



AURORA ENERGY LIMITED
ANNUAL REPORT **2009**



Network Regions and Capability

ELECTRICITY DISTRIBUTION NETWORK AT A GLANCE

For year-ended 31 March 2009

Number of consumer connections	80,249
Energy received for distribution	1,357GWh
Capacity of transformers	860MVA
Capacity utilisation	32%
Number of zone substations	36
Number of bulk supply points	5
Length of lines and cables	5,544km



COVER PHOTO:
Dunedin City from Otago Harbour.

BACK COVER PHOTO:
Alpine Aquatic Centre, Frankton.
Aurora is a key sponsor of this
world-class recreational asset.

Aurora 2009

AURORA ENERGY LIMITED – WHAT WE DO

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.

THE YEAR'S HIGHLIGHTS

- Trading profit \$21.35 million, an increase of 3.2%.
- Assets increased to \$346.1 million.
- Paid dividends of \$14.38 million to its shareholder.
- Purchased the fibre optic communication assets of Flute Network.
- Built environmentally-sensitive substation in Queenstown.
- Substantial support to community groups and events.
- Launched a new website, www.auroraenergy.co.nz

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*Queenstown waterfront and TSS Earnslaw reflected in Lake Wakatipu.
Reliability of electricity supply is critical to Queenstown's worldwide
reputation as a premium travel destination.*



RAY POLSON
CHAIRMAN

Chairman's Report

“ Aurora has continued to
maintain its **high level of operating
performance** this year ”

FINANCIAL RESULTS FOR THE YEAR

I am pleased to present Aurora Energy Limited's nineteenth Annual Report, covering the 12 months ended 30 June 2009.

The trading profit for the year was \$21.35 million (2008: \$20.66 million) after a revenue increase of \$5.08 million.

The substantial increase in transmission costs resulting from price increases by Transpower, and a decline in contributions from customers for uneconomic supply associated with new developments consequent to the reduction in land development, affected profit for the year.

Net profit was \$15.43 million (2008: \$15.26 million) after providing for a subvention payment to the shareholder, Dunedin City Holdings Limited, of \$1.68 million (2008: \$1.66 million).

DIVIDENDS

The shareholder has continued to benefit from Aurora's excellent financial results, with dividends equivalent to \$14.38 million (2008: \$15.05 million) being paid. Over the past five years, total dividends to the shareholder have amounted to \$60.47 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's thresholds.

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 Utility Services Limited, under a fixed-price performance-based contract. This agreement was renegotiated for a further 10 years commencing in July 2007, following the successful conclusion of the 1998-2007 Asset Services Contract. 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. A SAIDI of 65.4 minutes (134.4 2008) was achieved.

GROWTH

Growth in electricity delivered has averaged 0.2% 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 1.04% to 80,881 during the year; considerably higher than energy growth. The deterioration in economic conditions that commenced in the 2008 year continued through the current year with the tightened access to development capital impacting on growth rates in the Central Otago region. While a continuation of reduced growth rates is anticipated in the forthcoming year, Central Otago has historically performed well compared to other regions and is likely to insulate Aurora from any further effect of the economic down-turn.



High demand energy consumers Coronet Peak skifield, Queenstown, and Port Otago's container terminal, Port Chalmers.

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*.

The existing price and quality threshold regime will be replaced effective from 1 April 2010 with an, as yet, undetermined mechanism and there is potential for a substantial base price reset effective from 1 April 2011 also remaining to be determined. Considerable effort is being applied to submissions and analysis in endeavours to prevent Aurora being disadvantaged by changes in price control mechanisms. Aurora is strenuously promoting that quality is a substantial component of price.

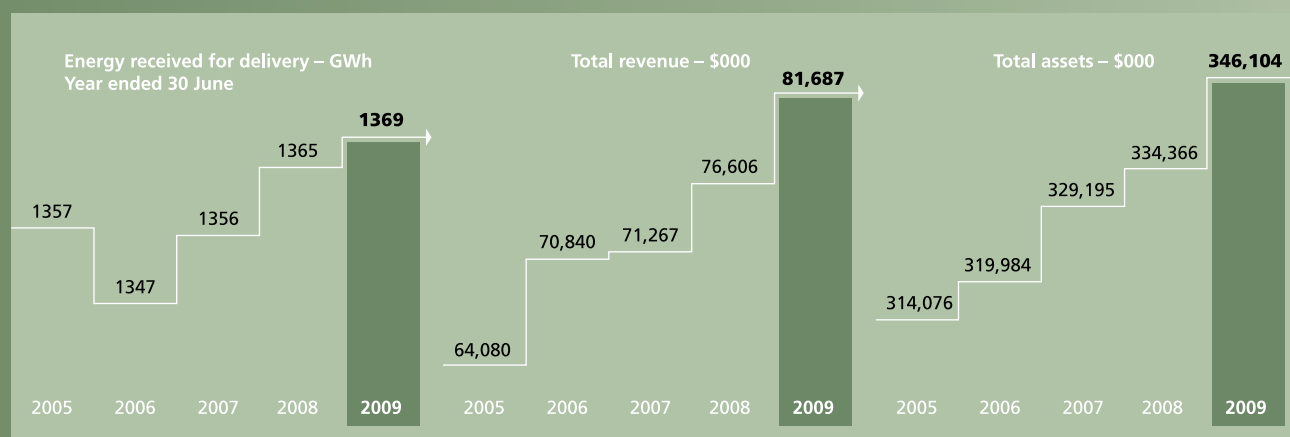
The 2004 price-path threshold, distribution price increases were limited to "CPI-X", with Aurora being assigned an "X" of 1%. Aurora considers that it was disadvantaged by the determination, due to a combination of the theoretical nature of the total factor productivity relativity on which the X determinations were made and the exclusion of achieved quality of supply from the efficiency analysis, whereas Aurora's supply quality is significantly better than average. Faulty determinations affect the economic wellbeing and the future investment decisions of line businesses and it is for this reason that Aurora is investing in the submission process.

This type of intervention in line businesses is



Wall Street is a significant new retail development and energy consumer in Dunedin's CBD, demanding purpose-built onsite electrical infrastructure.

RESULTS AT A GLANCE



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* provided for a two-tiered regulatory control regime for electricity distribution businesses, under which the requirements for trust-owned companies will be limited to information disclosure, whereas others are subject to performance thresholds. With trust ownership over-represented among poorly performing networks, Aurora 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.

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 are being investigated further.

DEMAND MANAGEMENT

Aurora's demand management programme for major consumers remains a considerable success, with over 70 organisations taking advantage of this service 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, \$35,904 was paid to retailers, along with details of the 661 consumers whose interruptions the payments related to.

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 it. 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. Sponsorships during the year included:

- Regional sponsorship of school science fairs
- Living Options Charitable Trust
- Otago Museum tarantula exhibit
- University of Otago scholarships
- Southern Lakes Festival of Colour.

Additionally, Aurora assisted the EnergySmart clean air project in its efforts to improve air quality in Otago.

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.

Aurora has continued its policy of committing annual funds to the under-grounding of lines. During the year \$1.73 million was invested in undergrounding a large amount of Kaikorai Valley Road in Dunedin.



Aurora's new website provides an online vehicle for businesses to self-manage energy demand.

No underground conversion was undertaken outside of Dunedin due to lack of funds in local authorities to contribute their share of the cost.

FINANCIAL POSITION

Aurora's financial position remains very strong, with total assets of \$346.1 million and debt of \$106.2 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 although the outcome of the price thresholds determination has the potential to significantly affect the business.

Capital expenditure continued strongly throughout the year, principally for growth in the Queenstown and Wanaka areas, reflecting the ongoing economic development there, albeit at a reduced level. Growth in the Wakatipu basin saw a new substation at The Commonage constructed, which was commissioned in July 2009, and two new zone substation developments in hand to strengthen distribution.

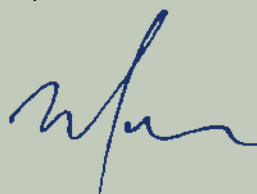
Capital expenditure for the year was \$22.8 million and is expected to remain in the range of \$20 million to \$25 million per year over coming years, subject to growth continuing at the underlying rate.

OUTLOOK

The outlook for Aurora is for a solid year in 2010. The projected cashflows are particularly strong and bode well for stable 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.

On 30 June, Aurora purchased the Dunedin and Queenstown fibre optic communication system assets of *DELTA* and engaged *DELTA* to further grow this network, to manage the assets, and to advance Aurora's strategy of becoming the fibre based communications provider in its areas of interest.



R Polson
CHAIRMAN
26 August 2009

SUPPORTING OUR COMMUNITY



Aurora continues to support secondary school student scholarships to the University of Otago (Centre of Innovation pictured left) and various exhibitions and community events at Otago Museum (right).

*Clear skies, Kaikorai Valley Road, Dunedin.
Improved community aesthetics is one of the
benefits of Aurora's ongoing programme of
undergrounding power lines.*



PHOTO: ALPINE IMAGES



PHOTOS: OTAGO DAILY TIMES

*Scene from the Southern Lakes Festival of Colour, held in
Wanaka. Aurora sponsored the hugely popular musical comedy
'Strange Resting Places'.*

*Kim Schultz made national news headlines with her
award-winning exhibit 'Is Our Ice Cream Clean?' at the
Otago Secondary Schools' Science Fair sponsored
by Aurora.*

Trend Statement

Year ended 30 June		2009	2008	2007	2006	2005 (Note 3)
Energy received for delivery	GWh	1,369	1,365	1,356	1,347	1,357
Energy delivery reliability (average time without supply per customer per annum)	minutes	65.4	134.4	102.0	90.0	85.9
Total revenue (1)	\$000	81,687	76,606	71,267	70,840	64,080
Trading profit before tax (before subvention payments)	\$000	21,349	20,661	22,511	20,931	19,668
EBIT/average funds employed		8.2%	8.1%	8.9%	8.7%	8.9%
Tax – current year provision		4,229	3,770	4,616	3,308	8,465
– prior year (over) under-provision		14	(33)	(161)	(9,491)	0
Net profit for the year (before subvention payments)	\$000	16,604	16,376	17,568	26,200	10,852
Net profit for the year (after subvention payments) (2)	\$000	15,431	15,262	16,576	25,147	10,140
Cashflow from operating activities	\$000	27,677	23,598	28,806	26,783	23,816
Special dividends	\$000	0	0	0	0	8,000
Ordinary dividends	\$000	13,204	13,940	7,977	6,440	5,863
Total dividends	\$000	13,204	13,940	7,977	6,440	13,863
Equivalent dividends (actual dividends plus after tax value of subvention payments)	\$000	14,377	15,054	8,969	7,493	14,575
Shareholder's equity	\$000	174,287	173,001	172,086	156,977	165,576
Total assets	\$000	346,104	334,366	329,195	319,984	314,076
Return on average equity		8.89%	8.85%	10.07%	15.59%	7.04%
Equity to total assets		50%	52%	52%	49%	53%

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) 2005 financial amounts and ratios were 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 states 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.	<p>Not all achieved.</p> <table> <tr> <th data-bbox="831 842 1023 871">Achieved</th><th data-bbox="1054 842 1134 871">Target</th></tr> <tr> <td data-bbox="879 882 943 911">\$000</td><td data-bbox="1070 882 1134 911">\$000</td></tr> <tr> <td data-bbox="863 922 943 952">EBITDA</td><td data-bbox="1054 922 1134 952">38,203</td></tr> <tr> <td data-bbox="863 963 943 992">Net profit</td><td data-bbox="1054 963 1134 992">15,216</td></tr> <tr> <td data-bbox="847 1003 943 1032">Shareholder's funds</td><td data-bbox="1038 1003 1134 1032">173,846</td></tr> <tr> <td data-bbox="863 1043 943 1072">Equivalent dividends</td><td data-bbox="1054 1043 1134 1072">14,500</td></tr> <tr> <td data-bbox="879 1084 943 1113">Shareholder's funds to total assets</td><td data-bbox="1070 1084 1134 1113">51%</td></tr> </table>	Achieved	Target	\$000	\$000	EBITDA	38,203	Net profit	15,216	Shareholder's funds	173,846	Equivalent dividends	14,500	Shareholder's funds to total assets	51%
Achieved	Target														
\$000	\$000														
EBITDA	38,203														
Net profit	15,216														
Shareholder's funds	173,846														
Equivalent dividends	14,500														
Shareholder's funds to total assets	51%														
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.	<p>Not achieved.</p> <table> <tr> <th data-bbox="831 1368 1023 1397">Achieved</th><th data-bbox="1054 1368 1134 1397">Target</th></tr> <tr> <td data-bbox="879 1408 943 1438">\$000</td><td data-bbox="1070 1408 1134 1438">\$000</td></tr> <tr> <td data-bbox="863 1449 943 1478">9,648</td><td data-bbox="1070 1449 1134 1478">8,930</td></tr> </table>	Achieved	Target	\$000	\$000	9,648	8,930								
Achieved	Target														
\$000	\$000														
9,648	8,930														
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 under-grounding of overhead lines.	Achieved. Under-grounding projects were undertaken in the City of Dunedin.														
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.														

Network Performance Statistics

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

Statistics for the 12 months ended 31 March		2009	2008	2007	2006	2005
System physical measures						
Average length of lines and cables	km	5,544	5,436	5,365	5,252	5,146
Average capacity of distribution transformers	MVA	860	840	829	800	780
Distribution transformer capacity utilisation		32%	34%	33%	34%	34%
Consumer measures						
Average number of consumer connections		80,249	79,076	77,712	76,400	75,117
System maximum demand	MW	275	283	276	269	267
Energy received for delivery	GWh	1,357	1,361	1,360	1,347	1,345
Average load factor		56%	55%	56%	57%	57%
Average minutes off per fault	CAIDI	55	77 ⁽¹⁾	56	56	55
Average faults per annum	SAIFI	1.23	1.8	1.8	1.7	1.5
Average minutes off per annum	SAIDI	68	140 ⁽¹⁾	101	97	81

Note:

(1) An extreme weather event in Central Otago on 11 August 2007 was responsible for 52.2 minutes of the SAIDI index and 26 minutes of the CAIDI index in 2008.

Legend:

CAIDI - Consumer Average Interruption Duration Index

SAIFI - System Average Interruption Frequency Index

SAIDI - System Average Interruption Duration Index

Directors' Report

For the year ended 30 June 2009

The directors of Aurora Energy Limited are pleased to report on the financial results and associated matters for the year ended 30 June 2009.

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 2009	\$000
Trading profit	21,349
– less subvention payments	1,675
Operating profit before income tax	19,674
– less income tax expense	4,243
Net profit for year after income tax	15,431

STATE OF AFFAIRS

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

DIVIDENDS

Total dividends of \$13.20 million were declared and paid for the year ended 30 June 2009. In addition, a subvention payment of \$1.68 million to Dunedin City Holdings Limited has been provided for. The dividend equivalent of this subvention payment is \$1.17 million, giving total equivalent dividends of \$14.38 million to be paid for the year. Equivalent dividends last year amounted to \$15.05 million.

RESERVES

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

	\$000
Cash flow hedge reserve – to (from)	(941)
Retained earnings – to (from)	2,227

REVIEW OF OPERATIONS

The directors are pleased with the operating results achieved for the year ended 30 June 2009.

Net profit of \$15.43 million (2008: \$15.26 million) was a strong result in the year which saw a continuation of the slowdown in growth in Central Otago. The nature of electricity distribution assets

is such that the significant and ongoing capital expenditure required to sustain reliability lags actual growth. During the 2009 year, the investment in capital assets to expand and strengthen the distribution network was again in excess of the net profit achieved. The Commonage substation in Queenstown was constructed during the 2009 financial year and was commissioned in July 2009. This significantly improves reliability to the Queenstown area reducing the potential for outages.

The economic slowdown currently being experienced is expected to be of short time-frame relative to the life of electricity distribution assets and considerable planning is ongoing to identify areas where the network needs to be strengthened. Further major capital expenditure is planned for Central Otago to service the significant growth expected to return in this area.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2009 are attached to this report.

DIRECTORS' INTERESTS IN CONTRACTS

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

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

Any significant contracts involving directors' interests that were entered into during the year ended 30 June 2009 or existed at that date are disclosed in the related parties section of this report.

DIRECTORS

In accordance with the constitution of the company, Messrs Ross Liddell and Paul Hudson retire by rotation. Both are eligible and offer themselves for re-appointment.



BOARD OF DIRECTORS

Ray Polson, Ross Liddell,
Mike Coburn, Paul Hudson
Dr Norman Evans, Stuart McLauchlan

DIRECTORS' REMUNERATION

The remuneration paid to directors during the year was:

Raymond S Polson	\$42,875
Ross D Liddell	\$32,501
Michael O Coburn	\$20,438
Dr Norman G Evans	\$22,888
Paul R Hudson	\$20,438
Stuart J McLauchlan	\$20,438
	<u>\$159,578</u>

AUDIT COMMITTEE

Messrs Liddell, 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.

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.

Company Directory

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

26 August 2009



R D Liddell
DEPUTY CHAIRMAN

COMPANY SECRETARY

Stephen M Wilson CA

REGISTERED OFFICE

10 Halsey Street
Dunedin
New Zealand

BANKER

Westpac Banking Corporation

SOLICITOR

Gallaway Cook Allan

AUDITOR

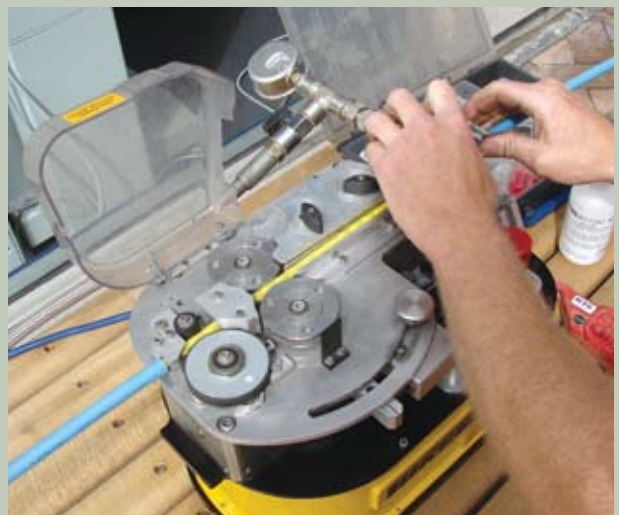
Audit New Zealand on behalf of
The Controller and Auditor-General

TAXATION ADVISOR

Deloitte



Aurora is at the forefront of providing an open fibre optic network in Dunedin and Queenstown, owning the assets of the Flute Network. Installation and management of the fibre is contracted to DELTA Utility Services Limited. Pictured is the procedure of 'blowing' fibres through the cable using compressed air.



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 – Newtons Coachways (1993) Limited

Chairman – Ophir Gold Limited

Chairman – Selwyn Plantation Board Limited

Director – Luggate Nominee Limited

Director – Marsh Advisory Board

Chairman – New Zealand Land Search and Rescue Inc
(resigned December 2008)

Chairman – GeoGroup Limited (resigned April 2009)

Chairman – Wensley Developments Limited and
subsidiaries (resigned June 2009)

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

Non-executive Deputy Chairman, June 1998

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

Chairman – Victory Lime 2000 Limited

Deputy Chairman – DELTA Utility Services Limited

Director – AB Lime Limited

Director – Blackhead Quarries Limited

Director – Citibus Limited

Director – Dunedin City Holdings Limited

Director – Newtons Coachways (1993) Limited

Michael O Coburn FNZIM, AF.Inst.D.

Non-executive Director, October 2003

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

Director – Arith Holdings Limited

(resigned August 2008)

Executive Director – Jack's Point Limited

(resigned December 2008)

Chairman – Clearwater Land Holdings Limited
(resigned May 2009)

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 – Halo Investment Management Limited

Director – Halo Fund No 1 Limited

Director – Newtons Coachways (1993) Limited

Director – Upstart Angels Limited

Director – Vouchermate Limited

(resigned November 2008)

Director – The Street New Zealand Limited

(resigned April 2009)

Paul R Hudson JP, BCom, CA

Non-executive Director, November 1999

Chairman – Citibus Limited

Chairman – Dunedin City Holdings Limited

Director – City Forests Limited

Director – DELTA Utility Services Limited

Councillor – Dunedin City Council

Stuart J McLauchlan BCom, FCA, 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 Pty 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

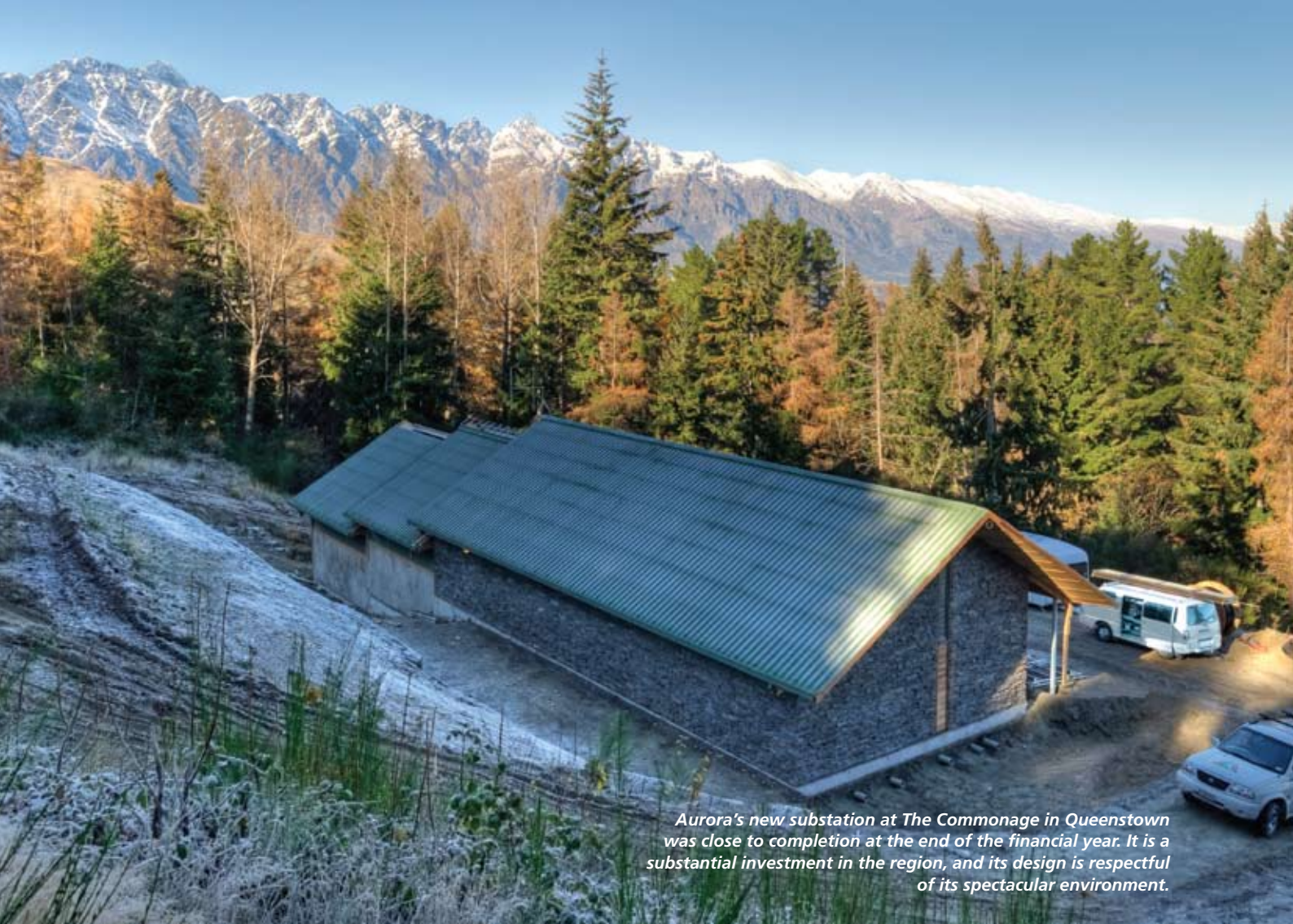
Director – Lund South Limited

Director – Otago & Southland Employers Association

Director – Scenic Circle Hotels Limited

Director – USC Investments Limited

Pro Chancellor – University of Otago



Aurora's new substation at The Commonage in Queenstown was close to completion at the end of the financial year. It is a substantial investment in the region, and its design is respectful of its spectacular environment.

Financial Statements

“Aurora's revenue, profit,
asset value and shareholder's
dividend **all increased**”

Income Statement 2009

For the year ended 30 June

	Note	2009 \$000	2008 \$000
Operating revenue	3	81,555	76,395
Financial revenue	4	132	211
Total revenue		81,687	76,606
Less expenses			
Operating expense	5	53,638	49,695
Financial expenses	6	6,700	6,250
Total expenditure		60,338	55,945
Profit before tax and subvention		21,349	20,661
Subvention payment provided		1,675	1,662
Profit before tax		19,674	18,999
Income tax expense	9	4,243	3,737
Net profit/(loss) for the year		15,431	15,262
Earnings per share – dollars	10	1.54	1.53

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

Statement of Changes in Equity 2009

For the year ended 30 June

	Note	2009 \$000	2008 \$000
Equity at beginning of the year		173,001	172,086
Recognised income and expense			
Gain/(Loss) on cash flow hedges taken to equity		(623)	(1,223)
Gain/(Loss) on cash flow hedges terminated		(318)	816
Net income recognised directly in equity		(941)	(407)
Net profit/(loss) for the year		15,431	15,262
Total recognised income and (expense) for the year		14,490	14,855
Less distribution to owners	8	13,204	13,940
Equity at end of the year		174,287	173,001

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

Balance Sheet 2009

As at 30 June

	Note	2009 \$000	2008 \$000
Equity			
Share capital	11	10,000	10,000
Cash flow hedge reserve	12	243	1,184
Retained earnings	13	164,044	161,817
Total equity		174,287	173,001
Current liabilities			
Trade and other payables	14	11,135	9,165
Other current liabilities	15	326	88
Taxation payable		1,034	292
Cashflow hedge instruments	21	486	0
Total current liabilities		12,981	9,545
Non-current liabilities			
Term borrowings	16	106,200	99,660
Deferred tax liability	17	52,636	52,160
Total non-current liabilities		158,836	151,820
Total liabilities		171,817	161,365
TOTAL EQUITY AND LIABILITIES		346,104	334,366

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

Balance Sheet 2009

As at 30 June – continued

	Note	2009 \$000	2008 \$000
Current assets			
Cash and cash equivalents	18	7	25
Trade and other receivables	19	9,782	9,050
Short-term investments	20	0	55
Cash flow hedge instruments	21	0	404
Inventories	22	11	11
Total current assets		9,800	9,545
Non-current assets			
Investments	20	11	11
Deferred tax asset	17	466	451
Property, plant and equipment	23	335,827	324,359
Total non-current assets		336,304	324,821
TOTAL ASSETS		346,104	334,366

For and on behalf of the board of directors



R S Polson
CHAIRMAN

26 August 2009



R D Liddell
DEPUTY CHAIRMAN

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

Statement of Cash Flows 2009

For the year ended 30 June

	Note	2009 \$000	2008 \$000
Cash flows from operating activities			
<i>Cash was provided from</i>			
Receipts from customers		80,822	75,716
Interest and dividends received		132	211
		<hr/> 80,954	<hr/> 75,927
<i>Cash was disbursed to</i>			
Payments to suppliers		43,637	40,628
Interest paid		7,151	6,723
Tax loss/subvention payments		1,912	1,759
Income tax paid		724	3,196
Net GST paid/(received)		(147)	23
		<hr/> 53,277	<hr/> 52,329
Net cash inflows/(outflows) from operating activities	25	<hr/> 27,677	<hr/> 23,598
Cash flows from investing activities			
<i>Cash was provided from</i>			
Receipts from cash flow hedges		0	1,569
Sale of investments		55	0
		<hr/> 55	<hr/> 1,569
<i>Cash was disbursed to</i>			
Purchase of property, plant and equipment		21,086	17,222
		<hr/> 21,086	<hr/> 17,222
Net cash inflows/(outflows) from investing activities		<hr/> (21,031)	<hr/> (15,653)

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

Statement of Cash Flows 2009

For the year ended 30 June – continued

	Note	2009 \$000	2008 \$000
Cash flows from financing activities			
<i>Cash was provided from</i>			
Proceeds from borrowings		29,140	32,110
		29,140	32,110
<i>Cash was disbursed to</i>			
Repayment of borrowings		22,600	26,130
Dividends paid		13,204	13,940
		35,804	40,070
Net cash inflows/(outflows) from financing activities		(6,664)	(7,960)
Net increase/(decrease) in cash, cash equivalents and bank overdraft		(18)	(15)
Cash and cash equivalents at beginning of the year		25	40
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	18	7	25

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 2009

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 26 August 2009.

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 Company.

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.

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 values 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
Optical fibre network assets	2% to 10%	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 or 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 or 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 and foreign currency exchange rates. The Company uses cash flow hedge instruments (interest rate swap contracts and foreign exchange forward 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 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

	2009 \$000	2008 \$000
3 OPERATING REVENUE		
Sales revenue	78,457	74,128
Avoided transmission constraint and loss revenue	3,098	2,267
	<u>81,555</u>	<u>76,395</u>
4 FINANCIAL INCOME		
Interest and dividends received	<u>132</u>	<u>211</u>
5 OTHER EXPENSES		
Included in the operating expenses of the Company are the following items:		
Audit fees		
– for audit of financial statements	34	34
– for audit services in relation to regulatory (information disclosure) reporting	16	6
Total audit fees	<u>50</u>	<u>40</u>
Transmission costs	24,504	21,652
Depreciation	10,968	10,534
Maintenance costs	9,671	9,502
Other contractor costs	813	519
Directors' fees	160	145
Bad debts written-off	54	26
Lease expense	71	47
Increase/(Decrease) in impairment provision for trade and other receivables	19	28

For the year ended 30 June			2009	2008	
			\$000	\$000	
6 FINANCIAL EXPENSES					
Interest – related parties			7,155	6,250	
Interest amortised from cash flow hedge close out			(455)	0	
Interest – term loans			0	0	
Total financial expenses			6,700	6,250	
7 LEASE COMMITMENTS					
Non-cancellable operating lease commitments					
Payable within one year			42	26	
Payable between one to five years			38	61	
Payable later than five years			8	18	
			88	105	
8 DIVIDENDS					
Interim dividend	December	\$0.500/share (\$0.400, 2008)	5,000	4,000	
Interim dividend	March	\$0.280/share (\$0.250, 2008)	2,800	2,500	
Interim dividend	May	\$0.280/share (\$0.250, 2008)	2,800	2,500	
Final dividend	June	\$0.206/share (\$0.494, 2008)	2,604	4,940	
			\$1.320 per share for 2009 (\$1.394, 2008)	13,204	13,940
9 INCOME TAX					
Operating profit before income tax			19,674	18,999	
Tax thereon at 30% (2008: 33%)			5,902	6,269	
<i>Plus/(Less) the tax effect of differences</i>					
Revenue not liable for taxation			(1,705)	(2,157)	
Expenditure (deductible)/non-deductible for taxation purposes			32	(342)	
Under/(Over) tax provision in prior years			14	(33)	
Tax effect of differences			(1,659)	(2,532)	
Tax expense			4,243	3,737	
<i>Represented by</i>					
Current tax provision			3,364	3,866	
Deferred tax provision			865	(96)	
Under/(Over) tax provision in prior years			14	(33)	
Income tax			4,243	3,737	
Imputation credit account					
Balance at beginning of the year			(4,753)	(3,833)	
Tax refunds			(1,605)	(378)	
Taxation payments made			2,330	3,575	
Credits attached to dividends paid			(2,287)	(4,117)	
Balance at end of the year			(6,315)	(4,753)	

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

	2009 \$000	2008 \$000
Number of shares		
Weighted average number of ordinary shares	10,000,000	10,000,000
Basic earnings per share in dollars	1.54	1.53

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	1,184	1,591
Net revaluations	(890)	(1,748)
Cash flow hedge closed out	(455)	1,161
Deferred tax arising on hedges (note 17)	404	180
Balance at end of the year	243	1,184

The cash flow hedge reserve is comprised of 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	161,817	160,495
Net profit for the year	15,431	15,262
Dividend distributions	(13,204)	(13,940)
Balance at end of the year	164,044	161,817

14 TRADE AND OTHER PAYABLES

Trade payables	3,670	3,480
Due to related parties – other	5,734	4,023
– Dunedin City Holdings Limited	1,731	1,662
	11,135	9,165

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

For the year ended 30 June

2009	2008
\$000	\$000

15 OTHER CURRENT LIABILITIES

GST payable	326	82
Other	0	6
	<u>326</u>	<u>88</u>

16 TERM BORROWINGS (SECURED)

Dunedin City Treasury Limited – related party	106,200	99,660
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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 \$110,000,000.

The repayment periods on the term borrowings are:

Repayable between one to two years	0	0
Repayable between two to five years	0	0
Repayable later than five years	106,200	99,660
	<u>106,200</u>	<u>99,660</u>

The weighted average interest rate for the loan inclusive of any current portion, was 7.14% (2008 : 7.62%).

17 DEFERRED TAX

2009 \$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	(51,653)	0	(733)	0	(52,386)	(52,386)
Provisions	65	0	5	70	0	70
Revaluations of interest rate swaps	(121)	267	0	146	0	146
Close out of interest rate swaps	0	137	(137)	250	(250)	0
Balance at end of the year	<u>(51,709)</u>	<u>404</u>	<u>(865)</u>	<u>466</u>	<u>(52,636)</u>	<u>(52,170)</u>

2008 \$000

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>

For the year ended 30 June

2009	2008
\$000	\$000

18 CASH AND CASH EQUIVALENTS

Cash and bank	7	25
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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	9,769	8,803
Less estimated impairment	(61)	(43)
	9,708	8,760
Due from related parties		
– Dunedin City Council and Group entities	48	0
– Other related parties	26	290
	9,782	9,050

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	0	55
Investments – listed companies	11	11
	11	66

Short-term investment

During the 2002 year, the Company purchased 5,632,567 shares in OP Distributions Limited (formerly Otago Power Limited), as part of an unsuccessful take-over bid. OP Distributions Limited was subsequently placed in liquidation, with the liquidation proceeds being returned to shareholders. Final proceeds were received in December 2008.

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 revaluations – receivable	0	404
Interest rate swaps revaluations – payable	(473)	0
Foreign exchange forward contracts – payable	(13)	0
	(486)	404

22 INVENTORIES

Network spare parts	11	11
	11	11

23 PROPERTY, PLANT AND EQUIPMENT

2009 \$000	Land	Buildings	Electrical network	Plant equipment	Sub-total
Cost					
Balance at beginning of the year	3,367	10,219	339,776	2,063	355,425
Purchases	707	0	13,705	29	14,441
Disposal	0	0	0	0	0
Transfer	0	0	0	0	0
Balance at end of the year	4,074	10,219	353,481	2,092	369,866
Accumulated depreciation					
Balance at beginning of the year	0	738	32,691	600	34,029
Depreciation	0	103	10,654	204	10,961
Disposal	0	0	0	0	0
Transfer	0	0	0	0	0
Balance at end of the year	0	841	43,345	804	44,990
Carrying amounts	4,074	9,378	310,136	1,288	324,876

2009 \$000	Sub-total	Motor vehicles	Office equipment	Optical fibre network	Construction in progress	Total
Cost						
Balance at beginning of the year	355,425	42	16	0	2,921	358,404
Purchases	14,441	0	0	457	7,538	22,436
Disposal	0	0	0	0	0	0
Transfer	0	0	0	0	0	0
Balance at end of the year	369,866	42	16	457	10,459	380,840
Accumulated depreciation						
Balance at beginning of the year	34,029	10	6	0	0	34,045
Depreciation	10,961	3	3	1	0	10,968
Disposal	0	0	0	0	0	0
Other	0	0	0	0	0	0
Balance at end of the year	44,990	13	9	1	0	45,013
Carrying amounts	324,876	29	7	456	10,459	335,827

23 PROPERTY, PLANT AND EQUIPMENT

2008 \$000	Land	Buildings	Electrical 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	19	6	0	34,045
Carrying amounts	321,396	32	10	2,921	324,359

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

7,788 9,374

For the year ended 30 June

2009	2008
\$000	\$000

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

Net profit/(loss) for the year	15,431	15,262
<i>Items not involving cash flows</i>		
Depreciation	10,968	10,534
Increase/(Decrease) in deferred tax	461	(276)
Net of tax movement of cash flow hedge instruments	(941)	(407)
(Increase)/Decrease in cash flow hedge instrument valuation	890	1,747
<i>Impact of changes in working capital items</i>		
(Increase)/Decrease in trade and other receivables	(732)	(792)
(Increase)/Decrease in investments	0	0
(Increase)/Decrease in inventories	0	0
Increase/(Decrease) in trade and other payables	1,970	(619)
Increase/(Decrease) in provision for tax	742	(1,120)
Increase/(Decrease) in other current liabilities	238	(160)
<i>Items classified as investing or financing activities</i>		
Capital creditors in accounts payable	(1,350)	999
Gain on sale of cash flow hedge instruments	0	(1,570)
Net cash inflows/(outflows) from operating activities	27,677	23,598

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:

	2009	2008
	\$000	\$000
Purchases of goods and services from Dunedin City Holdings Limited:		
Subvention payments provided for	1,675	1,662
Management fees	200	200
	1,875	1,862

For the year ended 30 June	2009	2008
	\$000	\$000
Purchases of goods and services from Dunedin City Council:		
Capital work	37	0
Rates and property leases	329	361
Interest/facility fees	1	1
	<u>367</u>	<u>362</u>
Purchases of goods and services from other Dunedin City Council Group entities:		
Capital work	13,024	11,535
Network management and operation	14,136	13,586
Interest/facility fees	7,155	6,250
Subvention/tax loss offset payments	1,912	1,759
Contracting services	1,172	963
Management fees	90	60
Accounting, administration and secretarial	187	182
Sundry and consulting	64	69
Lease of meters	43	44
	<u>37,783</u>	<u>34,448</u>
At period end the amounts payable by Aurora Energy Limited to group entities:		
Dunedin City Holdings Limited	1,731	1,662
Other Dunedin City Council Group entities	112,420	103,683
	<u>114,151</u>	<u>105,345</u>
Sales of services to Dunedin City Council:		
Headworks fees	45	0
Other	21	0
	<u>66</u>	<u>0</u>
Sales of services to Dunedin City Council Group entities:		
Interest	3	1,729
Distribution of electricity	0	82
Shut-down charges	32	46
Rent	49	23
Service failure penalties	32	55
Other	0	5
	<u>116</u>	<u>1,940</u>
At period end, the amounts receivable by Aurora Energy Limited from Dunedin City Council group entities are:		
Dunedin City Council	24	0
Other Dunedin City Council Group entities:	<u>24</u>	<u>448</u>

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 arm's length commercial basis.

Transactions with companies in which directors have an interest:

Mr M O Coburn was 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 \$78,904 were provided to Jack's Point Limited (2008: \$164,417). No monies were owing to Aurora at the end of the year (2008: \$154,767). Also, in the ordinary course of business during the financial period covered by this report, services valued at \$81,254 were provided by Jack's Point Limited (2008: nil). No monies were owing to Jack's Point Limited at the end of the year.

Mr Coburn was a director of Arith Holdings Limited. In the ordinary course of business during the financial period covered by this report, services valued at \$69,487 (2008: nil) were provided by Arith Holdings Limited and offset against monies owing to Aurora Energy Limited. \$12,722 was owing to Aurora at the end of the year (2008: \$90,895).

Mr R S Polson was the chairman of Wensley Developments Limited. Aurora Energy Limited is a party to an agreement with Wensley Developments Limited for the provision of electricity reticulation services to a Wensley development. In the ordinary course of business during the financial period covered by this report, services valued at \$35,299 were provided to Wensley Developments Limited (2008: nil). \$13,485 was owing to Aurora Energy Limited at the end of the year (2008: nil). Services valued at \$23,313 were provided by Wensley Developments Limited (2008: nil). No monies were owing by Aurora Energy Limited at the end of the year (2008: 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:

	2009 \$000	2008 \$000
Maturing in less than one year	0	0
Maturing between one and five years	10,000	10,000
Maturing after five years	0	0
	10,000	10,000

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:

	2009 \$000	2008 \$000
Cash and cash equivalents	7	25
Trade and other receivables	9,782	9,050
Short-term investments	11	66
Cash flow hedge instruments	0	404
	<u>9,800</u>	<u>9,545</u>

Past due, but not impaired, receivables are:

Past due receivables

Age analysis:	30-60 days	48	19
	60-90 days	18	5
	90 days plus	74	20
		<u>140</u>	<u>44</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 2009:

\$000	Maturity dates				More	No	
	less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 Years	than 5 Years	maturity	Total
Financial assets							
Cash and cash equivalents	7	0	0	0	0	0	7
Trade and other receivables	9,782	0	0	0	0	0	9,782
Short-term investments	0	0	0	0	0	0	0
Long-term investments	0	0	0	0	0	11	11
	<u>9,789</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11</u>	<u>9,800</u>

\$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	11,135	0	0	0	0	0	11,135
Other current liabilities	326	0	0	0	0	0	326
Taxation payable	0	0	1,034	0	0	0	1,034
Cash flow hedge instruments	0	0	486	0	0	0	486
Term borrowings	0	0	0	0	106,200	0	106,200
	<u>11,461</u>	<u>0</u>	<u>1,520</u>	<u>0</u>	<u>106,200</u>	<u>0</u>	<u>119,181</u>

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

\$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	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>66</u>	<u>9,545</u>
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
	<u>9,253</u>	<u>0</u>	<u>326</u>	<u>0</u>	<u>99,660</u>	<u>0</u>	<u>109,205</u>

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		-100bps	
		profit	equity	profit	equity
Financial assets					
Cash flow hedge instruments	486	0	247	0	(256)
Term borrowings (hedged)	10,000	0	(247)	0	256
Term borrowings (unhedged)	16,200	162	0	(162)	0
	<u>17,686</u>	<u>162</u>	<u>0</u>	<u>(162)</u>	<u>0</u>

30 CAPITAL MANAGEMENT STRATEGY

The capital of the Company is its equity, which is comprised of subscribed capital and retained earnings and cash flow hedge reserves. 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 in the medium term, 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.



Aurora diligently maintains its rural networks, providing reliability of supply to farms, orchards and vineyards, and the small communities these industries support.

**TO THE READERS OF AURORA ENERGY LIMITED'S
FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2009**

The Auditor-General is the auditor of Aurora Energy Limited (the company). The Auditor-General has appointed me, Ian Lothian, 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 for the year ended 30 June 2009.

Unqualified Opinion

In our opinion:

- 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 2009;
 - 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 2009.
- Based on our examination the company kept proper accounting records.

The audit was completed on 27 August 2009, 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. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and 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 financial statement and statement of service performance 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 2009. They must also give a true and fair view of the results of operations and cash flows for the year ended on that date. The Board of Directors is also responsible for preparing the statement of service performance that gives a true and fair view of service performance achievements for the year ended 30 June 2009. 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 involve issuing audit certificates pursuant to the *Electricity Information Disclosure Regulations 2008*. These assignments are compatible with those independence requirements. Other than these assignments, we have no relationship with or interests in the company.



Ian Lothian
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand



Vineyard in Charcoal Gully, Cromwell.
Frost-fighting using irrigation
sprinklers increases the winter
demand on Aurora's rural network.

