2005

<i>Director and Qualifications</i>	<i>Position held and Date appointed</i>	<i>Declarations of Interests</i>
<b>Raymond S Polson</b> <i>BCom, CA(PP)</i>	Non-Executive Chairman October 1994	Chair, Polson Higgs & Co Chair, <i>DELTA</i> Utility Services Ltd Chairman – Incompass Ltd Chairman – Fulcrum Partners Ltd Chairman – Wensley Developments Ltd Chairman – Wensley Developments (The Glebe) Ltd Chairman – Wensley Developments (The Beacon) Ltd Chairman – Wensley Developments (The Shore) Ltd Chairman – Wensley Developments (The Club) Ltd Chairman – Wensley Developments (The Marina) Ltd
<b>Ross D Liddell</b> <i>BCom, CA(PP), ACIS, F.Inst.D.</i>	Non-Executive Deputy Chairman October 1994	Managing Partner – Deloitte Chairman – Browns Barkley Ltd Chairman – City Forests Ltd Chairman – Dunedin City Treasury Ltd Chairman – James Maurice Properties Ltd Chairman – Palmer & Son Ltd Chairman – Palmer MH Ltd Chairman – Palmers Mechanical Ltd Chairman – Viblock Ltd Deputy Chairman – <i>DELTA</i> Utility Services Ltd Director – A B Lime Ltd Director – Blackhead Quarries Ltd Director – Citibus Ltd Director – Dunedin City Holdings Ltd Director – Fulcrum Partners Ltd
<b>Michael O Coburn</b> <i>FNZIM</i>	Non-Executive Director October 2003	Chairman – Clearwater Land Holdings Ltd Deputy Chairman – Otago Rescue Helicopter Ltd Director – Arthur Barnett Ltd Director – Citibus Ltd Director – City Forests Ltd Director – <i>DELTA</i> 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 Executive Director – Jacks Point Ltd

# Information on the Directors

For the year ended 30 June 2005

**John W Gilks**

*FCA, F.Inst.D.*

Non-Executive Director

June 1990 - April 1994

May 2002

Chairman – Port Otago Ltd

Deputy Chairman – City Forests Ltd

Deputy Chairman – Fisher & Paykel Appliances Holdings Ltd

Director – Business in the Community Ltd

Director – Citibus Ltd

Director – DELTA Utility Services Ltd

Director – Dublin Bay Investments Ltd

Director – Dunedin City Holdings Ltd

Director – Fisher & Paykel Finance Ltd

Director – K.M.K. Storage 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

Chairman – Dunedin City Holdings Ltd

Chairman – Citibus Ltd

Chairman – Dunedin Council of Social Services

Chairman – Community House Trust

Director – City Forests Ltd

Director – DELTA Utility Services Ltd

Councillor – Dunedin City Council

**Sukhinder K Turner**

*DCNZM, BA*

Non-Executive Director

November 1999

Retired 30 June 2005

Mayor – Dunedin City (until October 2004)

Director – DELTA Utility Services Ltd

Director – Dunedin City Holdings Ltd

Director – Citibus Ltd

Director – City Forests Ltd

# Auditor's Report



Audit New Zealand

## TO THE READERS OF AURORA ENERGY LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2005

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 2005.

### Unqualified Opinion

In our opinion:

- the financial statements of the Company 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 2005; and
    - the results of operations and cash flows for the year ended on that date.
- the performance information of the Company on pages 14 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 30 June 2005.
- based on our examination the Company kept proper accounting records.

The audit was completed on 14 September 2005, and is the date at which our opinion is expressed.

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

### Basis of Opinion

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

We planned and performed the 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. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in 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 our opinion above.

### Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing financial statements in accordance with 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 2005. They must also give a true and fair view of the results of operations 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 2005. The Board of Director's 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 relationship with or interests in the Company.

BF Kearney  
Audit New Zealand  
On behalf of the Auditor-General  
Dunedin, New Zealand



Aurora's Alexandra-Roxburgh HV transmission lines above Lake Roxburgh on a cold spring morning

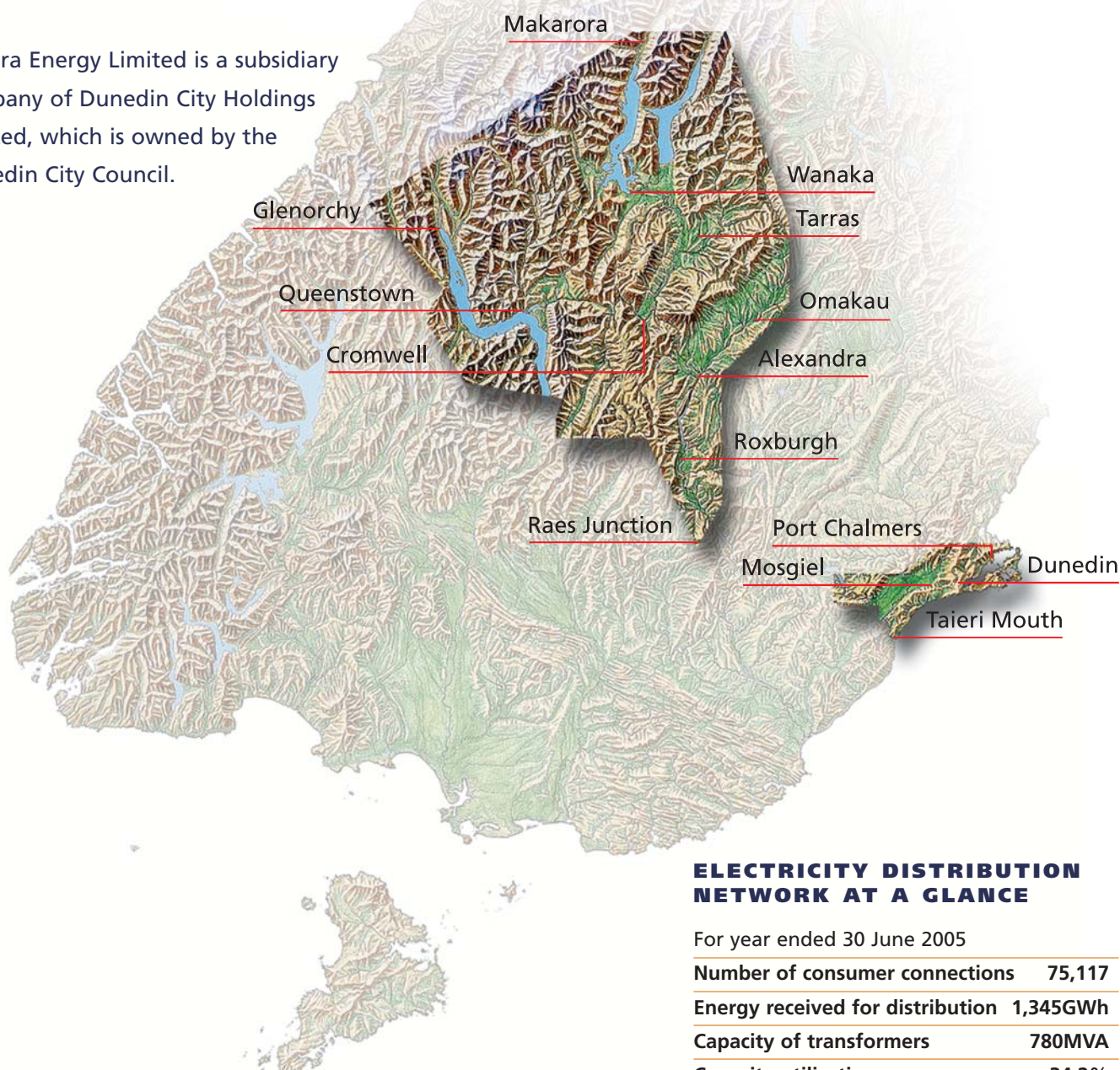




### **Aurora Energy Limited's**

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.



### **ELECTRICITY DISTRIBUTION NETWORK AT A GLANCE**

For year ended 30 June 2005

Number of consumer connections	75,117
Energy received for distribution	1,345GWh
Capacity of transformers	780MVA
Capacity utilisation	34.2%
Length of lines and cables	5,146km
Number of zone substations	36
Number of bulk supply points	5