

AURORA ENERGY LIMITED

Annual Report 2007

Aurora





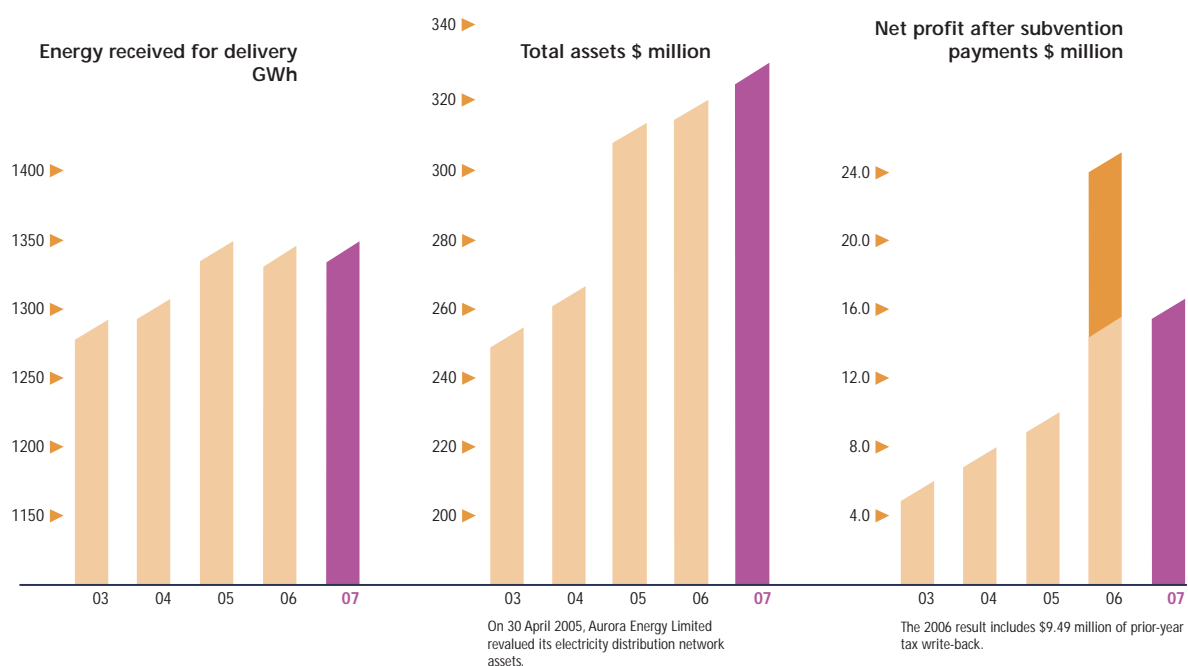
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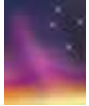
Aurora Energy Limited

Aurora'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 local generators and New Zealand's electricity retailers.

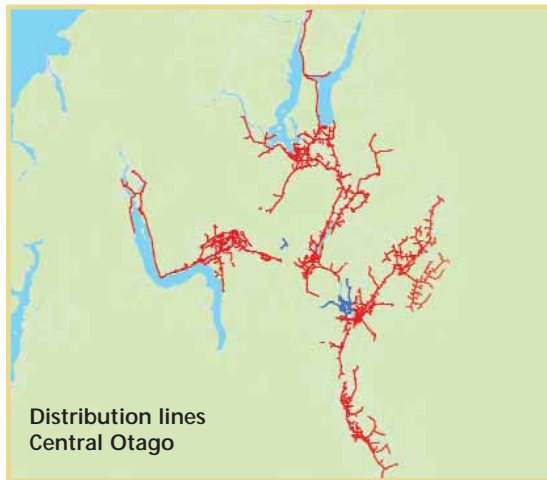
Aurora Energy Limited is a subsidiary company of Dunedin City Holdings Limited, which is owned by the Dunedin City Council.

AURORA ENERGY LIMITED 2007 HIGHLIGHTS AT A GLANCE





Network Regions and Capability



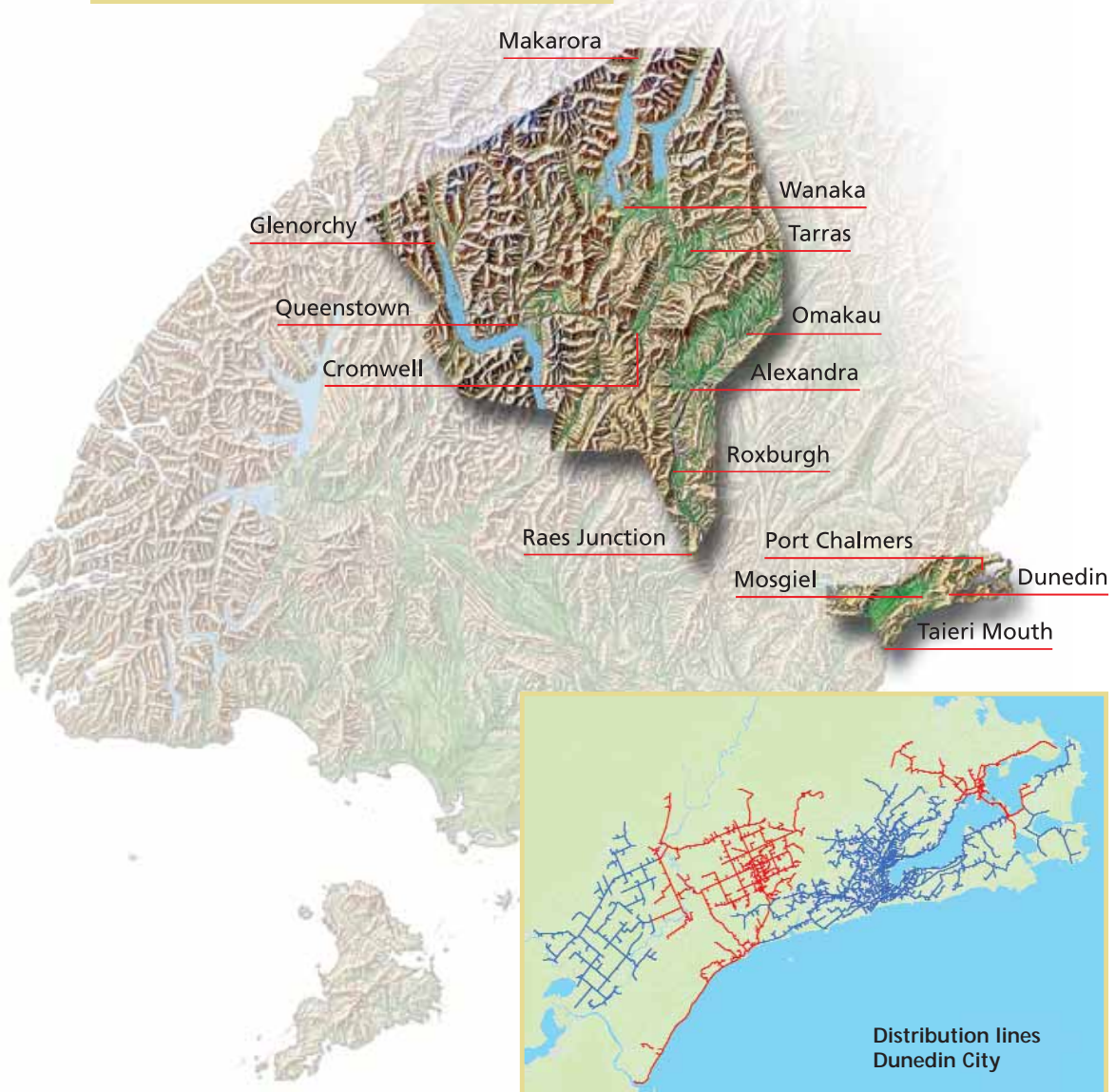
ELECTRICITY DISTRIBUTION NETWORK AT A GLANCE

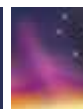
For year ended 31 March 2007

Number of consumer connections	77,712
Energy received for distribution	1,360GWh
Capacity of transformers	829MVA
Capacity utilisation	33%
Number of zone sub-station	36
Number of bulk supply points	5
Length of lines and cables	5,380km

n 11 kV distribution line/cables

n 6.6 kV distribution line/cables





Residential subdivision at Arthurs Point near Queenstown

For the Year Ended 30 June 2007

Financial Results for the Year

I am very pleased to report another year of strong performance for Aurora. The trading surplus for the year increased by 7.5% to \$22.51 million (2006 : \$20.93 million) after revenue increased by only 0.6% due to warmer than usual weather.

The net profit was \$16.58 million after providing for a subvention payment of \$1.48 million (2006 : \$1.57 million) to the shareholder. The \$25.15 million net profit in 2006 included \$9.49 million of prior-year tax write back; excluding this, a pleasing 5.9% improvement on last year was achieved.

Dividends

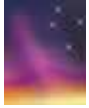
The shareholder has continued to benefit from Aurora's excellent financial results, with dividends equivalent to \$8.97 million (2006 : \$7.99 million) being paid. Over the past five years, total dividends to the shareholder amounted to \$47 million.

Operating Performance


The operating performance of Aurora's line business has continued to improve. Profit has improved while supply quality and distribution price have remained within the Commerce Commission thresholds, except for a minor breach of the interruption frequency measure due to exceptionally windy conditions in Central Otago.

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 been maintained over the last five years, though the result is greatly affected by major wind storms, which vary year by year. Additionally, Aurora's quality remains significantly 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



F&P's whiteware manufacturing plant at Mosgiel



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 engagement of specialist asset management contractors, such as *DELTA*, represents best practice.

Growth

Growth in electricity delivered has averaged 1.4% per annum over the last five years, with most of Aurora's growth continuing to occur in the Central Otago area.

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 Aurora's assets being materially understated for regulatory purposes.

Under the Commerce Commission's limitation of distribution price increases 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 very significantly better than average.

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 electricity retail sector – a sector with the characteristics of an oligopoly, and where government-owned businesses comprise the majority of the participants.

Between May 2006 and May 2007, residential energy prices by generator/retailers increased by approximately 10%, bringing the increase since May 2000 to over 70%. Throughout this period, the energy

price increase has been almost four times the increase in Consumer Price Index, while Aurora's line charges have increased at slightly less than CPI. 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.

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.

Generation

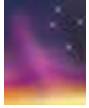
Aurora has a particular interest in the generation of electricity from renewable energy sources on its network, as a means of reducing capital expenditure and improving reliability. A number of opportunities are being considered, however, despite substantial increases in energy prices, none of these appears economic at current energy prices and low line charges. Further opportunities will become apparent as technology improves.

Demand Management

Aurora's demand management programme for major consumers remains a considerable success. Designed to help consumers reduce their electricity delivery costs by managing their own demand, the internet-based programme 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.

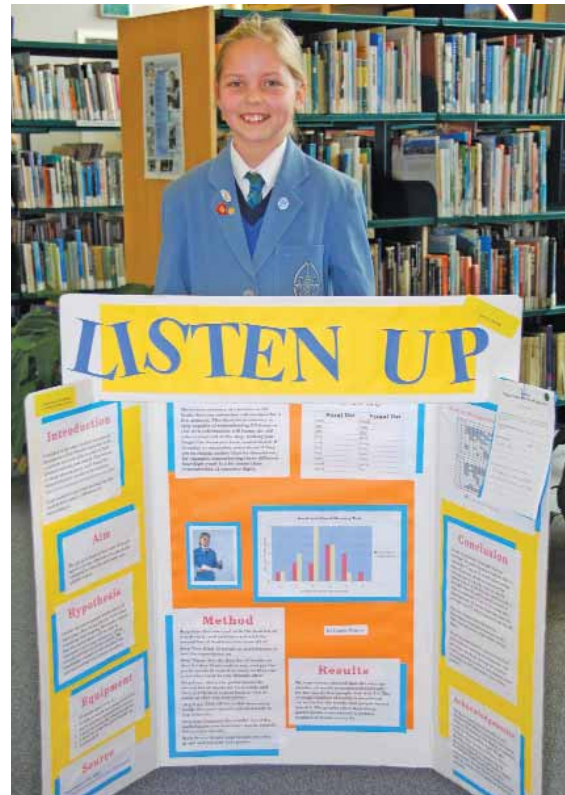
Customer Complaints

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,



Aurora continues its enthusiastic support for education in the sciences. Pictured right is Laura Rogers, a Year 7 student from St Hilda's Collegiate School.

Laura was the winner of the Aurora/University of Otago Psychology Award in the Otago Regional Science and Technology Fair 2007.



under the contract with them for delivery of electricity. During the year, \$13,210 was paid to retailers, along with details of the 246 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 has advised that relative to retailers it receives fewer complaints about distribution businesses, and rarely about Aurora.

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
- Malcam Trust 4Trades programme
- Aurora University of Otago scholarships.

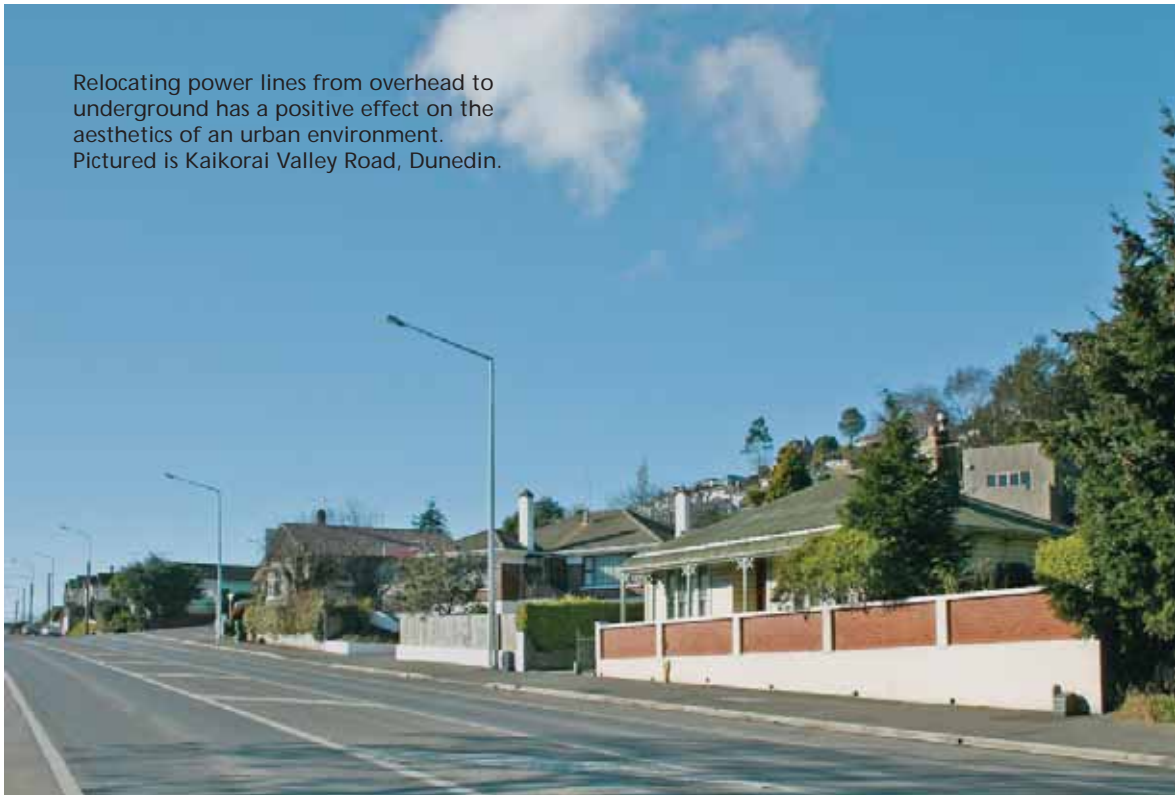
Aurora is committed to being a good corporate citizen in the communities in which it operates. Full consideration of all environmental and community issues is given in all of its operations, with particular emphasis on environmental issues with new projects.

In addition, Aurora has continued its policy of committing annual funds to the under-grounding of lines. During the year, the following projects were undertaken in conjunction with the local authority, at a cost of over \$2.35 million:

- McDougall Street, Wanaka
- Neplusultra Street, Cromwell (Alpha Street to Blyth Street)
- Molyneux Avenue, Cromwell (Monaghan Street to Alpha Street)
- Alpha Street, Cromwell (Molyneux Street to Neplusultra Street)
- Kaikorai Valley Road, Dunedin (Falcon Street to Brockville Road)
- Kaikorai Valley Road, Dunedin (Falcon Street to Taieri Road)
- King Edward Street, Dunedin (Wilkie Road to State Highway One overbridge)



Relocating power lines from overhead to underground has a positive effect on the aesthetics of an urban environment. Pictured is Kaikorai Valley Road, Dunedin.



- South Road, Dunedin (David Street to Burns Street).

Financial Position

Aurora's financial position remains very strong, with total assets of \$329 million and debt of \$94 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 it 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 substation developments in hand to strengthen distribution and significant expenditure is ongoing to augment the Frankton supply from Transpower.

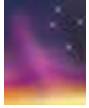
Capital expenditure for the year was \$17.6 million and is expected to remain in the range of \$17 million to \$20 million per year over the coming years, subject to growth in the region continuing at current levels.

Audit Report

The audit report attached to these accounts is qualified by the words 'Incorrect Treatment of Adjustment to Deferred Taxation' as a result of a difference of opinion between the directors and the auditor in regard to the reporting in the attached accounts of the effect on net profit for 2007 of reductions in the deferred taxation provision caused by changes in future taxation rates.

As reported elsewhere, this report is Aurora's first report under International Financial Reporting Standards (IFRS). Compliance with IFRS is compulsory for all entities with reporting periods commencing after 1 January 2007. For Aurora Energy Limited, this is not required until the year ending 30 June 2008, but Aurora elected to become an early adopter and to comply for the financial period reported on in these accounts.

On transition to IFRS, a number of adjustments were required to Aurora's balance sheet and these are shown in note 26 to these accounts. The significant adjustments were inside equity, where substantial



revaluation reserves transferred to retained earnings, and in deferred taxation provision, where the fundamentally different requirements of International Accounting Standard (IAS) 12 resulted in a substantial increase in this liability. The increase was provided for by way of adjustment direct to equity.

The government has announced an intention to reduce corporate taxation from 33 cents to 30 cents. A consequence of this reduced corporate tax rate is that the amount of future years' tax liability provided for in the deferred taxation provision is required to be reduced. The effect of this on Aurora is to reduce the deferred taxation provision by \$5.13 million to \$51.985 million. This change is shown in the financial statements as an increase in equity and a reduction in deferred taxation liability.

The Auditor General is appointed as auditor of Aurora by way of the Energy Companies Act 1992. The Auditor General has appointed Audit New Zealand to carry out the audit.

It is the opinion of the auditor that the reduction in future taxation liability should be reflected by way of reduced taxation expense in the current year. The effect of this would be to increase net profit in the 2007 financial year by \$5.13 million. This opinion is based on the auditor's interpretation of part of IAS 12.

The directors of Aurora Energy Limited do not consider that increasing net profit by \$5.13 million in the current year, to account for reductions in future liabilities that were created by way of adjustments to equity on transition to IFRS, is consistent with the requirement that they fairly and accurately report on the current year financial results. In the event that Aurora had not been an early adopter of IFRS, or had decided on transition not to aggregate reserves inside equity as allowed by IAS1, then the auditor would concur with the opinion of directors that the reductions in future tax liability are unrelated to the current year's financial performance. The directors do not agree that either the uncertainty of outcome or any inflation of current year profit resulting from

the auditor's interpretation of parts of IAS12 was ever intended and they disagree with such interpretation.

There are no consequential balance sheet differences resulting from the treatment adopted by Aurora to that which the auditor considers appropriate. Aurora's shareholder has been consulted on this matter and is in complete agreement with the views of Aurora's directors.

The auditor's disagreement is explained in the audit opinion attached to these financial reports.

Directorate

At the end of the year Mr John Gilks resigned as a director, after five years recent service and after a similar period in the early 1990s. John was involved with the company since before the corporatisation of its predecessor company in 1990 and has made a very great contribution over the years. He has been replaced as a director by Mr Stuart McLauchlan, a well-known Dunedin businessman.

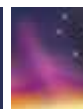
Outlook

The outlook for Aurora is for another successful year in 2008. The projected cashflows are particularly strong and bode well for continuing good returns to the shareholder.

Aurora's objective 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 Liddell
DEPUTY CHAIR
29 August 2007

Network Performance Statistics



Statistics for the 12 months ended 31 March

		Note (1)	2007	2006	2005	2004	2003
System Physical Measures							
Average length of lines and cables	km		5,380	5,252	5,146	5,029	4,875
Average capacity of distribution transformers	MVA		829	800	780	758	740
Distribution transformer capacity utilisation			33%	34%	34%	33%	37%
Consumer Measures							
Average number of consumer connections			77,712	76,400	75,117	73,972	72,794
System maximum demand	MW		276	269	267	246	272
Energy received for delivery	GWh		1,360	1,347	1,345	1,270	1,300
Average load factor			56%	57%	57%	59%	55%
Average minutes off per fault	CAIDI	(2)	56	56	55	57	49
Average faults per annum	SAIFI	(3)	1.8	1.7	1.5	1.7	2.1
Average minutes off per annum	SAIDI	(4)	101	97	81	97	101

Notes:

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

(2) Consumer Average Interruption Duration Index.

(3) System Average Interruption Frequency Index.

(4) System Average Interruption Duration Index.



Directors' Report



Directors from left: Ray Polson, Ross Liddell, Norman Evans, Mike Coburn, Paul Hudson,

For the Year Ended 30 June 2007

The directors of Aurora Energy Limited are pleased to report on the financial results and associated matters for the year ended 30 June 2007.

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 2007	\$000
Trading profit	22,511
– less subvention payments	1,480
Operating profit before income tax	21,031
– less current year income tax expense	4,616
– plus over-provided tax in prior years	(161)
Net profit for year after income tax	<u>16,576</u>

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 2007 were \$7.977 million. In addition, a subvention payment of \$1.480 million to Dunedin City Holdings Limited has been provided for. The dividend equivalent of this is \$0.992 million, giving total equivalent dividends of \$8.969 million to be paid to the shareholder for the year. Equivalent dividends last year amounted to \$7.493 million.

Reserves

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

	\$000
Cash flow hedge reserve – to (from)	1,380
Retained earnings – to (from)	<u>13,729</u>

Review of Operations

The directors are pleased with the operating results achieved for the year ended 30 June 2007.

Pre-tax profit of \$21.031 million (2006: \$19.359 million) was a strong result with growth in Central Otago continuing to underpin economic performance. This growth requires significant capital expenditure and the 2007 year has seen record investment in capital assets to both expand and strengthen the distribution network.

Three separate extreme weather events impacted on network reliability and caused the System Average Interruption Duration Index (SAIDI) and the System Average Frequency Index (SAIFI) to be marginally greater than prior year. Two of these weather events were each greater than anything recorded in the previous five years.

The price threshold set by the commerce commission was not breached during the year. One of the two threshold reliability indices (SAIFI) was breached by 4%, whereas the SAIDI index was 9% below the threshold.

Considerable planning within the company, to identify areas where the network needs to be strengthened to handle growth in electricity carried, is ongoing. Further major capital expenditure is planned for Queenstown to service the significant growth in this area.

Financial Statements

The audited financial statements for the year ended 30 June 2007 are attached to this report.



John Gilks (retired) and Stuart McLauchlan

Directors' Interests in Contracts

Disclosures of interests made by directors are recorded in the company's interests register.

These general disclosures of interests are made in accordance with S140 (2) of the *Companies Act 1993* and serve as notice that the directors may benefit from any transaction between the company and any of the disclosed entities. Details of these declarations are included in the Information on Directors section of this report.

Any significant contracts involving directors' interests that were entered into during the year ended 30 June 2006 or existed at that date are disclosed in the related parties section of this report.

Directors

Mr John Gilks retired from the board on 31 May 2007. Mr Stuart McLauchlan was appointed to the board on 1 June 2007.

In accordance with the constitution of the company, Messrs Raymond Polson, Paul Hudson and Stuart McLauchlan retire by rotation. All are eligible and offer themselves for re-appointment.

Directors' Remuneration

The remuneration paid to directors during the year was:

Raymond S Polson	\$36,788
Ross D Liddell	\$25,879
Michael O Coburn	\$18,161
Dr Norman G Evans	\$18,161
John W Gilks	\$20,665
Paul R Hudson	\$18,161
Stuart J McLauchlan	\$1,563
	<u>\$139,378</u>

Audit Committee

Messrs Gilks, Polson and Liddell comprised the audit committee of the board during the year. Mr John Gilks retired from the committee on 31 May 2007 and Dr Norman Evans was appointed to the committee on 1 June 2007. 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
- Appointing and monitoring internal audit function.

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 S45 of the *Energy Companies Act 1992*. The Auditor-General has contracted the audit to Audit New Zealand.

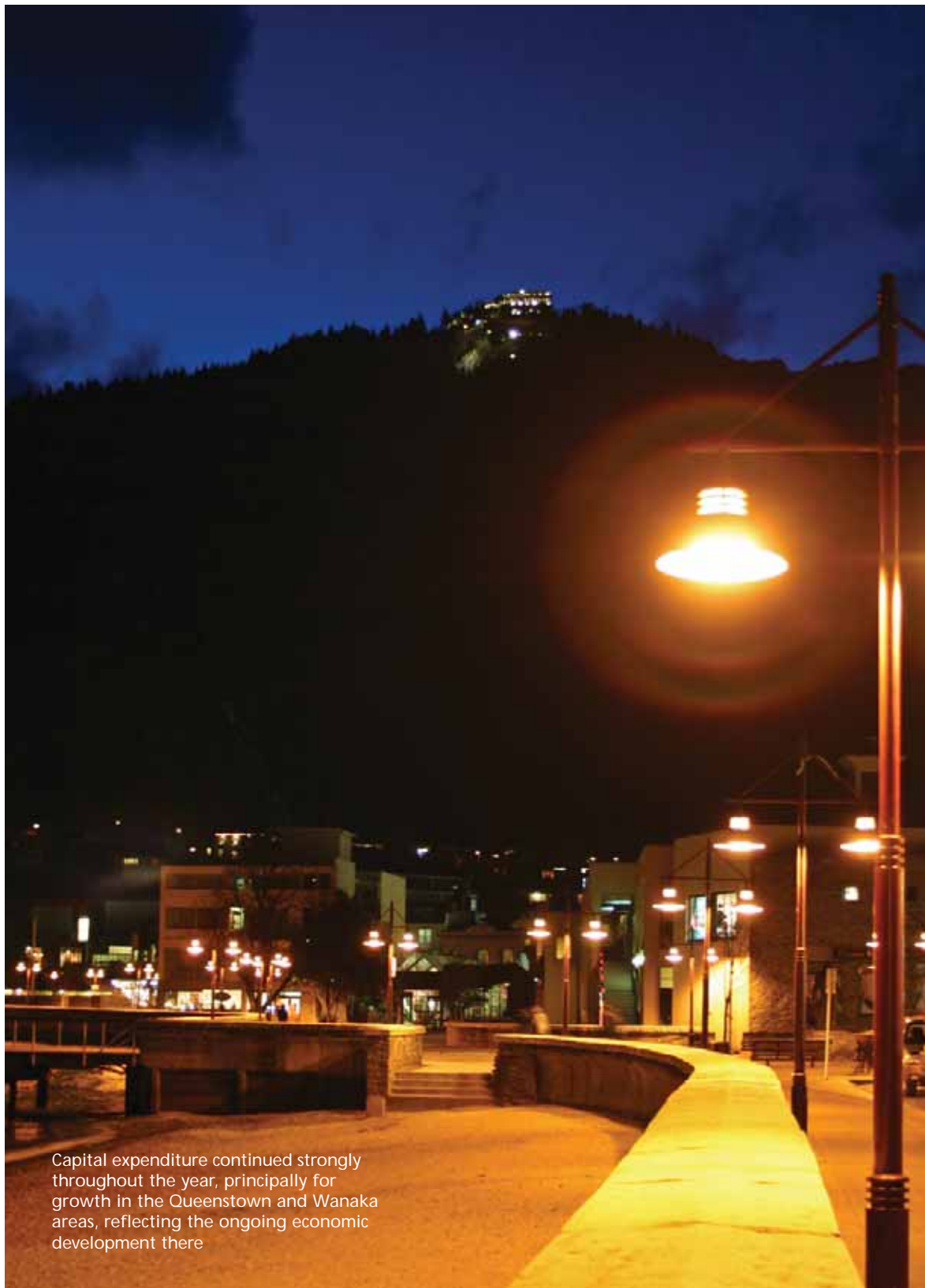
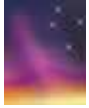
Directors' Insurance

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.

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.

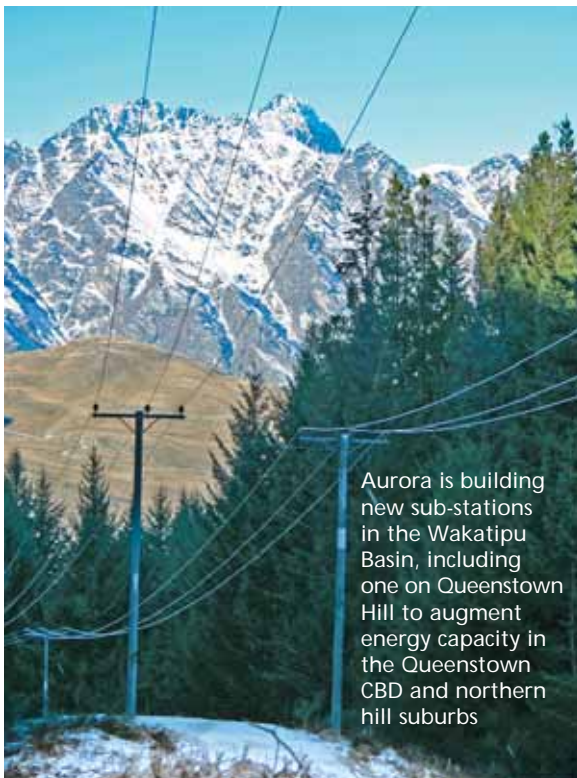
There were no notices from directors requesting to use company information received in their capacity as directors that would not otherwise have been available to them.



Capital expenditure continued strongly throughout the year, principally for growth in the Queenstown and Wanaka areas, reflecting the ongoing economic development there



Construction in the Frankton industrial precinct



Aurora is building new sub-stations in the Wakatipu Basin, including one on Queenstown Hill to augment energy capacity in the Queenstown CBD and northern hill suburbs

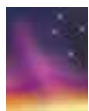
Events Subsequent to Balance Date

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 CHAIR
29 August 2007

Dr N G Evans
DIRECTOR



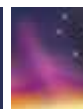
Trend Statement

Years Ended 30 June		2007	2006	2005 (5)	2004 (5)	2003 (5)
Energy received for delivery	GWh	1,356	1,347	1,357	1,308	1,281
Energy delivery reliability (average time without supply per customer per annum)	minutes	102.0	90.0	85.9	103.2	90.2
Total revenue (1)	\$000	71,267	70,840	64,080	62,335	58,002
Trading profit before tax (before subvention payments)	\$000	22,511	20,931	19,668	17,907	14,040
EBIT/average funds employed		8.9%	8.7%	8.9%	9.5%	9.49%
Tax – current year provision		4,455	3,308	8,465	8,556	6,922
– prior year over-provision		0	(9,491)	0	0	0
Net profit for the year (before subvention payments)	\$000	17,568	26,200	10,852	8,893	6,739
Net profit for the year (after subvention payments) (2)	\$000	16,576	25,147	10,140	7,963	5,971
Cashflow from operating activities	\$000	28,806	26,783	23,816	22,826	24,582
Special dividends	\$000	0	0	8,000	0	0
Ordinary dividends	\$000	7,977	6,440	5,863	7,006	7,196
Total dividends	\$000	7,977	6,440	13,863	7,006	7,196
Equivalent dividends (4) (actual dividends plus after tax value of subvention payments)	\$000	8,969	7,493	14,575	7,936	7,964
Shareholder's equity	\$000	172,086	156,977	165,576	122,414	121,457
Total assets (3)	\$000	329,195	319,984	314,076	263,650	255,604
Return on average equity		10.07%	15.59%	7.04%	6.5%	4.8%
Equity to total assets		52%	49%	53%	46%	48%

Notes:

- (1) Prior to 2006, Loss Rental Rebate income and expense were netted off. From 2006 the gross amount has been accounted for as both income and expense.
- (2) 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 has the effect of reducing the net profit for the year.
- (3) On 30 April 2005, Aurora Energy Limited revalued its network assets up by \$46.885 million.
- (4) 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.
- (5) 2003, 2004, 2005 financial amounts and ratios derived under previous NZ GAAP.

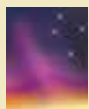
Statement of Service Performance



SPECIFIC OBJECTIVES

OUTCOMES

1 To review the Statement of Intent and Strategic Plan for consistency with the objectives of Dunedin City Council.	Achieved. The Statement of Intent and Strategic Plan were reviewed and confirmed as being consistent 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.	Achieved. The operating activities are in accordance with the goals and objectives stated in the Statement of Intent and Strategic Plan.	
3 To report all matters of substance to the shareholder.	Achieved. Matters of substance were reported to the shareholder within the required timeframe.	
4 To achieve all financial projections.	Achieved	Target
	\$000	\$000
EBITDA	37,807	36,524
Net surplus after income tax	16,576	13,395
Shareholder's funds	172,086	141,194
Equivalent dividends	8,969	8,500
Shareholder's funds to total assets	52%	45%
5 To obtain ownership or management of an additional group of utility assets.	Not achieved. The company will continue to pursue opportunities if and when they arise. No such opportunities have been identified during this financial year.	
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.	Achieved	Target
	\$000	\$000
	9,852	9,516
7 To ensure that the reporting requirements of the company and shareholder are met.	Achieved. Company reporting was undertaken within the timeframes as stated in the Statement of Intent.	
8 To maximise the utilisation of electricity distribution assets while ensuring that reliability meets the needs of users.	Achieved. The distribution assets are constantly monitored to ensure that maximum utilisation is achieved within the bounds of safety and reliability.	
9 No transgression of the environmental and resource law occurs.	Achieved. No notification of any breaches of any resource laws has been received.	
10 To undertake appropriate undergrounding of overhead lines.	Achieved. Undergrounding projects were undertaken in the city of Dunedin and townships of Cromwell and Wanaka.	
11 To undertake a review of activities for the purposes of being a good corporate citizen.	Achieved. The company continually reviews its activities which include sponsoring cultural and education events and the under-grounding of overhead lines for environmental purposes.	



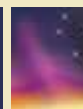
Income Statement

For the Year Ended 30 June

	Note	2007 \$000	2006 \$000
Operating revenue	3	71,116	70,787
Financial revenue	4	151	53
Total revenue		<u>71,267</u>	<u>70,840</u>
Less expenses			
Operating expense	5	42,147	43,133
Financial expenses	6	6,609	6,776
Total expenditure		<u>48,756</u>	<u>49,909</u>
Profit before tax and subvention		<u>22,511</u>	<u>20,931</u>
Subvention payment provided		1,480	1,572
Profit before tax		<u>21,031</u>	<u>19,359</u>
Income tax expense	9	4,455	(5,788)
Net profit/(loss) for the year		<u>16,576</u>	<u>25,147</u>
Earnings per share dollars	7	1.66	2.51

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

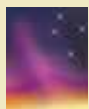
Statement of Changes in Equity



For the Year Ended 30 June

	Note	2007 \$000	2006 \$000
Equity at beginning of year		156,977	137,438
Recognised income and expense			
Gain/(loss) of cash flow hedges taken to equity		1,295	832
Gain/(loss) of cash flow hedges terminated		85	0
Net income recognised directly in equity		1,380	832
Transfers:			
Transfer to profit/(loss) from equity on cash flow hedges		0	0
Net profit/(loss) for the year		16,576	25,147
Total recognised income and (expense) for the year		17,956	25,979
Deferred taxation adjustment arising from changes in taxation rate	12	5,130	0
Less distribution to owners	8	7,977	6,440
Equity at the end of the year		172,086	156,977

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



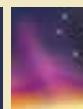
Balance Sheet

As at 30 June

	Note	2007 \$000	2006 \$000
Equity			
Share capital	10	10,000	10,000
Cash flow hedge reserve	11	1,591	211
Retained earnings	12	160,495	146,766
Total equity		172,086	156,977
Current liabilities			
Trade and other payables	13	9,784	11,826
Other current liabilities	15	248	347
Taxation payable		1,412	206
Total current liabilities		11,444	12,379
Non-current liabilities			
Term borrowings	16	93,680	94,900
Deferred tax liability	17	51,985	55,728
Total non-current liabilities		145,665	150,628
Total liabilities		157,109	163,007
TOTAL EQUITY AND LIABILITIES		329,195	319,984

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

Balance Sheet



As at 30 June - continued

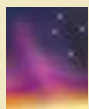
	Note	2007 \$000	2006 \$000
Current assets			
Cash and cash equivalents	20	40	84
Trade and other receivables	21	8,258	8,328
Short term investments	22	55	55
Cash flow hedge instruments	14	2,151	314
Inventories	23	11	11
Total current assets		10,515	8,792
Non-current assets			
Investments	22	11	9
Property, plant and equipment	24	318,669	311,183
Total non-current assets		318,680	311,192
TOTAL ASSETS		329,195	319,984

For and on behalf of the Board of Directors

R D Liddell
DEPUTY CHAIR
29 August 2007

Dr N G Evans
DIRECTOR

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



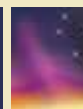
Statement of Cash Flows

For the Year Ended 30 June

	Note	2007 \$000	2006 \$000
Cash flows from operating activities			
<i>Cash was provided from</i>			
Receipts from customers		71,120	70,442
Interest received		151	53
		<hr/> 71,271	<hr/> 70,495
<i>Cash was disbursed to</i>			
Payments to suppliers		32,854	33,712
Interest paid		6,968	6,825
Income tax paid		2,491	3,246
Net GST Paid		152	(71)
		<hr/> 42,465	<hr/> 43,712
Net cash inflows/(outflows) from operating activities	25	<hr/> 28,806	<hr/> 26,783
Cash flows from investing activities			
<i>Cash was provided from</i>			
Receipts from cash flow hedges		193	0
		<hr/> 193	<hr/> 0
<i>Cash was disbursed to</i>			
Purchase of property, plant and equipment		19,844	15,265
Purchase of investments		2	0
		<hr/> 19,846	<hr/> 15,265
Net cash inflows/(outflows) from investing activities		<hr/> (19,653)	<hr/> (15,265)

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

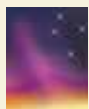
Statement of Cash Flows



For the Year Ended 30 June - continued

	Note	2007 \$000	2006 \$000
Cashflows from financing activities			
<i>Cash was provided from:</i>			
Proceeds from borrowings		23,480	21,005
		<u>23,480</u>	<u>21,005</u>
<i>Cash was disbursed to</i>			
Repayment of borrowings		24,700	26,105
Dividends paid		7,977	6,440
		<u>32,677</u>	<u>32,545</u>
Net cash inflows/(outflows) from financing activities		<u>(9,197)</u>	<u>(11,540)</u>
Net increase/(decrease) in cash, cash equivalents and bank overdraft		<u>(44)</u>	<u>(22)</u>
Cash and cash equivalents at the beginning of the year		84	106
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u><u>40</u></u>	<u><u>84</u></u>
Composition of cash			
Cash and cash equivalents		40	84
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u><u>40</u></u>	<u><u>84</u></u>

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



Notes to the Financial Statement

For the Year Ended 30 June 2007

1 REPORTING ENTITY

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

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*.

These financial statements are presented in New Zealand dollars, and have been rounded to the nearest thousand.

2 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These annual financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand Equivalents to IFRS, and other applicable Financial Reporting Standards, as appropriate for profit orientated entities.

These annual financial statements have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) for the first time with 1 July 2005 as the date of transition. The disclosures required by NZ IFRS 1 concerning the transition from NZ GAAP to NZ IFRS are given in note 26. This note includes reconciliations of equity and profit for comparative periods reports under previous NZ GAAP to those reported for those periods under NZ IFRS.

The company has elected not to adopt the following standards which have been issued but are not yet effective:

NZ IFRS 7	Financial Instruments: Disclosures
NZ IFRS 8	Operating Segments

Application of these standards is not expected to have a material impact on the financial account balances of the company, but will require additional financial statement disclosures.

The financial statements were authorised for issue by the directors on 26 September 2007.

Basis of accounting

The financial statements have been prepared on the historic cost basis, except for the revaluation of financial instruments including derivatives.

The accounting policies set out below have been applied consistently to all periods in these financial statements and in preparing an opening NZ IFRS balance sheet at 1 July 2005 for the purposes of the transition to NZ IFRS.

Revenue recognition

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

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

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

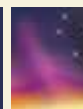
Leasing

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

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

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

Notes to the Financial Statements



Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare them for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Goods and Services Tax (GST)

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

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

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

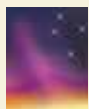
All property, plant and equipment are stated at cost less any subsequent accumulated depreciation and any accumulated impairment losses.

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

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

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

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



Notes to the Financial Statements

Depreciation rates and methods used are as follows:

Property, plant and equipment – continued

	<i>Rate</i>	<i>Method</i>
Buildings	1% to 5%	Straight line
Metering equipment	5% to 20%	Straight line
Electricity network assets	1 % to 20%	Straight line
Plant and equipment	5% to 50%	Straight line
Motor vehicles	5% to 25%	Straight line
Office equipment and fittings	5% to 25%	Straight line
Capital work in progress	no depreciation charged	

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

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

At transition date, the carrying value of the network assets of Aurora Energy Limited were transferred at deemed cost in accordance with NZ IFRS. Amounts in the revaluation reserves of the company were transferred to retained earnings in accordance with the provisions of NZ IFRS 1.17.

Impairment of assets excluding goodwill

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

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

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount.

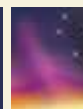
An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent of any previous revaluation increase for that asset or cash generating unit that remains in the revaluation reserve. Any additional impairment is immediately transferred to the income statement.

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

Inventories

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

Notes to the Financial Statements



Cash and cash equivalents

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

Financial Instruments

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

Trade and other receivables

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

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs and are assessed annually for impairment.

Any resultant losses are recognised in the income statement for the period in which they occur.

Trade and other payables

Trade and other payables are stated at cost.

Borrowings

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

Cash flow hedge instruments and hedge accounting

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

The company does not use cash flow hedge instruments for speculative purposes. Any cash flow hedge instruments that do not qualify for hedge accounting, under the specific NZ IFRS rules, are accounted for as trading instruments.

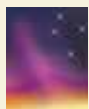
The use of cash flow hedge instruments is governed by policy approved by the board of directors.

Cash flow hedge instruments are recognised at fair value on the date the hedge is entered into and are subsequently re-measured to their fair value.

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

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs.



Notes to the Financial Statements

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

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

Provisions

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

Provisions for restructuring costs are recognised when the company has a detailed formal plan for the restructuring that has been communicated to affected parties.

For the Year Ended 30 June

	2006 \$000	2005 \$000
3 OPERATING REVENUE		
Sales revenue	69,758	67,954
AC loss rental rebate	1,358	2,833
	<u>71,116</u>	<u>70,787</u>
4 FINANCIAL INCOME		
Interest on cash held	<u>151</u>	<u>53</u>
5 OTHER EXPENSES		
Included in the operating expenses of the company are the following items:		
Audit fees		
– for audit of financial statements	33	25
– for audit services in relation to regulatory (information disclosure) reporting	5	5
Total audit fees	<u>38</u>	<u>30</u>
Transmission costs	17,803	19,887
Depreciation	10,167	9,906
Maintenance costs	7,861	7,651
Directors' fees	139	119
Bad debts written off	36	0
Rental expense on operating leases	28	28
Increase/(decrease) in provision for doubtful debts	(8)	0
6 FINANCIAL EXPENSES		
Interest – related parties	6,509	6,776
Interest – term loans	100	0
Total financial expenses	<u>6,609</u>	<u>6,776</u>

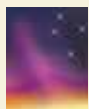
Notes to the Financial Statements



For the Year Ended 30 June

		2007 \$000	2006 \$000
7	EARNINGS PER SHARE		
	Basic earnings per share is calculated by dividing the net profit/(loss) attributable to the shareholder of the company by the weighted average number of ordinary shares on issue during the year.		
	Number of shares	10,000,000	10,000,000
	Weighted average number of ordinary shares		
	Basic earnings per share in dollars	1.66	2.51
8	DIVIDENDS		
	Interim dividend December \$0.250/share	2,500	2,750
	Interim dividend May \$0.250/share	2,500	2,000
	Final dividend June \$0.297/share	2,977	1,690
		<u>7,977</u>	<u>6,440</u>
9	INCOME TAX		
	Operating profit before income tax	21,031	19,359
	Tax thereon at 33%	<u>6,940</u>	<u>6,388</u>
	<i>Plus/(Less) the tax effect of differences</i>		
	Revenue not liable for taxation	(2,547)	(2,718)
	Expenditure not deductible for taxation	223	33
	Under/(over) tax provision in prior years	(161)	(9,491)
	Tax effect of differences	<u>(2,485)</u>	<u>(12,176)</u>
	Tax expense	<u>4,455</u>	<u>(5,788)</u>
	Effective tax rate		
	<i>Represented by</i>		
	Current tax provision	3,812	3,308
	Deferred tax provision	804	(9,096)
	Under/(over) tax provision in prior years	(161)	0
	Income tax	<u>4,455</u>	<u>(5,788)</u>
	Imputation credit account		
	Balance at the beginning of the year	(3,026)	(3,251)
	Tax refunds	(550)	0
	Taxation payments made	2,400	2,480
	Credits attached to dividends paid	(2,692)	(2,255)
	Balance at the end of the year	<u>(3,868)</u>	<u>(3,026)</u>

Aurora Energy Limited is a part of the Aurora Energy tax group. At 31 March imputation credits of this tax group are positive.



Notes to the Financial Statements

For the Year Ended 30 June

	2007 \$000	2006 \$000
10 EQUITY – Share Capital		
Issued Capital		
10,000,000 ordinary shares	10,000	10,000
11 CASH FLOW HEDGE RESERVE		
Balance at the beginning of the year	211	(622)
Net revaluations	1,837	1,243
Cash flow hedge closed out	126	0
Deferred tax arising on hedges (note 17)	(583)	(410)
Balance at the end of the year	1,591	211
The cash flow hedge reserve comprises the cumulative net change in the fair value of effective cash flow hedging instruments relating to interest payments that have not yet occurred and the value received from cash flow hedge instruments that have been closed out and which relate to future periods.		
12 RETAINED EARNINGS		
Balance at the beginning of the year	146,766	128,060
Net profit for the year	16,576	25,147
Dividend distributions	(7,977)	(6,440)
Deferred taxation adjustment arising from changes in taxation rate (1)	5,130	0
Balance at the end of the year	160,495	146,766
13 TRADE AND OTHER PAYABLES		
Trade payables	3,450	2,145
Due to related parties – other	4,854	8,059
– Dunedin City Holdings Limited	1,480	1,622
	9,784	11,826
The directors consider that the carrying amount of trade payables approximates their fair value.		
14 CASH FLOW HEDGE INSTRUMENTS		
Interest rate swaps	2,151	314
	2,151	314
15 OTHER LIABILITIES		
GST payable	248	347

- (1) On transition to IFRS, substantial increases in deferred taxation arose and were provided from equity. The government has announced an intention to reduce future corporate tax notes. The consequent reduction in future tax liability provided for in the deferred taxation provision has been credited to equity.

Notes to the Financial Statements



For the Year Ended 30 June

	2007 \$000	2006 \$000
16 TERM BORROWINGS (secured)		
Dunedin City Treasury Limited	93,680	94,900

The term borrowings are secured by a General Security Agreement over all the assets of the company. Currently the company has a facility available of \$100,000,000.

The repayment period on the term borrowings is as follows:

Repayable between one to two years	0	0
Repayable between two to five years	0	0
Repayable later than five years	93,680	94,900
	<u>93,680</u>	<u>94,900</u>

The weighted average interest rate for the loan inclusive of any current portion was 7.66% (2006: 7.52%).

17 DEFERRED TAX 2007 \$000

	Opening Balance Sheet	Charged to Equity	Charged to Income	Closing Balance Sheet Assets	Closing Balance Sheet Liabilities	Closing Balance Sheet Net
Property, plant and equipment	(55,624)	(5,130)	(804)	0	51,298	(51,298)
Revaluations of interest rate swaps	(104)	(542)	0	0	646	(646)
Close out of interest rate swaps	0	(41)	0	0	41	(41)
Balance at end of the year	<u>(55,728)</u>	<u>(4,547)</u>	<u>(804)</u>	<u>0</u>	<u>51,985</u>	<u>(51,985)</u>

2006, \$000

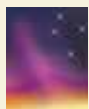
Property, plant and equipment	(55,255)	0	(369)	0	55,624	(55,624)
Revaluations of interest rate swaps	306	(410)	0	0	104	(104)
Close out of interest rate swaps	0	0	0	0	0	0
Other	(9,464)	0	9,464	0	0	0
Balance at end of the year	<u>(64,413)</u>	<u>(410)</u>	<u>9,095</u>	<u>0</u>	<u>55,728</u>	<u>(55,728)</u>

	2007 \$000	2006 \$000
18 CAPITAL EXPENDITURE COMMITMENTS		
Capital expenditure contracted for at balance date but not provided for in the financial statements	5,683	6,598

19 LEASE COMMITMENTS

Non-cancellable operating lease commitments

Payable within one year	26	24
Payable between one to five years	85	94
Payable later than five years	19	18
	<u>130</u>	<u>136</u>



Notes to the Financial Statements

For the Year Ended 30 June

	2007 \$000	2006 \$000
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20 CASH AND CASH EQUIVALENTS

Cash and bank

40	84
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Cash and short-term deposits comprise cash held by the company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Short-term deposits are made at call deposit rates.

21 TRADE AND OTHER RECEIVABLES

Trade receivables

8,255 8,048

Less estimated doubtful debts

(15) (30)

8,240 8,018

Due from related parties

other related parties

18 310

8,258 8,328

The directors consider that the carrying amount of the trade and other receivables approximates their fair value.

22 INVESTMENTS

Short-term Investment in Otago Power Limited

55 55

Investments – listed companies

11 9

66 64

Short-term investment

During the 2002 year, the company purchased 5,632,567 shares in Otago Power Limited, as part of an unsuccessful take-over bid. Otago Power is being liquidated, with the liquidation proceeds being returned to shareholders. The investment is included in the company's accounts at its estimated net liquidation value of approximately 1 cent per share. Final proceeds are expected to be received by the end of December 2007.

Investments – listed companies

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

23 INVENTORIES

Network spare parts

11	11
11	11

Notes to the Financial Statements



For the Year Ended 30 June

24 PROPERTY, PLANT AND EQUIPMENT

2007, \$000, Cost	Land	Buildings	Network	Plant Equipment	Sub-total
Balance at beginning of year	2,918	10,211	302,962	1,926	318,017
Purchases	0	8	17,533	106	17,647
Disposal	0	0	0	0	0
Transfer	0	0	628	0	628
Balance at end of period	2,918	10,219	321,123	2,032	336,292

Accumulated depreciation

Balance at beginning of year	0	531	12,604	204	13,339
Depreciation	0	103	9,863	196	10,162
Disposal	0	0	0	0	0
Transfer	0	0	0	0	0
Balance at end of year	0	634	22,467	400	23,501

Carrying amounts

2,918	9,585	298,656	1,632	312,791
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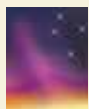
2007, \$000, Cost	Sub-total	Motor Vehicles	Office Equipment	Construction in Progress	Total
Balance at beginning of year	318,017	42	6	6,461	324,526
Purchases	17,647	0	7	0	17,654
Disposal	0	0	0	0	0
Transfer	628	0	0	(628)	0
Balance at end of year	336,292	42	13	5,833	342,180

Accumulated depreciation

Balance at beginning of year	13,339	3	2	0	13,344
Depreciation	10,162	3	2	0	10,167
Disposal	0	0	0	0	0
Other	0	0	0	0	0
Balance at end of year	23,501	6	4	0	23,511

Carrying amounts

312,791	36	9	5,833	318,669
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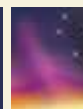
Notes to the Financial Statements

24 PROPERTY, PLANT AND EQUIPMENT – continued

2006, \$000, Cost	Land	Buildings	Network	Plant Equipment	Sub-total
Cost					
Balance at beginning of period	2,918	10,211	287,606	1,914	302,649
Purchases	0	0	14,904	184	15,088
Disposal	0	0	0	(172)	(172)
Transfers	0	0	452	0	452
Balance at end of period	2,918	10,211	302,962	1,926	318,017
Accumulated depreciation					
Balance at beginning of period	0	428	3,148	32	3,608
Depreciation	0	103	9,456	344	9,903
Disposal	0	0	0	(172)	(172)
Transfers	0	0	0	0	0
Balance at end of period	0	531	12,604	204	13,339
Carrying amounts	2,918	9,680	290,358	1,722	304,617
2006, \$000, Cost	Sub-total	Motor Vehicles	Office Equipment	Construction in Progress	Total
Balance at beginning of period	302,649	6	6	6,914	309,575
Purchases	15,088	36	0	0	15,124
Disposal	(172)	0	0	0	(172)
Transfers	452	0	0	(452)	0
Balance at end of period	318,017	42	6	6,462	324,527
Accumulated depreciation					
Balance at beginning of period	3,594	0	2	0	3,610
Depreciation	9,901	3	0	0	9,906
Disposal	(157)	0	0	0	(172)
Transfers	0	0	0	0	0
Balance at end of period	13,338	3	2	0	13,344
Carrying amounts	304,617	39	4	6,462	311,183

The directors assess the fair value of land and buildings as the carrying value shown above.

Notes to the Financial Statements



For the Year Ended 30 June

	2007 \$000	2006 \$000
25 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/(loss) for the year	16,576	25,147
<i>Items not involving cash flows</i>		
Depreciation	10,167	9,906
Deferred taxation adjustment arising from changes in taxation rate	5,130	0
Increase/(Decrease) in deferred tax	(3,743)	(8,685)
Net of tax movement of cash flow hedge instruments	1,380	832
(Increase)/Decrease in cash flow hedge instrument valuation	(1,837)	(1,243)
<i>Impact of changes in working capital items</i>		
(Increase)/Decrease in trade and other receivables	70	(388)
(Increase)/Decrease in investments	(2)	0
(Increase)/Decrease in inventories	0	(11)
Increase/(Decrease) in trade and other payables	(2,042)	1,274
Increase/(Decrease) in provision for tax	1,206	62
Increase/(Decrease) in other current liabilities	(99)	(253)
<i>Items classified as investing or financing activities</i>		
Capital creditors in accounts payable	2,193	142
Gain on sale of cash flow hedge instruments	(193)	0
Loss/(Gain) on disposal of property, plant and equipment	0	0
Net cash inflows/(outflows) from operating activities	28,806	26,783

26 EXPLANATION OF TRANSITION TO NZ IFRS

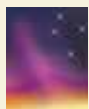
Reconciliation of equity

The adoption of these new and revised standards has resulted in changes to the company's accounting policies. The amounts reported for the current and prior periods have been affected in the following areas:

First time adoption NZIAS 1

Deferred tax NZIAS 12

Financial instruments NZIAS 32 and NZIAS 39.



Notes to the Financial Statements

26 EXPLANATION OF TRANSITION TO NZ IFRS – continued

The impact of these changes is described below:

\$000

	Note	Previous GAAP 01/07/05	Effect of Transition to NZ IFRS 01/07/05	NZ IFRS 1/07/05	Previous GAAP 30/06/06	Effect of Transition to NZ IFRS 30/06/06	NZIFRS 30/06/06
Capital and reserves							
Share capital		10,000	0	10,000	10,000	0	10,000
Asset revaluation reserve	(a)	157,032	(157,032)	0	157,032	(157,032)	0
Cash flow hedge reserve	(b)	0	(622)	(622)	0	211	211
Retained earnings	(d)	(1,456)	129,516	128,060	13,992	132,774	146,766
Total equity		165,576	(23,138)	137,438	181,024	(24,047)	156,977
Current liabilities							
Accounts payable		10,552	0	10,552	11,826	0	11,826
Other liabilities		600	0	600	347	0	347
Cash flow hedge instruments	(b)	0	929	929	0	0	0
Taxation payable		144	0	144	206	0	206
Total current liabilities		11,296	929	12,225	12,379	0	12,379
Non-current liabilities							
Deferred tax	(c)	37,204	27,209	64,413	31,367	24,361	55,728
Term liabilities		100,000	0	100,000	94,900	0	94,900
Total non-current liabilities		137,204	27,209	164,413	126,267	24,361	150,628
Total equity plus liabilities		314,076	0	314,076	319,670	314	319,984
Current assets							
Cash		106	0	106	84	0	84
Accounts receivable		7,940	0	7,940	8,328	0	8,328
Inventories		0	0	0	11	0	11
Investments		55	0	55	55	0	55
Cash flow hedge	(b)	0	0	0	0	314	314
Tax refund		0	0	0	0	0	0
Total current assets		8,101	0	8,101	8,478	314	8,792
Non-current assets							
Investments		9	0	9	9	0	9
Fixed assets		305,966	0	305,966	311,183	0	311,183
Total non-current assets		305,975	0	305,975	311,192	0	311,192
Total assets		314,076	0	314,076	319,670	314	319,984

Notes to the Financial Statements



26 EXPLANATION OF TRANSITION TO NZ IFRS – continued

Explanation of the differences between previous NZGAAP and NZIFRS:

(a) Asset revaluation reserve

Revaluation reserves resulting from revaluation of property plant and equipment in years prior to 30 June 2005 were added to retained earnings in accordance with the deemed cost provisions of NZ IFRS 1.17. The effect of this is to reduce revaluation reserves and increase retained earnings by \$157.032 million at 30 June 2006.

(b) Cash flow hedge reserve

The company has executed interest rate swap agreements with several different banks to manage its exposure to changes in interest rates over time. Some of the agreements within the portfolio at any one time may have a positive value and others a negative value. The agreements have been undertaken with different banks and a positive value may not offset a negative in the balance sheet. A value for cash flow hedge instruments may therefore appear in both current assets and current liabilities.

The fair value of the cash flow hedge instruments of Aurora at 30 June 2006 was \$314,000 giving rise to a deferred taxation liability of \$103,000 and a cash flow hedge reserve of \$211,000 in equity.

(c) Deferred tax

Deferred tax is recognised on all temporary differences between accounting book values and tax values for each asset and liability (the balance sheet approach).

The calculation of deferred taxation liability on these differences as required by NZ IAS 12, gave rise to an increase of \$24.258 million in the deferred taxation provision at 30 June 2006. The transition provisions of NZ IFRS 1 provide for this amount to be debited to retained earnings.

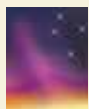
The future tax effect of movements in the fair value of cash flow hedge instruments is held in the provision for deferred tax. At 30 June 2006, \$104,000 was provided.

(d) Retained earnings

On transition to NZ IFRS, the change in deferred tax calculation and the deferred tax on the hedging instruments were reflected in retained earnings.

2006, \$000

	Note	Previous GAAP	Effect of Transition to IFRS	IFRS
Revenue		70,787	0	70,787
Financial income		53	0	53
		<u>70,840</u>	<u>0</u>	<u>70,840</u>
Audit fees		24	0	24
Contractors		11,368	0	11,368
Depreciation		9,906	0	9,906
Directors' fees		119	0	119
Financial expenses		6,776	0	6,776
Raw materials and consumables used		19,887	0	19,887
Other expenses		3,401	0	3,401
Net profit/(loss) for the year before tax		<u>19,359</u>	<u>0</u>	<u>19,359</u>
Income tax expense		2,529	3,259	5,788
Net profit/(loss) for the year after tax		<u>21,888</u>	<u>3,259</u>	<u>25,147</u>
Earnings: cents per share		2.19		2.51



Notes to the Financial Statements

For the Year Ended 30 June

2007	2006
\$000	\$000

27 RELATED PARTY TRANSACTIONS

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

Transactions with Dunedin City Council

Aurora Energy Limited undertakes transactions with Dunedin City Council and other Dunedin City Council controlled entities. These transactions are made on commercial terms and conditions at market rates.

During the period, the company provided services and traded with Dunedin City Council group in respect of the following transactions:

Purchases of goods and services from Dunedin City Holdings Limited:

Subvention payments made	1,480	1,572
Management fees	200	200
	<u>1,680</u>	<u>1,772</u>

Purchases of goods and services from Dunedin City Council:

Rates and property leases	353	343
Interest/facility fees	1	1
	<u>354</u>	<u>344</u>

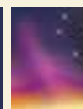
Purchases of goods and services from other Dunedin City Council group entities:

Capital work	13,553	13,172
Network management and operation	10,956	10,817
Interest/facility fees	6,509	6,804
Subvention/tax loss offset payments	561	766
Contracting	803	301
Management fees	60	60
Accounting, administration and secretarial	165	140
Sundry and consulting	58	98
Lease of meters	45	45
	<u>32,710</u>	<u>32,203</u>

At period end the amounts payable by Aurora to group entities is:

Dunedin City Holdings Limited	1,480	1,622
Other Dunedin City Council Group entities	98,534	102,959
	<u>100,014</u>	<u>104,581</u>

Notes to the Financial Statements



For the Year Ended 30 June

	2007 \$000	2006 \$000
27 RELATED PARTY TRANSACTIONS – continued		
Sales of services to Dunedin City Council:		
Headworks fees	48	0
Other	1	0
	<u>49</u>	<u>0</u>
Sales of services to Dunedin City Council group entities:		
Interest	31	0
Distribution of electricity	77	73
Shut-down charges	66	66
Rent	46	79
Service failure penalties	12	20
Other	0	6
	<u>232</u>	<u>244</u>

At period end the amounts receivable by Aurora Energy Limited from Dunedin City Council group entities is:

Other Dunedin City Council group entities:	<u>2,169</u>	<u>929</u>
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No related party debts have been written off or forgiven during the year and no provision has been required for impairment of any receivables to related parties.

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

Transactions with companies in which directors have an interest:

Mr M O Coburn is a director of Jack's Point Limited. Aurora Energy Limited is a party to an agreement with Jack's Point Limited for the provision of electricity reticulation services to the Jack's Point development. In the ordinary course of business during the financial period covered by this report, services valued at \$9,988 were provided to Jack's Point Limited (2006: \$227,355). \$2,424 was owing to Aurora at the end of the year (2006: \$145,757).

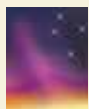
Mr Coburn is also a director of Lake Hayes Estate Limited. In the ordinary course of business during the period covered by this report, services valued at \$56,966 were provided by Lake Hayes Estate Limited (2006: \$99,468). No monies were outstanding at the end of the year (2006: \$111,902).

28 SEGMENT REPORTING

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

29 EVENTS AFTER BALANCE SHEET DATE

There were no significant events after balance date.



Notes to the Financial Statements

30 DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate risk

The company uses interest rate swap agreements to manage its exposure to interest rate movements on its borrowings to swap a proportion of those borrowings from floating rates to fixed rates. The treasury policy requires that the amount of the interest hedged should be limited to a series of ranges within set debt time periods.

The interest rate agreements are held with independent and high credit quality financial institutions in accordance with company credit policy. The credit risk is limited because the counterparties are banks with high quality credit ratings assigned by international credit rating agencies. The carrying amount of financial assets recorded in the financial statements represents the company's maximum exposure to credit risk.

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

	2007	2006
	\$000	\$000
Maturing in less than one year	0	0
Maturing between one and five years	30,000	70,000
Maturing after five years	10,000	40,000
	<u>40,000</u>	<u>110,000</u>

Credit risk

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

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

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

The following table details the exposure to interest risk as at 30 June 2007:

\$000	Weighted Average Effective Interest Rate	Variable Interest Rate	Maturity Dates Less than 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	More than 5 Years	Non Interest Bearing	Total
Financial assets										
Cash and cash equivalents		40	0	0	0	0	0	0	0	40
Trade and other receivables		0	0	0	0	0	0	0	8,258	8,258
Cash flow hedge instruments		0	0	0	0	0	0	0	2,151	2,151
Investments		0	0	0	0	0	0	0	66	66
		<u>40</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,475</u>	<u>10,515</u>
Financial liabilities										
Trade and other payables		0	0	0	0	0	0	0	9,784	9,784
Advances from Dunedin										
City Treasury Limited	7.66%	0	0	0	0	0	0	93,680	0	93,680
		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>93,680</u>	<u>9,784</u>	<u>103,464</u>

Notes to the Financial Statements



30 DERIVATIVE FINANCIAL INSTRUMENTS – continued

The following table details the exposure to interest risk as at 30 June 2006:

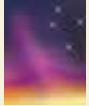
\$000	Weighted Average Effective Interest Rate	Variable Interest Rate	Maturity Dates Less than 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	More than 5 Years	Non Interest Bearing	Total
Financial assets										
Cash and cash equivalents		84	0	0	0	0	0	0	0	84
Trade and other receivables		0	0	0	0	0	0	0	8,328	8,328
Cash flow hedge instruments		0	0	0	0	0	0	0	314	314
Investments		0	0	0	0	0	0	0	64	64
		<u>84</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,706</u>	<u>8,790</u>
Financial liabilities										
Trade and other payables		0	0	0	0	0	0	0	11,826	11,826
Advances from Dunedin										
City Treasury Limited	7.52%	0	0	0	0	0	0	94,900	0	94,900
		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>94,900</u>	<u>11,826</u>	<u>106,726</u>

Liquidity risk

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

The following table details the exposure to liquidity risk as at 30 June 2007:

\$000	Maturity Dates				More than 5 Years	No Maturity	Total
	Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years			
Financial assets							
Cash and cash equivalents	40	0	0	0	0	0	40
Trade and other receivables	8,258	0	0	0	0	0	8,258
Short term investments	0	0	0	0	0	55	55
Cash flow hedge instruments	0	0	2,151	0	0	0	2,151
Long term investments	0	0	0	0	0	11	11
	<u>8,298</u>	<u>0</u>	<u>2,151</u>	<u>0</u>	<u>0</u>	<u>66</u>	<u>10,515</u>
Financial liabilities							
Trade and other payables	9,784	0	0	0	0	0	9,784
Other current liabilities	248	0	0	0	0	0	248
Taxation payable	0	0	1,412	0	0	0	1,412
Term borrowings	0	0	0	0	93,680	0	93,680
	<u>10,032</u>	<u>0</u>	<u>1,412</u>	<u>0</u>	<u>93,680</u>	<u>0</u>	<u>105,124</u>
	<u>(1,734)</u>	<u>0</u>	<u>739</u>	<u>0</u>	<u>(93,680)</u>	<u>66</u>	<u>(94,609)</u>



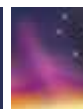
Notes to the Financial Statements

30 DERIVATIVE FINANCIAL INSTRUMENTS – continued

The following table details the exposure to liquidity risk as at 30 June 2006:

\$000	Maturity Dates Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More than 5 Years	No Maturity	Total
Financial assets							
Cash and cash equivalents	84	0	0	0	0	0	84
Trade and other receivables	8,328	0	0	0	0	0	8,328
Short term investments	0	0	0	0	0	55	55
Cash flow hedge instruments	0	0	314	0	0	0	314
Long term investments	0	0	0	0	0	9	9
	8,412	0	314	0	0	64	8,790
Financial liabilities							
Trade and other payables	11,826	0	0	0	0	0	11,826
Other current liabilities	347	0	0	0	0	0	347
Taxation payable	0	0	206	0	0	0	206
Term borrowings	0	0	0	0	94,900	0	94,900
	12,173	0	206	0	94,900	0	107,279
	(3,761)	0	108	0	(94,900)	64	(98,489)

Information on the Directors



Name and qualifications

Position held and date appointed

Declaration of interests

Raymond S Polson *BCom, CA(PP), A.F.Inst.D*

Non-executive Chairman, October 1994

Chair DELTA Utility Services Limited
 Chair Incompass Limited
 Chair Fulcrum Partners Limited
 Chair GeoGroup Limited
 Chair New Zealand Land Search and Rescue Inc
 Chair Ophir Gold Limited
 Chair Target Pest Contracting Limited
 Chair Target Pest Enterprises Limited
 Chair The Shore Management Limited
 Chair Wensley Developments Limited
 Chair Wensley Developments (The Glebe) Limited
 Chair Wensley Developments (The Beacon) Limited
 Chair Wensley Developments (The Shore) Limited
 Chair Wensley Developments (The Club) Limited
 Chair Wensley Developments (The Marina) Limited
 Director Newtons Coachways (1993) Limited
 Director Selwyn Plantation Board Limited
 Chair Polson Higgs (resigned April 2007)
 Director Southern Capital Limited (resigned April 2007)

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

Non-executive Deputy Chairman, October 1994

Chair Browns Barkly Limited
 Chair City Forests Limited
 Chair Dunedin City Treasury Limited
 Chair James Maurice Properties Limited
 Chair Palmer & Son Limited
 Chair Palmer MH Limited
 Chair Palmers Mechanical Limited
 Chair Viblock Limited
 Deputy Chair
 DELTA Utility Services Limited
 Director A B Lime Limited
 Director Blackhead Quarries Limited
 Director Citibus Limited
 Director Dunedin City Holdings Limited
 Director Fulcrum Partners Limited
 Director Newtons Coachways (1993) Limited
 Director Victory Lime 2000 Limited

Michael O Coburn *FNZIM, A.F.Inst.D*

Non-executive Director, October 2003

Chair Clearwater Land Holdings Limited
 Director Arith Holdings Limited
 Director Arthur Barnett Limited
 Director Citibus Limited
 Director City Forests Limited
 Director DELTA Utility Services Limited
 Director Dunedin City Holdings Limited
 Director Lake Hayes Estate Limited
 Director New Zealand Land Trust Limited
 Executive Director, Jacks Point Limited
 Director Southern Capital Limited (resigned April 2007)

Norman G Evans *DBA, NZCE, M.Inst.D*

Non-executive Director, July 2005

Chair Enabling Pty Limited (Australia)
 Director Citibus Limited
 Director City Forests Limited
 Director DELTA Utility Services Limited
 Director Dunedin City Holdings Limited
 Director Enabling NZ Limited
 Director Newtons Coachways (1993) Limited
 Director The Street New Zealand Limited
 Director Upstart Angels Limited
 Director Vouchermate Limited

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

Non-executive Director, June 1990 - April 1994,
 May 2002- May 2007

Chair Port Otago Limited
 Chair Receivables Management Limited
 Deputy Chair
 Fisher & Paykel Appliances Holdings Limited
 Director Business in the Community Limited
 Director Business Mentors New Zealand
 Director Dublin Bay Investments Limited
 Director Fisher & Paykel Finance Limited
 Director K.M.K. Storage Limited
 Director Philip Laing House Limited
 Deputy Chair
 City Forests Limited (resigned May 2007)
 Director Citibus Limited (resigned May 2007)
 Director DELTA Utility Services Limited
 (resigned May 2007)
 Director Dunedin City Holdings Limited
 (resigned May 2007)



Paul R Hudson *JP, BCom, CA*

Non-executive Director, June 1990 - October 1992
November 1999

Chair Dunedin City Holdings Limited
Chair Citibus Limited
Chair Dunedin Council of Social Services
Director City Forests Limited
Director *DELTA* Utility Services Limited
Councillor, Dunedin City Council

Stuart J McLauchlan *A.F.Inst.D., BCom, CA(PP)*

Non-executive Director, June 2007
Chair Highlanders Rugby Trust
Chair NZ Sports Hall of Fame
Director AD Instruments Limited
Director Cargill Hotel 2002 Limited
Director Citibus Limited
Director City Forests Limited
Director *DELTA* Utility Services Limited
Director Dunedin Casinos Limited
Director Dunedin City Holdings Limited
Director Dunedin International Airport Limited
Director Otago & Southland Employers Association
Director Scenic Circle Hotels Limited
Councillor, University of Otago

COMPANY DIRECTORY

Directors

Raymond S Polson (Chair) *BCom, CA(PP), A.F.Inst.D.*
Ross D Liddell (Deputy Chair) *BCom, CA(PP), ACIS, F.Inst.D.*
Michael O Coburn *FNZIM, A.F.Inst.D.*
Norman G Evans *DBA, NZCE, M.Inst.D.*
John W Gilks *FCA, D.F.Inst.D.*
(resigned 31 May 2007)
Paul R Hudson *JP, BCom, CA*
Stuart J McLauchlan *A.F.Inst.D., BCom, CA(PP)*
(appointed 1 June 2007).

Company Secretary

Stephen M Wilson *CA*

Registered Office

10 Halsey Street, Dunedin, New Zealand

Banker

Westpac Banking Corporation

Solicitor

Galloway Cook Allan

Auditor

Audit New Zealand on behalf of The Controller
and Auditor-General

Taxation Advisor

Deloitte

**TO THE READERS OF
AURORA ENERGY LIMITED'S
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2007**

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 2007.

Qualified Opinion – Incorrect Treatment of Adjustment to Deferred Taxation.

The company has a deferred taxation liability arising from the revaluation of its network assets in previous years. The reduction in company income tax rates from 33% to 30%, with the effect from 1 April 2008, reduces the company's deferred taxation liability by \$5,130,000.

On transition to the New Zealand Equivalents to International Financial Reporting Standards, the company elected to use the fair value of its property, plant and equipment at the date of transition as its deemed cost at that date. As a consequence, and as explained in Note 26 (a), the revaluation reserves prior to 30 June 2005 were added to retained earnings. As there is no revaluation reserve against which to recognise any change to the deferred taxation liability, the appropriate treatment is to recognise the change in the Income Statement.

The company has recognised the reduction in its deferred taxation liability directly through the statement of changes in equity. This is a departure from the requirements of the New Zealand Equivalent to International Accounting Standard 12: Income Taxes (NZ IAS 12). The effect of the company's treatment is to overstate income tax expense for the year ended 30 June 2007 by \$5,130,000. The net profit for the year is understated by the same amount. Retained earnings at 30 June 2007 are correctly stated.

In our opinion:

Except for the departure from NZ IAS 12 as outlined above, the financial statements of the company on pages 16 to 40:

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 2007;
- the results of its operations and cash flows for the year ended on that date.

The performance information of the company on page 15 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 30 June 2007.

Based on our examination the company kept proper accounting records.

The audit was completed on 28 September 2007, 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. We found a material misstatement in relation to how the company accounted for the reduction in its deferred taxation liability, which we referred to 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 2007. They must also give a true and fair view of the results of its 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 2007. 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 relationship with or interests in the company.



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



PHOTO: John Murray, courtesy of Taieri Gorge Railway Limited.

Aurora's diligent management of the Dunedin and Central Otago electricity distribution networks is critical to the functionality and wellbeing of our communities.

Cover: Minus 6°C near Gorge Creek, Central Otago, July 2007.

Above: Coronet Peak Skifield, Queenstown, at the height of the 2007 skiing season.
Port Otago Limited's new container crane at Port Chalmers.