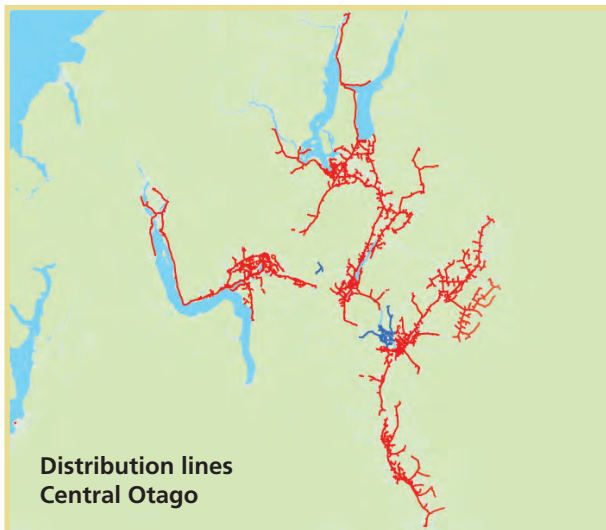




AURORA ENERGY LIMITED
ANNUAL REPORT 2008



Network Regions and Capability



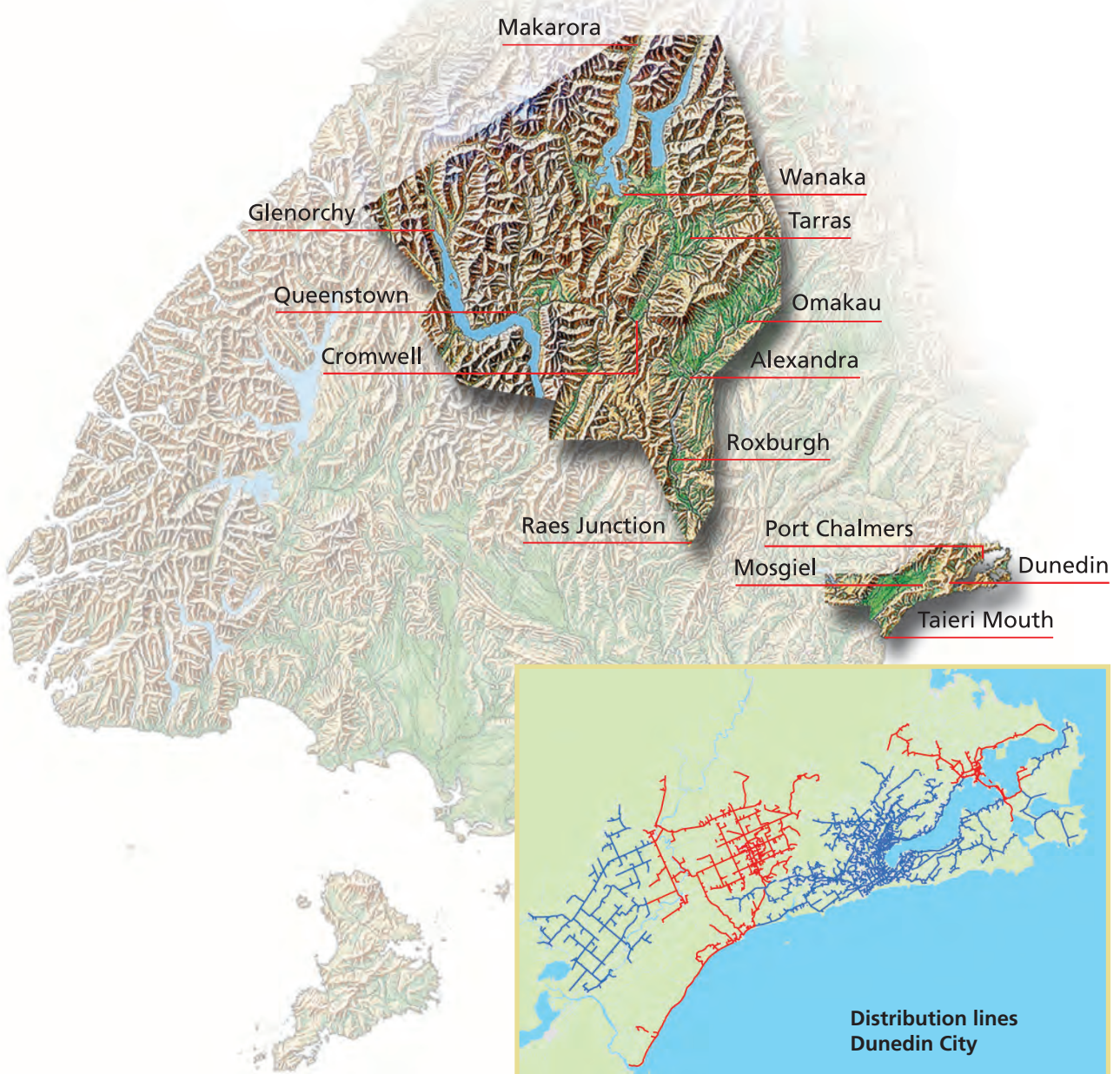
ELECTRICITY DISTRIBUTION NETWORK AT A GLANCE

For year ended 31 March 2008

Number of consumer connections	79,076
Energy received for distribution	1,361GWh
Capacity of transformers	840MVA
Capacity utilisation	34%
Number of zone sub-station	36
Number of bulk supply points	5
Length of lines and cables	5,436km

Legend:

- 11 kV distribution lines/cables
- 6.6 kV distribution lines/cables





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.

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Cover:
The new international class skifield centre at Coronet Peak, Queenstown, is a large energy user, and Aurora recently commissioned a zone sub-station at Speargrass Flat to supply the facility.

Back cover:
Dramatic sky over Aurora's rural distribution line at Gorge Creek, Central Otago.



The University of Otago is the region's largest user of electricity.

Aurora sponsors two University of Otago Scholarships for local secondary school graduates. This year the two recipients were Claire Davis from Mount Aspiring College, Wanaka, and Stephen Thomson from John McGlashan College, Dunedin.

Pictured is the Information Services Building, the "Students' Library".



For the Year Ended 30 June 2008

Financial Results for the Year

I am very pleased to report another year of strong performance for Aurora.

The trading profit for the year was \$20.66 million (2007: \$22.51 million) after a revenue increase of \$5.28 million was offset by cost increases of \$7.19 million.

The largest cost increase was in transmission costs, which rose by \$3.85 million due to price increases by Transpower, part of which related to additional delivery capacity installed at Transpower's Frankton sub-station. Operating and maintenance costs increased by \$1.64 million, reflecting rapid rises in labour and commodity prices in recent years both from current service provider costs and reflected in the new service contract with *DELTA* Utility Services Limited (*DELTA*).

Net profit was \$15.26 million (2007: \$16.58 million) after providing for a subvention payment to the shareholder of \$1.66 million (2007: \$1.48 million).

Dividends

The shareholder has continued to benefit from Aurora's excellent financial results, with dividends equivalent to \$15.05 million (2007: \$8.97 million) being paid. Over the past five years, total dividends to the shareholder have amounted to \$54.03 million.

Operating Performance

Aurora has continued to maintain its high level of operating performance this year. A sound profit was achieved while supply quality and distribution price remained within the Commerce Commission thresholds, except as follows.

On 10 and 11 August 2007, an 18-hour wind storm battered the Aurora network, with the Upper Clutha region particularly hard hit. This weather event affected in excess of 6,000 consumers and added 52.7 minutes to Aurora's System Average Interruption Duration Index (SAIDI), resulting in a breach of the SAIDI threshold by 23.08 minutes. Had the storm not occurred, Aurora would have posted its best SAIDI performance since the introduction of the Commerce Commission's targeted control regime in 2004. The Commerce Commission has accepted that such

extreme weather events are beyond the control of a company and will not lead to regulatory intervention. Despite this technical breach, Aurora's SAIDI measure remains significantly lower than the national average.

Representing the directors' view of best practice infrastructural asset management, the operation and management of Aurora's network assets is carried out by asset management specialist, *DELTA*, under a fixed-price performance-based contract. This year, following the successful conclusion of the 1998-2007 Asset Services Contract, Aurora negotiated and commenced a new ten-year contract with *DELTA*. Aurora's requirements regarding ongoing quality of supply, predetermined maintenance requirements and statutory compliance are specified within the contract, with substantial financial penalties for non-performance by *DELTA*. A significant deliverable of the new agreement is supply quality, with the contract specifying steady improvement in the global reliability over the term of the agreement.

Growth

Growth in electricity delivered has averaged 0.85% per annum over the last five years, with most of Aurora's growth continuing to occur in the Central Otago area.

New connections increased by 1.8% during the year; considerably higher than energy growth. Economic conditions have clearly deteriorated in the latter half of the reporting year, and access to development capital has tightened. While some reduction in growth rates can be anticipated in the forthcoming year, Central Otago has historically performed well compared to other regions and is likely to insulate Aurora from the full effect of the economic down-turn. Long-term developers in the Central Otago area have remained active despite tightening conditions, most notably Jack's Point Limited and the Infinity Investment Group.

Industry Issues

Considerable activity was directed during the year at providing information and submissions to the Commerce Commission on the forthcoming 2009 targeted control regime threshold reset and the Commerce Amendment Bill.



Aurora is very aware of the visual impact of its power lines and other items of infrastructure, especially in heritage and aesthetically sensitive precincts.

Above:
Undergrounding of lines has made a significant improvement to the view along historic Domain Road, Bannockburn.

Below:
The use of natural colours and plantings help to “conceal” ground transformers at the new Jacks Point subdivision near Queenstown.



Under the 2004 price-path threshold, distribution price increases were limited to "CPI-X", with Aurora being assigned an "X" of 1%. Aurora considers that it has been disadvantaged by the determination, due to a combination of the theoretical nature of the total factor productivity relativity on which the X determinations were made and the exclusion of achieved quality of supply from the efficiency 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.

The Commerce Amendment Bill proposes a two-tiered regulatory control regime for electricity distribution businesses, under which the requirements for trust-owned companies would be limited to information disclosure, whereas others are subject to performance thresholds. In light of the fact trust ownership is over-represented among poorly performing networks, Aurora's holds the view that consumer ownership is no guarantee of network efficiency.

Aurora will continue to work closely with the regulator to promote equitable outcomes from regulatory change, and to ensure that shareholder interests are adequately represented.

On 6 June 2006, the Commerce Commission announced its decision not to declare control of Aurora in respect of a breach of the price-path threshold that occurred in 2004. The Commission found that Aurora had fully explained that the breach was caused by a discrepancy between budgeted and actual pass-through costs and had, upon anticipating the breach, acted promptly to reduce prices to consumers, in line with the objective of the 2004 price-path threshold.

Generation

Aurora has a particular interest in the local generation of electricity from renewable energy sources as a means of reducing network capital

expenditure and improving supply reliability. Three formal applications to connect large distributed generation plant to the Aurora network have been received.

Demand Management

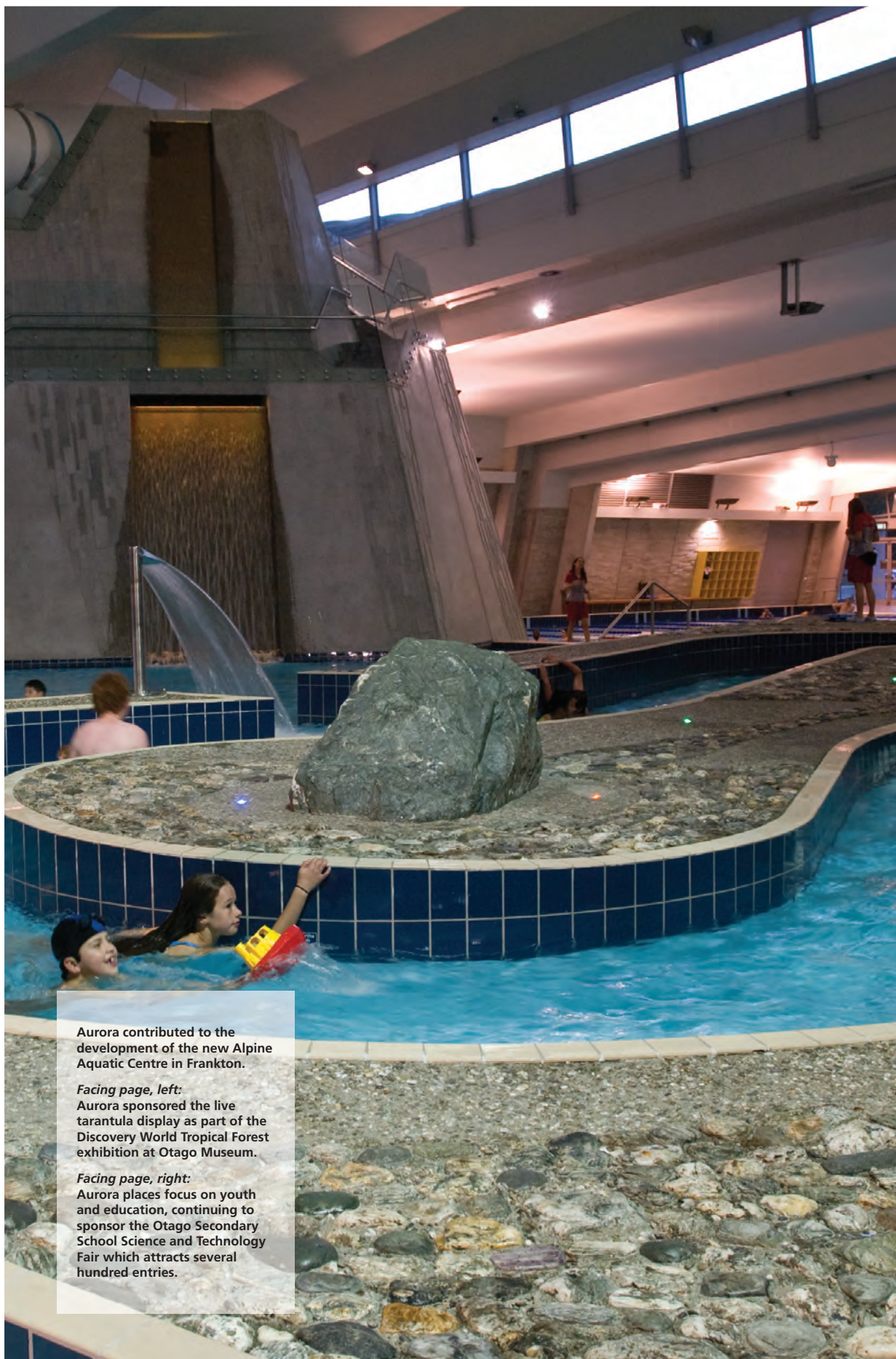
Aurora's demand management programme for major consumers remains a considerable success, with over 70 organisations enrolled during the year. Designed to help consumers reduce their electricity delivery costs by managing their own demand, the internet-based programme provides weekly and monthly forecasts of 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, under the contract with them for delivery of electricity. During the year, \$61,717 was paid to retailers, along with details of the 1,171 consumers whose interruptions the payments related to. The scale of service failure this year represents more than a four-fold increase over 2007 levels; both in terms of consumers affected and amount paid. This increase is wholly attributable to the severe storm that struck Central Otago in August 2007. Additionally, Aurora has 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, relative to electricity retailers, it receives fewer complaints about distribution businesses, and rarely about Aurora.

Community Support

Aurora has continued to sponsor a variety of community initiatives, principally focussing on youth and education.



Aurora contributed to the development of the new Alpine Aquatic Centre in Frankton.

Facing page, left: Aurora sponsored the live tarantula display as part of the Discovery World Tropical Forest exhibition at Otago Museum.

Facing page, right: Aurora places focus on youth and education, continuing to sponsor the Otago Secondary School Science and Technology Fair which attracts several hundred entries.



Sponsorships during the year included:

- Regional sponsorship of school science fairs
- Life Education Trust
- Otago Museum public internet facilities
- Otago Museum tarantula exhibition
- Alpine Aquatic Centre, Frankton
- Cromwell Swim Centre
- 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 undergrounding of lines. During the year, the following projects were undertaken in conjunction with the local authority, at a cost of \$1.71 million:

- Hillside Road, Dunedin
- Domain Road, Bannockburn
- Balmacewan Road, Dunedin
- Rockside Road, Dunedin.

Financial Position

Aurora's financial position remains very strong, with total assets of \$334 million and debt of \$99.7 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 \$16.2 million and is expected to remain in the range of \$17 million to \$20 million per year over coming years, subject to growth in the region continuing at current levels.

Outlook

The outlook for Aurora is for another successful year in 2009. The projected cashflows are particularly strong and bode well for continuing good returns to the shareholder.

Aurora's objectives to expand and diversify its investments in infrastructural assets will continue to be pursued. The economic cycle of assets of this type requires that long-term strategies are implemented for any change of ownership.

R Polson
CHAIRMAN
27 August 2008



Trend Statement

Years ended 30 June		2008	2007	2006	2005 (4)	2004 (4)
Energy received for delivery	GWh	1,365	1,356	1,347	1,357	1,308
Energy delivery reliability (average time without supply per customer per annum)	minutes	134.4	102.0	90.0	85.9	103.2
Total revenue (1)	\$000	76,606	71,267	70,840	64,080	62,335
Trading profit before tax (before subvention payments)	\$000	20,661	22,511	20,931	19,668	17,907
EBIT/average funds employed		8.1%	8.9%	8.7%	8.9%	9.5%
Tax – current year provision		3,770	4,616	3,308	8,465	8,556
– prior year over-provision		(33)	(161)	(9,491)	0	0
Net profit for the year (before subvention payments)	\$000	16,376	17,568	26,200	10,852	8,893
Net profit for the year (after subvention payments) (2)	\$000	15,262	16,576	25,147	10,140	7,963
Cashflow from operating activities	\$000	23,598	28,806	26,783	23,816	22,826
Special dividends	\$000	0	0	0	8,000	0
Ordinary dividends	\$000	13,940	7,977	6,440	5,863	7,006
Total dividends	\$000	13,940	7,977	6,440	13,863	7,006
Equivalent dividends (actual dividends plus after tax value of subvention payments)	\$000	15,054	8,969	7,493	14,575	7,936
Shareholder's equity	\$000	173,001	172,086	156,977	165,576	122,414
Total assets (3)	\$000	334,366	329,195	319,984	314,076	263,650
Return on average equity		8.85%	10.07%	15.59%	7.04%	6.5%
Equity to total assets		52%	52%	49%	53%	46%

Notes:

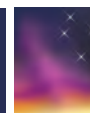
(1) Prior to 2006, Loss Rental Rebate income and expense were netted off. From 2006, the gross amount has been accounted for as both income and expense.

(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) 2004, 2005 financial amounts and ratios were derived under previous NZ GAAP.

Statement of Service Performance



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 To achieve all financial projections.

EBITDA	37,445	38,210
Net profit (1)	15,262	16,377
Shareholder's funds	173,001	167,383
Equivalent dividends	15,054	13,500
Shareholder's funds to total assets	52%	52%
- 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 Limited.
- 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 under-grounding of overhead lines.
- 11 To 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.
- Not all achieved.**
- | | |
|-----------------|----------------|
| Achieved | Target |
| \$000 | \$000 |
| 37,445 | 38,210 |
| 15,262 | 16,377 |
| 173,001 | 167,383 |
| 15,054 | 13,500 |
| 52% | 52% |
- Not achieved.** The company will continue to pursue opportunities if and when they arise. No such opportunities have been identified during this financial year.
- Not achieved.**
- | | |
|-----------------|---------------|
| Achieved | Target |
| \$000 | \$000 |
| 9,731 | 11,146 |
- Achieved.** Company reporting was undertaken within the timeframes 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.** No notification of any breaches of any resource laws has been received.
- Achieved.** Under-grounding projects were undertaken in the City of Dunedin.
- Achieved.** The company continually reviews its activities which include sponsoring cultural and education events and the under-grounding of overhead lines for environmental purposes.

Note:

- (1) Target calculation did not include subvention expense.
The target adjusted for subvention payment is \$15.332 million.



Network Performance Statistics

Statistics for the 12 months ended 31 March		Note (1)	2008	2007	2006	2005	2004
System Physical Measures							
Average length of lines and cables	km		5,436	5,365	5,252	5,146	5,029
Average capacity of distribution transformers	MVA		840	829	800	780	758
Distribution transformer capacity utilisation			34%	33%	34%	34%	33%
Consumer Measures							
Average number of consumer connections			79,076	77,712	76,400	75,117	73,972
System maximum demand	MW		283	276	269	267	246
Energy received for delivery	GWh		1,361	1,360	1,347	1,345	1,270
Average load factor			55%	56%	57%	57%	59%
Average minutes off per fault	CAIDI	(2,5)	77	56	56	55	57
Average faults per annum	SAIFI	(3)	1.8	1.8	1.7	1.5	1.7
Average minutes off per annum	SAIDI	(4,5)	140	101	97	81	97

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.
- (5) An extreme weather event in Central Otago on 11 August 07 was responsible for 52.2 minutes of the SAIDI index and 26 minutes of the CAIDI index.



For the Year Ended 30 June 2008

The directors of Aurora Energy Limited are pleased to report on the financial results and associated matters for the year ended 30 June 2008.

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 2008	\$000
Trading profit	20,661
– less subvention payments	1,662
Operating profit before income tax	18,999
– less income tax expense	3,737
Net profit for year after income tax	15,262

State of Affairs

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

Dividends

Total dividends of \$13.940 million were declared and paid for the year ended 30 June 2008. In addition, a subvention payment of \$1.662 million to Dunedin City Holdings Limited has been provided for. The dividend equivalent of this subvention payment is \$1.114 million, giving total equivalent dividends of \$15,054 million to be paid for the year. Equivalent dividends last year amounted to \$8.969 million.

Reserves

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

	\$000
Cash flow hedge reserve - to (from)	(407)
Retained earnings - to (from)	1,322

Review of Operations

The directors are pleased with the operating results achieved for the year ended 30 June 2008.

Net profit of \$15.262 million (2007: \$16.576 million) was a strong result after growth in Central Otago continued to underpin economic performance. However, this growth requires significant capital ex-

penditure and, during the 2008 year, the investment in capital assets to expand and strengthen the distribution network was again in excess of the net profit achieved.

Transmission costs incurred by the company increased by \$3.849 million during the year and were almost \$0.6 million above budget due to price increases by Transpower NZ Limited.

During the year, the asset services agreement with DELTA Utility Services Limited was renegotiated for a further 10 year period. The new agreement provides for improved supply reliability and for maintenance cost increases consistent with industry price movements reported to the Commerce Commission.

An extreme wind storm, which was the largest weather event recorded in the past six years, affected the network in the Wanaka area in August 2007 and caused supply disruption for 12 hours to the Upper Clutha area. This resulted in the System Average Interruption Duration Index (SAIDI) exceeding, by 23 minutes, the threshold set by the Commerce Commission. This event exceeds the extreme weather criteria as defined by the Commerce Commission and will not result in any intervention by the Commerce Commission. The underlying trend in Aurora's reliability continues to improve at a faster rate than the New Zealand average trend, and is well below the recent New Zealand SAIDI weighted-average of over 155 minutes per year. Aurora complied fully with the Commerce Commission's other requirements.

Considerable planning is ongoing to identify areas where the network needs to be strengthened for growth in electricity demand. Further major capital expenditure is planned for Central Otago to service the significant growth in this area.

Financial Statements

The audited financial statements for the year ended 30 June 2008 are attached to this report.

Directors' Interests in Contracts

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

These general disclosures of interests are made in accordance with S140 (2) of the Companies Act 1993 and serve as notice that the directors may benefit



Agriculture continues to be Otago's leading industry and Aurora meets the energy requirements of the region's burgeoning dairy and viticulture industries by extending its electricity network to meet customer demand.

Pictured is a centre pivot irrigator near Tarras. Aurora recently strengthened the supply to this and other new dairy farms, and the extensive vineyards at Bendigo.



Board of directors:
Ray Polson, Ross Liddell,
Mike Coburn, Paul Hudson
Norman Evans, Stuart McLauchlan

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 2008 or existed at that date are disclosed in the related parties section of this report.

Directors

In accordance with the constitution of the company, Mr Michael Coburn and Dr Norman Evans retire by rotation. Both are eligible and offer themselves for re-appointment.

Directors' Remuneration

The remuneration paid to directors during the year was:

Raymond S Polson	\$38,000
Ross D Liddell	\$29,500
Michael O Coburn	\$18,750
Dr Norman G Evans	\$21,050
Paul R Hudson	\$18,750
Stuart J McLauchlan	\$18,750
	<u>\$144,800</u>

Audit Committee

Mr Liddell, Mr Polson and Dr Evans comprised the audit committee of the board during the year. 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 the 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.



Above:
The recently installed diesel generator at Cardrona will supplement seasonal demand for the local ski fields and housing developments.

Below:
Aurora is preparing to install a new zone sub-station on Queenstown's Commonage to meet increasing demand. This will be completed in early-2009.

Auditor

The Auditor-General is appointed Auditor pursuant to Section 45 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.

Events Subsequent to Balance Date

The directors are not aware of any matter or circumstance since the end of the financial year, not otherwise dealt with in this report or the company's financial statements, which has significantly or may significantly affect the operation of the company, the results of those operations or the state of affairs of the company.

On behalf of the directors



R S Polson
CHAIRMAN
27 August 2008



R D Liddell
DEPUTY CHAIRMAN



Income Statement 2008

For the Year Ended 30 June

	Note	2008 \$000	2007 \$000
Operating revenue	3	76,395	71,116
Financial revenue	4	211	151
Total revenue		76,606	71,267
Less expenses			
Operating expense	5	49,695	42,147
Financial expenses	6	6,250	6,609
Total expenditure		55,945	48,756
Profit before tax and subvention		20,661	22,511
Subvention payment provided		1,662	1,480
Profit before tax		18,999	21,031
Income tax expense	9	3,737	4,455
Net profit for the year		15,262	16,576
Earnings per share – dollars	10	1.53	1.66

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

Statement of Changes in Equity 2008



For the Year Ended 30 June

	Note	2008 \$'000	2007 \$'000
Equity at beginning of the year		172,086	156,977
Recognised income and expense			
Gain/(Loss) of cash flow hedges taken to equity	12	(1,223)	1,295
Gain of cash flow hedges terminated	12	816	85
Net income/(loss) recognised directly in equity		(407)	1,380
Net profit/(loss) for the year		15,262	16,576
Total recognised income for the year		14,855	17,956
Deferred taxation adjustment arising from changes in taxation rate	13	0	5,130
Less distribution to owners	8	13,940	7,977
Equity at end of the year		173,001	172,086

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



Balance Sheet 2008

As at 30 June

	Note	2008 \$'000	2007 \$'000
Equity			
Share capital	11	10,000	10,000
Cash flow hedge reserve	12	1,184	1,591
Retained earnings	13	161,817	160,495
Total equity		173,001	172,086
Current liabilities			
Trade and other payables	14	9,165	9,784
Other current liabilities	15	88	248
Taxation payable		292	1,412
Total current liabilities		9,545	11,444
Non-current liabilities			
Term borrowings	16	99,660	93,680
Deferred tax liability	17	52,160	51,985
Total non-current liabilities		151,820	145,665
Total liabilities		161,365	157,109
TOTAL EQUITY AND LIABILITIES		334,366	329,195

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

Balance Sheet 2008



As at 30 June – continued

	Note	2008 \$'000	2007 \$'000
Current assets			
Cash and cash equivalents	18	25	40
Trade and other receivables	19	9,050	8,258
Short term investments	20	55	55
Cash flow hedge instruments	21	404	2,151
Inventories	22	11	11
Total current assets		9,545	10,515
Non-current assets			
Investments	20	11	11
Deferred tax asset	17	451	0
Property, plant and equipment	23	324,359	318,669
Total non-current assets		324,821	318,680
TOTAL ASSETS		334,366	329,195

For and on behalf of the Board of Directors

R S Polson
CHAIRMAN
27 August 2008

R D Liddell
DEPUTY CHAIRMAN

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



Statement of Cash Flows 2008

For the Year Ended 30 June

	Note	2008 \$000	2007 \$000
Cash flows from operating activities			
<i>Cash was provided from</i>			
Receipts from customers		75,716	71,120
Interest received		211	151
		<hr/> 75,927	<hr/> 71,271
<i>Cash was disbursed to</i>			
Payments to suppliers		40,628	32,854
Interest paid		6,723	6,968
Income tax paid		4,955	2,491
Net GST Paid		23	152
		<hr/> 52,329	<hr/> 42,465
Net cash inflows/(outflows) from operating activities	25	<hr/> 23,598	<hr/> 28,806
Cash flows from investing activities			
<i>Cash was provided from</i>			
Receipts from cash flow hedges		1,569	193
		<hr/> 1,569	<hr/> 193
<i>Cash was disbursed to</i>			
Purchase of property, plant and equipment		17,072	19,844
Purchase of intangible assets		150	0
Purchase of investments		0	2
		<hr/> 17,222	<hr/> 19,846
Net cash inflows/(outflows) from investing activities		<hr/> (15,653)	<hr/> (19,653)

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

Statement of Cash Flows 2008



For the Year Ended 30 June - continued

	Note	2008 \$000	2007 \$000
Cash flows from financing activities			
<i>Cash was provided from</i>			
Proceeds from borrowings		32,110	23,480
		<u>32,110</u>	<u>23,480</u>
<i>Cash was disbursed to</i>			
Repayment of borrowings		26,130	24,700
Dividends paid		13,940	7,977
		<u>40,070</u>	<u>32,677</u>
Net cash inflows/(outflows) from financing activities		(7,960)	(9,197)
Net increase/(decrease) in cash, cash equivalents and bank overdraft		(15)	(44)
Cash and cash equivalents at beginning of the year		40	84
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		25	40
Composition of cash			
Cash and cash equivalents		25	40
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		25	40

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



Notes to the Financial Statements

For the Year Ended 30 June 2008

1 REPORTING ENTITY

The financial statements are for the reporting entity Aurora Energy Limited (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*.

The company, incorporated in New Zealand under the Companies Act 1993, is a wholly-owned subsidiary of Dunedin City Holdings Limited. Dunedin City Holdings Limited is wholly-owned by Dunedin City Council. These financial statements represent the activities of the company and its only subsidiary, Otago Power Limited (non-trading).

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.

The financial statements were authorised for issue by the directors on 27 August 2008.

Basis of accounting

The financial statements have been prepared on the historic cost basis, except for the revaluation of certain assets including cash flow hedge instruments.

The accounting policies set out below have been applied consistently to all periods in these financial statements.

Critical accounting judgements, estimates and assumptions

In preparing these financial statements the Company has made judgements, estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated.

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.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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.

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.

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 comprises both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year plus any adjustments to income tax payable in respect of prior years.

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 calculation of taxable profit, and is accounted for using the balance sheet liability method.

Current tax and deferred tax is charged or credited to the income statement except when deferred tax relates to items charged directly to equity in which case the tax is dealt with in equity.

The Company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax assets and liabilities are generally recognised for all taxable temporary differences. 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 taxable 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. Movements in deferred tax assets and liabilities are charged or credited in the income statement in the financial year that the movement occurs, 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.



Notes to the Financial Statements

Property, plant and equipment – continued

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 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.

Depreciation rates and methods used are:

	<i>Rate</i>	<i>Method</i>
Land	no depreciation charged	
Buildings	1% to 5%	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.

Impairment of assets

At each balance sheet date, the Company 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.

Any impairment loss is immediately expensed 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 immediately recognised in the income statement.

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.

Cash and cash equivalents

Cash and cash equivalents is comprised 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 cost less any allowances for estimated irrecoverable amounts.

Investments

Investments are comprised of long-term equity instrument holdings which are available for sale. These are initially measured at cost, including transaction costs and are assessed annually for impairment. Any resultant losses on impairment 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 cash flow hedge instruments (interest rate swap contracts) to protect itself from these risks.

The Company does not use cash flow hedge instruments for speculative purposes. Any derivatives that do not qualify for hedge accounting, under the specific NZ IFRS rules, are accounted for as trading instruments, with fair value gains/losses recognised directly in the income statement.

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

Cash flow hedge instruments are recognised as a current asset or liability.

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. The fair value on initial recognition is the transaction price. Subsequent fair values are based on independent bid prices quoted in active markets for these instruments. Changes in the fair value of cash flow hedge 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



Notes to the Financial Statements

Cash flow hedge instruments and hedge accounting – continued

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, is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. 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.

For the year ended 30 June 2008

	2008 \$000	2007 \$000
3 OPERATING REVENUE		
Sales revenue	74,128	69,758
Avoided transmission constraint and loss revenue	2,267	1,358
	<u>76,395</u>	<u>71,116</u>
4 FINANCIAL INCOME		
Interest received	<u>211</u>	<u>151</u>
5 OTHER EXPENSES		
Included in the operating expenses of the company are the following items:		
Audit fees		
– for audit of financial statements	34	33
– for audit services in relation to regulatory (information disclosure) reporting	6	5
Total audit fees	<u>40</u>	<u>38</u>
Transmission costs	21,652	17,803
Depreciation	10,534	10,167
Maintenance costs	9,502	7,861
Other contractor costs	519	370
Director's fees	145	139
Bad debts written off	26	36
Rental expense	47	28
Increase/(Decrease) in impairment provision for trade and other receivables	28	(8)

Notes to the Financial Statements



For the year ended 30 June 2008

2008	2007
\$000	\$000

6 FINANCIAL EXPENSES

Interest – related parties	6,250	6,509
Interest – term loans	0	100
Total financial expenses	6,250	6,609

7 LEASE COMMITMENTS

Non-cancellable operating lease commitments

Payable within one year	26	26
Payable between one to five years	61	85
Payable later than five years	18	19
	105	130

8 DIVIDENDS

Interim dividend	December	\$0.400/share (\$0.250, 2007)	4,000	2,500
Interim dividend	March	\$0.250/share	2,500	0
Interim dividend	May	\$0.250/share (\$0.250, 2007)	2,500	2,500
Final dividend	June	\$0.494/share (\$0.297, 2007)	4,940	2,977
		\$1.394 per share for 2008 (\$0.797, 2007)	13,940	7,977

9 INCOME TAX

Operating profit before income tax	18,999	21,031
Tax thereon at 33%	6,269	6,940

Plus/(Less) the Tax Effect of Differences

Revenue not liable for taxation	(2,157)	(2,547)
Expenditure not deductible for taxation	(342)	223
Under/(Over) tax provision in prior years	(33)	(161)
Tax effect of differences	(2,532)	(2,485)

Tax expense	3,737	4,455
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Represented by

Current tax provision	3,866	3,812
Deferred tax provision	(96)	804
Under/(Over) tax provision in prior years	(33)	(161)
Income tax	3,737	4,455

Imputation credit account

Balance at beginning of the year	(3,833)	(3,026)
Tax refunds	(378)	(515)
Taxation payments made	3,575	2,400
Credits attached to dividends paid	(4,117)	(2,692)
Balance at end of the year	(4,753)	(3,833)



Notes to the Financial Statements

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

10 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.

For the year ended 30 June 2008	2008 \$000	2007 \$000
Number of shares		
Weighted average number of ordinary shares	10,000,000	10,000,000
Basic earnings per share in dollars	1.53	1.66

11 EQUITY – SHARE CAPITAL

Issued capital

10,000,000 ordinary shares	10,000	10,000
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12 CASH FLOW HEDGE RESERVE

Balance at beginning of the year	1,591	211
Net revaluations	(1,748)	1,837
Cash flow hedge closed out	1,161	126
Deferred tax arising on hedges (note 17)	180	(583)
Balance at end of the year	1,184	1,591

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 hedges that have been closed out and which relate to future periods.

13 RETAINED EARNINGS

Balance at beginning of the year	160,495	146,766
Net profit for the year	15,262	16,576
Dividend distributions	(13,940)	(7,977)
Deferred taxation adjustment arising from changes in taxation rate (1)	0	5,130
Balance at end of the year	161,817	160,495

(1) On transition to IFRS substantial increases in deferred taxation arose and were provided from equity.

The government subsequently announced an intention to reduce future corporate tax notes. The consequent reduction in future tax liability recognised in the 2007 financial year was provided for in the deferred taxation provision and was credited directly to equity.

14 TRADE AND OTHER PAYABLES

Trade payables	3,480	3,450
Due to related parties – other	4,023	4,854
– Dunedin City Holdings Limited	1,662	1,480
	9,165	9,784

The directors consider that the carrying amount of trade payables approximates their fair value.

Notes to the Financial Statements



For the year ended 30 June 2008

2008	2007
\$000	\$000

15 OTHER CURRENT LIABILITIES

GST payable	82	248
Other	6	0
	<u>88</u>	<u>248</u>

16 TERM BORROWINGS (SECURED)

Dunedin City Treasury Limited	<u>99,660</u>	<u>93,680</u>
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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:

Repayable between one to two years	0	0
Repayable between two to five years	0	0
Repayable later than five years	99,660	93,680
	<u>99,660</u>	<u>93,680</u>

The weighted average interest rate for the loan inclusive of any current portion, was 7.62% (2007 : 7.66%).

17 DEFERRED TAX

2008 \$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	(51,298)	0	(355)	0	(51,653)	(51,653)
Provisions	0	0	65	65	0	65
Revaluations of interest rate swaps	(646)	525	0	0	(121)	(121)
Close out of interest rate swaps	(41)	(345)	386	386	(386)	0
Balance at end of the year	<u>(51,985)</u>	<u>180</u>	<u>96</u>	<u>451</u>	<u>(52,160)</u>	<u>(51,709)</u>

2007 \$000

Property, plant and equipment	(55,624)	5,130	(804)	0	(51,298)	(51,298)
Provisions	0	0	0	0	0	0
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>



Notes to the Financial Statements

For the year ended 30 June 2008

2008	2007
\$000	\$000

18 CASH AND CASH EQUIVALENTS

Cash and bank	25	40
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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.

19 TRADE AND OTHER RECEIVABLES

Trade receivables	8,803	8,255
Less estimated impairment	(43)	(15)
	8,760	8,240
Due from related parties		
other related parties	290	18
	9,050	8,258

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

20 INVESTMENTS

Short term investment in OP Distribution Limited	55	55
Investments – listed companies	11	11
	66	66

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 Limited subsequently changed its name to OP Distribution Limited which is being liquidated, with the liquidation proceeds being returned to shareholders. The small remaining 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 when the appointed liquidator has completed the wind up of the company.

Investments – listed companies

The company has acquired small shareholdings in several listed electricity-sector companies. These holdings are considered long-term.

21 CASH FLOW HEDGE INSTRUMENTS

Interest rate swaps	404	2,151
	404	2,151

22 INVENTORIES

Network spare parts	11	11
	11	11

Notes to the Financial Statements



23 PROPERTY, PLANT AND EQUIPMENT

2008 \$000	Land	Buildings	Network	Plant equipment	Sub-total
Cost					
Balance at beginning of the year	2,918	10,219	321,123	2,032	336,292
Purchases	449	0	15,741	31	16,221
Disposal	0	0	0	0	0
Transfer	0	0	2,912	0	2,912
Balance at end of the year	3,367	10,219	339,776	2,063	355,425
Accumulated depreciation					
Balance at beginning of the year	0	634	22,467	400	23,501
Depreciation	0	104	10,224	200	10,528
Disposal	0	0	0	0	0
Transfer	0	0	0	0	0
Balance at end of the year	0	738	32,691	600	34,029
Carrying amounts	3,367	9,481	307,085	1,463	321,396

2008 \$000	Sub-total	Motor vehicles	Office equipment	Construction in progress	Total
Cost					
Balance at beginning of the year	336,292	42	13	5,833	342,180
Purchases	16,221	0	3	0	16,224
Disposal	0	0	0	0	0
Transfer	2,912	0	0	(2,912)	0
Balance at end of the year	355,425	42	16	2,921	358,404
Accumulated depreciation					
Balance at beginning of the year	23,501	6	4	0	23,511
Depreciation	10,529	4	2	0	10,534
Disposal	0	0	0	0	0
Transfer	0	0	0	0	0
Balance at end of the year	34,029	10	6	0	34,045
Carrying amounts	321,396	32	10	2,921	324,359



Notes to the Financial Statements

23 PROPERTY, PLANT AND EQUIPMENT – CONTINUED

2007 \$000	Land	Buildings	Network	Plant equipment	Sub-total
Cost					
Balance at beginning of the 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 the year	2,918	10,219	321,123	2,032	336,292
Accumulated depreciation					
Balance at beginning of the 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 the year	0	634	22,467	400	23,501
Carrying amounts	2,918	9,585	298,656	1,632	312,791

2007 \$000	Sub-total	Motor vehicles	Office equipment	Construction in progress	Total
Cost					
Balance at beginning of the 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 the year	336,292	42	13	5,833	342,180
Accumulated depreciation					
Balance at beginning of the 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 the year	23,501	6	4	0	23,511
Carrying amounts	312,791	36	9	5,833	318,669

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

24 CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure contracted for at balance date but not provided for in the financial statements	9,374	5,683
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Notes to the Financial Statements



For the year ended 30 June 2008	2008	2007
	\$000	\$000

25 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES

Net profit for the year	15,262	16,576
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Items not involving cash flows

Depreciation	10,534	10,167
Deferred taxation adjustment arising from changes in taxation rate	0	5,130
Increase/(Decrease) in deferred tax	(276)	(3,743)
Net of tax movement of cash flow hedge instruments	(407)	1,380
(Increase)/Decrease in cash flow hedge instrument valuation	1,747	(1,837)

Impact of changes in working capital items

(Increase)/Decrease in trade and other receivables	(792)	70
(Increase)/Decrease in investments	0	(2)
(Increase)/Decrease in inventories	0	0
Increase/(Decrease) in trade and other payables	(619)	(2,042)
Increase/(Decrease) in provision for tax	(1,120)	1,206
Increase/(Decrease) in other current liabilities	(160)	(99)

Items classified as investing or financing activities

Capital creditors in accounts payable	999	2,193
Gain on sale of cash flow hedge instruments	(1,570)	(193)
Loss/(Gain) on disposal of property, plant and equipment	0	0

Net cash inflows / (outflows) from operating activities	23,598	28,806
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26 RELATED PARTY TRANSACTIONS

The Company 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

The Company 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:

	2008	2007
	\$000	\$000
Purchases of goods and services from Dunedin City Holdings Limited:		
Subvention payments provided for	1,662	1,480
Management fees	200	200
	1,862	1,680



Notes to the Financial Statements

For the year ended 30 June 2008

2008	2007
\$'000	\$'000

26 RELATED PARTY TRANSACTIONS – CONTINUED

Purchases of goods and services from Dunedin City Council:

Rates and property leases	361	353
Interest/facility fees	1	1
	<u>362</u>	<u>354</u>

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

Capital work	11,535	13,553
Network management and operation	13,586	10,956
Interest/facility fees	6,250	6,509
Subvention/tax loss offset payments	1,759	561
Contracting services	963	803
Management fees	60	60
Accounting, administration and secretarial	182	165
Sundry and consulting	69	58
Lease of meters	44	45
	<u>34,448</u>	<u>32,710</u>

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

Dunedin City Holdings Limited	1,662	1,480
Other Dunedin City Council Group entities	103,683	98,534
	<u>105,345</u>	<u>100,014</u>

Sales of services to Dunedin City Council:

Headworks fees	0	48
Other	0	1
	<u>0</u>	<u>49</u>

Sales of services to Dunedin City Council Group entities:

Interest	1,729	31
Distribution of electricity	82	77
Shut-down charges	46	66
Rent	23	46
Service failure penalties	55	12
Other	5	0
	<u>1,940</u>	<u>232</u>

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

Other Dunedin City Council Group entities:	<u>448</u>	<u>2,169</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.

Notes to the Financial Statements



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 \$164,417 were provided to Jack's Point Limited (2007: \$9,988). \$154,767 was owing to Aurora at the end of the year (2007: \$2,424).

Mr Coburn is also a director of Arith Holdings Limited. Aurora Energy Limited is a party to an agreement with Arith Holdings Limited for the provision of electricity reticulation services to the Henley Downs development. In the ordinary course of business during the financial period covered by this report, services valued at \$90,895 were provided to Arith Holdings Limited (2007: nil). \$90,895 was owing to Aurora at the end of the year (2007: nil).

27 SEGMENT REPORTING

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

28 EVENTS AFTER BALANCE SHEET DATE

There were no significant events after balance date.

29 FINANCIAL INSTRUMENT RISK

Dunedin City Treasury Limited, which is part of the Dunedin City Holdings Group, co-ordinates access to domestic financial markets for all group members and provides advice on the management of financial instrument risks to the company. These risks include interest rate risk, credit risk and liquidity risk.

Interest rate risk

The Company uses interest rate swap agreements to manage its exposure to interest rate movements on its borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. The treasury policy requires that the amount of the interest hedged is within a series of ranges in set future time periods. The interest rate swap agreements are held with independent and high credit quality financial institutions in accordance with the company's credit policy.

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

	2008 \$000	2007 \$000
Maturing in less than one year	0	0
Maturing between one and five years	10,000	30,000
Maturing after five years	0	10,000
	<u>10,000</u>	<u>40,000</u>

Notes to the Financial Statements

29 FINANCIAL INSTRUMENT RISK – CONTINUED

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 impairment.

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

The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk.

The Company's maximum credit risk for each class of financial instrument is:

	2008 \$000	2007 \$000
Cash and cash equivalents	25	40
Trade and other receivables	9,050	8,258
Short term investments	66	66
Cash flow hedge instruments	404	2,151
	<u>9,545</u>	<u>10,515</u>

Past due, but not impaired, receivables are:

Past due receivables

Age analysis: 30-60 days	19	27
60-90 days	5	28
90 days plus	20	67
	<u>44</u>	<u>122</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 ensures it has credit lines in place to cover potential shortfalls.

The following table analyses the exposure of the company's financial liabilities to liquidity risk as at 30 June 2008:

\$000	Maturity dates			1 to 5	More	No	Total
	less than 1 month	1 to 3 months	3 months to 1 year	Years	than 5 Years	maturity	
Financial assets							
Cash and cash equivalents	25	0	0	0	0	0	25
Trade and other receivables	9,050	0	0	0	0	0	9,050
Short term investments	0	0	0	0	0	55	55
Cash flow hedge instruments	0	0	404	0	0	0	404
Long term investments	0	0	0	0	0	11	11
	<u>9,075</u>	<u>0</u>	<u>404</u>	<u>0</u>	<u>0</u>	<u>6</u>	<u>9,545</u>

Notes to the Financial Statements



\$000	Maturity dates less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
Financial liabilities							
Trade and other payables	9,165	0	0	0	0	0	9,165
Other current liabilities	88	0	0	0	0	0	88
Taxation payable	0	0	292	0	0	0	292
Term borrowings	0	0	0	0	99,660	0	99,660
	9,253	0	326	0	99,660	0	109,205

The following table analyses the exposure of the Company's financial liabilities to liquidity risk as at 30 June 2007:

\$000	Maturity dates less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
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
	8,298	0	2,151	0	0	66	10,515
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
	10,032	0	1,412	0	93,680	0	105,124

Sensitivity analysis

The table below illustrates the potential profit and loss and equity (excluding retained earnings) impact for the reasonably possible market movements, with all other variables held constant, based on the Company's financial instrument exposures at the balance date.

Based on historic movements and volatilities, market interest rates movements of plus or minus 1% (100bps) have been used in this analysis.

\$000	Fair value at balance date	+100bps profit	+100bps equity	-100bps profit	-100bps equity
Financial assets					
Cash flow hedge instruments	404	0	289	0	(289)
Financial liabilities					
Term borrowings (hedged)	10,000	0	(289)	0	289
Term borrowings (unhedged)	9,660	(97)	0	97	0
	19,660	(97)	(289)	97	289



Notes to the Financial Statements

30 CAPITAL MANAGEMENT STRATEGY

The capital of the Company is its equity, is comprised of subscribed capital and retained earnings. Equity is represented by net assets. The company manages its capital to ensure that it will be able to continue to operate as a going concern and optimises the balance of debt to equity on a prudent basis.

The directors of the Company perform continual reviews of its operating strategies, and financial performance and include in these reviews any strategies required to protect the capital of the Company. The directors seek to maximise overall returns to the shareholder of the Company and to maintain the Company's financial strength.

The Company is required to provide to its shareholder an annual Statement of Intent. This Statement of Intent includes information on planned distributions by way of dividend for the following three years.

Information on the Directors



Name and qualifications

Position held and date appointed

Declaration of interests

Raymond S Polson *BCom, CA, AF.Inst.D.*

Non-executive Chairman, October 1994

Chairman – DELTA Utility Services Limited

Chairman – GeoGroup Limited

Chairman – New Zealand Land Search and Rescue Inc

Chairman – Ophir Gold Limited

Chairman – Selwyn Plantation Board Limited

Chairman – Wensley Developments Limited
and subsidiaries

Director – Marsh Advisory Board

Director – Newtons Coachways (1993) Limited

Chairman – Fulcrum Partners Limited

(resigned 30 April 2008)

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

Non-executive Deputy Chairman, October 1994

Chairman – Browns Barkly Limited

Chairman – City Forests Limited

Chairman – Dunedin City Treasury Limited

Chairman – James Maurice Properties Limited

Chairman – Palmer & Son Limited

Chairman – Palmer MH Limited

Chairman – Palmers Mechanical Limited

Chairman – Viblock Limited

Deputy Chairman – DELTA Utility Services Limited

Director – A B Lime Limited

Director – Blackhead Quarries Limited

Director – Citibus Limited

Director – Dunedin City Holdings Limited

Director – Newtons Coachways (1993) Limited

Director – Victory Lime 2000 Limited

Director – Fulcrum Partners Limited

(resigned 30 April 2008)

Michael O Coburn *FNZIM, AF.Inst.D.*

Non-executive Director, October 2003

Chairman – 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 – Jack's Point Limited

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

Non-executive Director, July 2005

Chairman – Enabling Pty Limited (Aus)

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

Paul R Hudson *JP, BCom, CA*

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

Chairman – Dunedin City Holdings Limited

Chairman – Citibus Limited

Director – City Forests Limited

Director – DELTA Utility Services Limited

Councillor – Dunedin City Council

Chairman – Dunedin Council of Social Services

(resigned 6 November 2007)

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

Non-executive Director, June 2007

Chairman – Highlanders Rugby Trust

Chairman – NZ Sports Hall of Fame

Chairman – Scott Technology Limited

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 – Lund South Limited

Director – Otago & Southland Employers Association

Director – Scenic Circle Hotels Limited

Councillor – University of Otago



Company Directory

Directors

Raymond S Polson (Chair) *BCom, CA, AF.Inst.D.*

Ross D Liddell (Deputy Chair) *BCom, CA (PP), ACIS, AF.Inst.D.*

Michael O Coburn *FNZIM, AF.Inst.D.*

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

Paul R Hudson *JP, BCom, CA*

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

Company Secretary

Stephen M Wilson *CA*

Registered Office

10 Halsey Street
Dunedin
New Zealand

Banker

Westpac Banking Corporation

Solicitor

Gallaway Cook Allan

Auditor

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

Taxation Advisor

Deloitte

Audit Report



TO THE READERS OF AURORA ENERGY LIMITED'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

The Auditor-General is the auditor of Aurora Energy Limited (the company). The Auditor-General has appointed me, K J Boddy, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the company, on his behalf, for the year ended 30 June 2008.

Qualified Opinion – Comparative information

The company's treatment of a deferred taxation adjustment in the financial statements for the year ended 30 June 2007, which are presented as comparative information, did not comply with the requirements of the New Zealand Equivalent to International Accounting Standard 12: Income Taxes (NZ IAS 12).

The company had a deferred taxation liability arising from the revaluation of its network assets in years prior to 1 July 2005. The reduction in company income tax rate from 33% to 30%, reduced the company's deferred taxation liability by \$5,130,000 as at 30 June 2007.

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 1 July 2005, the date of transition, as its deemed cost at that date. As a consequence, the revaluation reserves prior to 1 July 2005 were added to retained earnings. As there was no revaluation reserve against which to recognise any change to the deferred taxation liability, the appropriate treatment was to recognise the change in the Income Statement for the year ended 30 June 2007.

As set out in note 13, the company recognised the reduction in its deferred taxation liability directly through the statement of changes in equity for the year ended 30 June 2007. This is a departure from the requirements of 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 and the net profit for the year ended 30 June 2007 is understated by the same amount.

In our opinion:

Except for the matter noted above which relates only to the comparative information, the financial statements of the company on pages 16 to 38:

- 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 2008;
 - the results of its operations and cash flows for the year ended on that date.

The statement of service performance of the company on page 9 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 30 June 2008.

Based on our examination the company kept proper accounting records.

The audit was completed on 4 September 2008, 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 statement of service performance 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 statement of service performance. We found a material misstatement in relation to how the company accounted for the reduction in its deferred taxation liability in the comparative information, which we referred to in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. 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 statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. 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 the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the company as at 30 June 2008. 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 the statement of service performance that gives a true and fair view of service performance achievements for the year ended 30 June 2008. 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 statement of service performance 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. In addition to the audit of the annual financial statements we have carried out other audit assignments for the company. These involved issuing audit certificates pursuant to the Electricity Information Disclosure Regulations 2004. These assignments are compatible with those independence requirements. Other than these assignments we have no relationship with or interests in the company.



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

Aurora

