

aurora energy limited

annual report **2010**



Aurora 

# Network Regions and Capability

## ELECTRICITY DISTRIBUTION NETWORK AT A GLANCE

For year-ended 31 March 2010

Number of consumer connections	81,126
Energy received for distribution	1,358GWh
Capacity of transformers	868MVA
Capacity utilisation	33%
Number of zone substations	36
Number of bulk supply points	5
Length of lines and cables	5,600km



### COVER PHOTO:

Jacks Point golf course clubhouse near Queenstown, with the Eyre Mountains in the background.  
Photographer: Tim Hawkins.

### BACK COVER PHOTO:

Dramatic winter skies over Port Otago's container wharf facilities and Careys Bay.  
Photographer: Michael McQueen.

# aurora 2010

## **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 \$18.8 million.
- Assets increased to \$357.3 million.
- Paid dividends of \$15.0 million to its shareholder.
- Flute's fibre network continues coverage of Dunedin and Queenstown.
- The Commonage substation opened in Queenstown.
- Electricity connections increased to 81,763 despite property slump.
- Substantial support to community groups and events.

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*The spectacular landscape of Jacks Point and the Eyre Mountains, near Queenstown, illustrates the geophysical, environmental and ecological challenges faced with providing a reliable electricity network to Central Otago.*



RAY POLSON  
CHAIRMAN

## Chairman's Report

“

A **profit in excess of \$15 million** was achieved while supply quality and distribution price remained within thresholds.

”





## FINANCIAL RESULTS FOR THE YEAR

**I am pleased to present Aurora Energy Limited's twentieth Annual Report, covering the twelve months ended 30 June 2010.**

The trading profit for the year was \$18.83 million (2009: \$21.35 million) after a revenue decrease of \$2.83 million to \$78.73 million (\$81.56 million: 2009). The largest part of this decline was a reduction of \$2.06 million in transmission loss and constraint revenue to \$1.04 million (2009: \$3.10 million). This revenue is a function of national electricity markets, is managed nationally by Transpower and is outside of any possible influence by Aurora. These sums are, however, passed direct to electricity retailers operating on Aurora's network.

Net profit was \$15.58 million (2009: \$15.43 million) after providing for a subvention payment to the shareholder (Dunedin City Holdings Limited) of \$1.50 million (2008: \$1.68 million).

The net profit is affected by changes to future tax rates and the removal of depreciation for tax purposes from buildings which, together, have provided a reduced tax expense in the current year of \$2.69 million. This is a non-cash transfer between tax expense and deferred tax provision in the balance sheet rather than a reduction in the amount of tax that is required to be paid to the Inland Revenue Department from the current year's earnings.

## DIVIDENDS

The shareholder has continued to benefit from Aurora's excellent financial results, with dividends equivalent to \$15.03 million (2009: \$14.38 million) being paid. Over the past five years, total dividends to the shareholder have amounted to \$60.93 million, with \$44.46 million of this being paid over the past three years. Additional benefits were provided through the continued undergrounding of overhead electricity distribution equipment for cityscape purposes and the ongoing development of a high speed fibre optic communication network in the CBD, known as the Flute Network.

## 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 agreement is supply quality, with the contract specifying steady improvement in the global reliability over the term of the agreement. A SAIDI of 93.2 minutes (97.95 previous four-year average) was achieved.

## GROWTH

Growth in the volume of electricity delivered declined during the period to 2006 levels as a result of the warmer weather experienced and the slowdown in economic activity in Dunedin and Queenstown. This resulted in the volume of electricity used in these regions being less than the prior year.

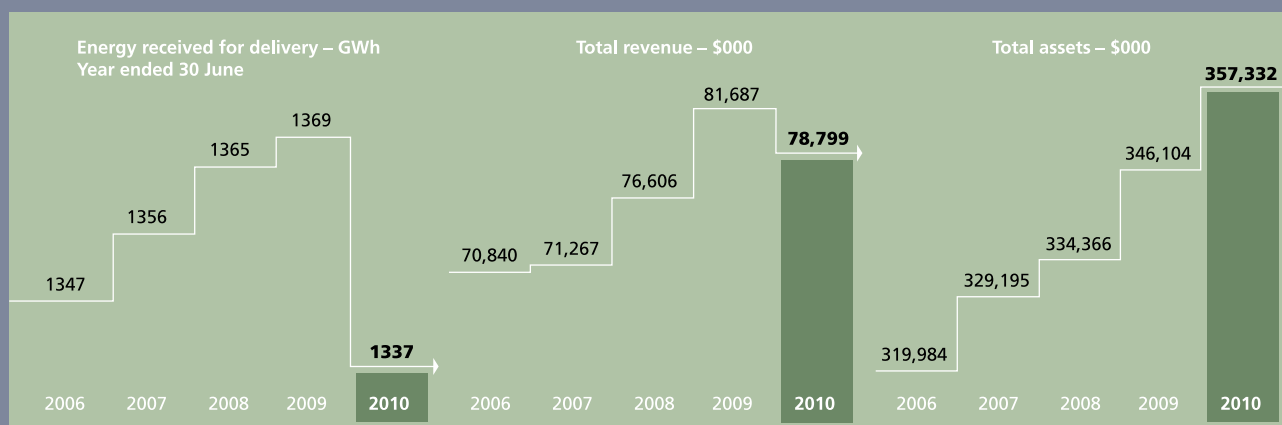
New connections increased by 1.09% (2009: 1.04%) to 81,763 during the year; which was again considerably higher than energy growth. The deterioration in economic conditions that commenced in the 2008 year continued through the current year, with the tightened access to development capital impacting on growth rates in the Central Otago and Lakes districts. While a continuation of reduced growth rates is anticipated in the forthcoming year, these areas have historically performed well compared to other regions and are likely to insulate Aurora from any further effect of the economic down-turn.

## INDUSTRY ISSUES

Considerable activity was directed during the year at providing information and submissions to the Commerce Commission on the new five-year regulatory control regime that commenced on 1 April 2010. The CPI-X price control regime was continued; however, a substantial base price reset effective from 1 April 2012 is likely and it is a concern that this still remains 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. The Commission's proposed approach to key items such as the Regulatory Asset Base and the Weighted Average Cost of Capital (WACC) raises serious questions about the lack of emphasis being given to encourage future investment. This will have serious



## RESULTS AT A GLANCE





*Far left and left: The Commonage substation at Queenstown was officially opened by Aurora chairman, Ray Polson, and Queenstown and Lakes District Council mayor, Clive Geddes.*

*Above: Work continues on the new substation in the Cardrona Valley.*

consequences for the funding of the capital work required to replace ageing assets, expand the networks and maintain quality of supply. The out-of-date low Regulatory Asset Base and a low value for WACC, will result in the delicate balance between maintaining shareholder returns and the necessary investment in assets to maintain the quality of supply, being disturbed. The allowable return also has to accommodate inflation on the Regulatory Asset Base and this will impact heavily on the cash flows. The likely environment will not be conducive for the investment of capital.

It is unfortunate that, to date, the Commission has largely ignored the weight of submissions and inputs into its consultation process. The impact on the economic wellbeing of the electricity distribution business sector of a continuation of the current direction, is likely to seriously affect the future quality of supply and growth through an inability to attract the capital required for investment.

The continued exclusion of achieved quality of supply from Commission efficiency analysis, disadvantages Aurora whose supply quality is significantly better than average. Faulty determinations affect the economic wellbeing and the future investment decisions of electricity distribution businesses and it is for this reason that Aurora continues to invest in the submission process.

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

Aurora continues to believe that there are considerable efficiencies to be achieved through the consolidation of electricity distribution businesses. Aurora continues to explore all opportunities where it can work closer with other like-minded electricity distribution businesses to bring this industry consolidation to fruition.

## 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 worked on during the year, with commissioning complete or imminent, and a further one being actively investigated.

## DEMAND MANAGEMENT

Aurora's demand management programme for major consumers remains a considerable success, with over 80 industrial consumers taking advantage of this service during the year. Designed to help industrial consumers reduce their electricity delivery costs by managing their own demand at peak load periods, the internet-based programme provides weekly and monthly forecasts of network congestion plus dynamic signalling via the internet and SMS messages of when peak periods occur. Industrial consumers can use this information 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 delays in the restoration of electricity supply following an interruption, 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, \$48,653 was paid to retailers, along with details of the 794 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, education and culture. Sponsorships during the year included:

- Regional sponsorship of school science and technology fairs
- Dunedin Festival of the Arts
- Otago Museum educational exhibitions
- University of Otago scholarships through the New Zealand Education Scholarship Trust
- Southern Lakes Festival of Colour
- Central Otago Blossom Festival.

Additionally, Aurora assisted the Otago Clean Air project in its efforts to improve air quality in Central Otago and the Otago Warm Homes project with insulation upgrades of houses in Dunedin.

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 undergrounding of lines. During the year, \$0.73 million was invested in undergrounding of overhead

electricity distribution equipment in Kaikorai Valley Road, Dunedin. 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 strong, with total assets of \$357.3 million (2009: 346.1 million) and term debt of \$118.8 million.(2009: \$106.2 million) Trading results are expected to remain stable with Aurora being well placed to weather any further effects of the economic downturn. However, despite Aurora's above-average supply quality and below-average prices, the outcome of the regulatory price reset determination has the potential to significantly affect the profitability of the business and its ability to fund the necessary capital expenditure required to maintain supply quality.

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, Queenstown commissioned in July 2009, work commence on a new zone substation at Cardrona and the substantial renewal of substations in Dunedin and Frankton.

Capital expenditure for the year was \$23.2 million (2009:\$22.8 million) and is expected to remain in the range of \$20 million to \$25 million per year over coming years.

#### SUPPORTING OUR COMMUNITY



*Aurora contributed to the Otago Warm Homes project to insulate homes in Dunedin and Central Otago.*



*Overhead lines are removed from Dunedin's Kaikorai Valley Road, improving aesthetics and road safety.*



## OUTLOOK

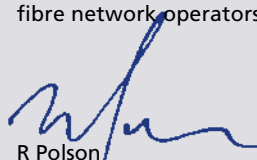
The outlook for Aurora is for a solid year in 2011. The effects of regulation and, in particular, the proposed Starting Price Adjustments (P0) expected to be effective from April 2012, are a serious concern and, in its present form, will materially affect the future cash flows of the company from that point onwards.

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 2009, Aurora purchased the Dunedin and Queenstown high speed fibre optic communication network off *DELTA*. *DELTA* was subsequently engaged to further grow this network, to manage the assets, and to advance Aurora's strategy of becoming the high speed fibre communications operator in its areas of interest. This strategy has further advanced through growing the Dunedin fibre network to 12 kilometres with a backbone now in place through the CBD.

The government proposal to partner in the development of fibre networks to 75% of urban residential properties by 2020, has provided an opportunity for Aurora to participate in a far more extensive and quicker roll-out of the high speed fibre communications network than would otherwise have been the case. Considerable effort has been applied over the 2010 year pursuing this opportunity, and this effort will continue into the 2011 financial year. We expect to be named as one of

the government's partners in the Otago and Southland regions when the announcements are made at the end of 2010 / early 2011. Aurora's involvement has been as part of a nationally co-ordinated regional fibre group (NZRFG) encompassing electricity lines businesses and independent fibre network operators throughout New Zealand.

  
R Polson  
CHAIRMAN  
1 September 2010



*Aurora's mobile substation provided temporary service while the Ward Street substation was upgraded.*



*Aurora's principal community support focus is on youth and education. Pictured is the University Of Otago's Information Services Building, the 'student library'.*



*Built in 1938 in art deco style, the Ward Street substation was upgraded with heritage conservation a major objective of Aurora's asset management programme.*

# Trend Statement

Year ended 30 June		2010	2009	2008	2007	2006
Energy received for delivery	GWh	1,337	1,369	1,365	1,356	1,347
Energy delivery reliability (average time without supply per customer per annum)	minutes	93.2	65.4	134.4	102.0	90.0
<b>Total revenue</b>	\$000	<b>78,799</b>	81,687	76,606	71,267	70,840
Trading profit before tax (before subvention payments)	\$000	<b>18,828</b>	21,349	20,661	22,511	20,931
EBIT/Average funds employed		7.5%	8.2%	8.1%	8.9%	8.7%
Tax – current year provision		<b>4,284</b>	4,229	3,770	4,616	3,308
– prior year (over) under-provision		<b>(2,534)</b>	14	(33)	(161)	(9,491)
<b>Net profit for the year (before subvention payments)</b>	\$000	<b>16,630</b>	16,604	16,376	17,568	26,200
Net profit for the year (after subvention payments) (1)	\$000	<b>15,583</b>	15,431	15,262	16,576	25,147
Cashflow from operating activities	\$000	<b>24,720</b>	27,677	23,598	28,806	26,783
Special dividends	\$000	<b>0</b>	0	0	0	0
Ordinary dividends	\$000	<b>13,985</b>	13,204	13,940	7,977	6,440
Total dividends	\$000	<b>13,985</b>	13,204	13,940	7,977	6,440
<b>Equivalent dividends</b> (actual dividends plus after tax value of subvention payments)	\$000	<b>15,032</b>	14,377	15,054	8,969	7,493
Shareholder's equity	\$000	<b>175,753</b>	174,287	173,001	172,086	156,977
Total assets	\$000	<b>357,332</b>	346,104	334,366	329,195	319,984
Return on average equity		<b>8.90%</b>	8.89%	8.85%	10.07%	15.59%
Equity to total assets		<b>49%</b>	50%	52%	52%	49%

Notes:

- (1) Aurora Energy Limited is part of the Dunedin City Holdings group of companies. Aurora Energy Limited makes pre-tax subvention payments to its parent company which has the effect of reducing the net profit for the year.

# 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.	<b>Achieved.</b> 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.	<b>Achieved.</b> 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.	<b>Achieved.</b> Matters of substance were reported to the shareholder within the required timeframe.														
4 To achieve all financial projections.  EBITDA Net profit Shareholder's funds Equivalent dividends Shareholder's funds to total assets	<p><b>Not all achieved.</b></p> <table> <tr> <th>Achieved</th><th>Target</th></tr> <tr> <td>\$000</td><td>\$000</td></tr> <tr> <td>37,638</td><td>37,466</td></tr> <tr> <td>15,583</td><td>17,315</td></tr> <tr> <td>175,753</td><td>176,400</td></tr> <tr> <td>15,032</td><td>15,088</td></tr> <tr> <td>49%</td><td>49%</td></tr> </table>	Achieved	Target	\$000	\$000	37,638	37,466	15,583	17,315	175,753	176,400	15,032	15,088	49%	49%
Achieved	Target														
\$000	\$000														
37,638	37,466														
15,583	17,315														
175,753	176,400														
15,032	15,088														
49%	49%														
5 To obtain ownership or management of an additional group of utility assets.	<b>Not achieved.</b> 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><b>Not achieved.</b></p> <table> <tr> <th>Achieved</th><th>Target</th></tr> <tr> <td>\$000</td><td>\$000</td></tr> <tr> <td>6,639</td><td>6,205</td></tr> </table>	Achieved	Target	\$000	\$000	6,639	6,205								
Achieved	Target														
\$000	\$000														
6,639	6,205														
7 To ensure that the reporting requirements of the company and shareholder are met.	<b>Achieved.</b> 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.	<b>Achieved.</b> 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.	<b>Achieved.</b> No notification of any breaches of any resource laws has been received.														
10 To undertake appropriate under-grounding of overhead lines.	<b>Achieved.</b> 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.	<b>Achieved.</b> 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 <b>31 March</b>		<b>2010</b>	2009	2008	2007	2006
<b>System physical measures</b>						
Average length of lines and cables	km	<b>5,600</b>	5,544	5,436	5,365	5,252
Average capacity of distribution transformers	MVA	<b>868</b>	860	840	829	800
Distribution transformer capacity utilisation		<b>33%</b>	32%	34%	33%	34%
<b>Consumer measures</b>						
Average number of consumer connections		<b>81,129</b>	80,249	79,076	77,712	76,400
System maximum demand	MW	<b>285</b>	275	283	276	269
Energy received for delivery	GWh	<b>1,358</b>	1,357	1,361	1,360	1,347
Average load factor		<b>54%</b>	56%	55%	56%	57%
Average minutes off per fault	CAIDI	<b>56</b>	55	77 <sup>(1)</sup>	56	56
Average faults per annum	SAIFI	<b>1.5</b>	1.23	1.8	1.8	1.7
Average minutes off per annum	SAIDI	<b>83</b>	68	140 <sup>(1)</sup>	101	97

**Notes:**

CAIDI - Consumer Average Interruption Duration Index

SAIFI - System Average Interruption Frequency Index

SAIDI - System Average Interruption Duration Index

(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.



*Aurora has now established a 12km backbone of fibre optic cable throughout Dunedin's CBD, including to Dunedin's famous railway station.*



# Directors' Report

For the year ended 30 June 2010

The directors of Aurora Energy Limited are pleased to report on the financial results and associated matters for the year ended 30 June 2010.

## 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	18,828
– less subvention payments	1,495
Operating profit before income tax	17,333
– less income tax expense	4,284
– plus prior year (over)/under tax provision	(2,534)
Net profit for year after income tax	15,583

## STATE OF AFFAIRS

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

## DIVIDENDS

Total dividends of \$13.985 million were declared and paid for the year ended 30 June 2010. In addition, a subvention payment of \$1.495 million to Dunedin City Holdings Limited has been provided for. The dividend equivalent of this subvention payment is \$1.047 million, giving total equivalent dividends of \$15.032 million to be paid for the year. Equivalent dividends last year amounted to \$14.380 million.

## RESERVES

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

	\$000
Cash flow hedge reserve – to (from)	(132)
Retained earnings – to (from)	1,598

## REVIEW OF OPERATIONS

The directors are pleased with the operating results achieved for the year ended 30 June 2010.

Net profit of \$15.58 million (2009: \$15.43 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 and provide for growth is required well in advance of the resulting revenue increase. During the 2010 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.

The Commerce Commission is currently determining regulatory starting prices effective from 1 April 2011 for the current five-year regulatory period. This may affect future profitability and cashflow.

## FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2010 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 2010 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 Raymond Polson and Stuart McLauchlan 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	\$ 45,625
Ross D Liddell	\$ 34,814
Michael O Coburn	\$ 21,750
Dr Norman G Evans	\$ 21,750
Paul R Hudson	\$ 21,750
Stuart J McLauchlan	\$ 24,625
	<u>\$ 170,314</u>



#### BOARD OF DIRECTORS

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

#### AUDIT COMMITTEE

Messrs Liddell, Polson and McLauchlan 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



Dunedin City CBD

# Company Directory

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

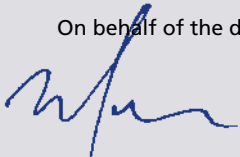
No director has, since the end of the previous financial year, received or become entitled to receive a benefit other than a benefit included in the total remuneration received or due and receivable by the directors shown in the financial statements.

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

1 September 2010



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





## 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  
 Director – Zelan Pastoral Limited

**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 – Hunterfields Investments Limited  
 Director – McMahon Investments Limited  
 Director – Newtons Coachways (1993) Limited  
 (resigned 1 July 2009)

**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 – Newtons Coachways (1993) Limited  
 Director – New Zealand Land Trust Limited  
 and subsidiaries  
 Director – Ruboc Holdings 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 – Halo Investment Management Limited  
 Director – Halo Fund No 1 Limited  
 Director – Upstart Angels Limited  
 Director – Newtons Coachways (1993) Limited  
 (resigned 16 July 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 – NZ Sports Hall of Fame  
 Chairman – Scott Technology Limited  
 Deputy Chairman – Pharmac  
 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 – Helicopters (NZ) Limited  
 Director – Hornchurch Limited  
 Director – Lund South Limited  
 Director – Newtons Coachways (1993) Limited  
 Director – Otago & Southland Employers Association  
 Director – Scenic Circle Hotels Limited and subsidiaries  
 Director – Southbury Corporation Limited  
 Director – South Canterbury Finance Limited  
 and subsidiaries  
 Director – University of Otago Foundation  
 Studies Limited  
 Director – USC Investments Limited  
 Pro Chancellor – University of Otago  
 Chairman – Highlanders Rugby Trust  
 (resigned October 2009)





*The demand for irrigation in Central Otago continues to grow, particularly in the viticultural and dairy sectors. Pictured: vineyards at Bendigo.*

## Financial Statements

“Aurora’s direct contributions to its shareholder increased to a substantial \$15 million”

# Statement of Comprehensive Income

For the year ended 30 June

	Note	2010 \$000	2009 \$000
Operating revenue	3	78,729	81,555
Financial revenue	4	70	132
Total revenue		78,799	81,687
Less expenses			
Operating expense	5	52,589	53,638
Financial expenses	6	7,382	6,700
Total expenditure		59,971	60,338
<b>Profit before tax and subvention</b>		<b>18,828</b>	<b>21,349</b>
Subvention payment provided		1,495	1,675
<b>Profit before tax</b>		<b>17,333</b>	<b>19,674</b>
Income tax expense	9	1,750	4,243
<b>Net profit/(loss) for the year</b>		<b>15,583</b>	<b>15,431</b>
Other comprehensive income			
Gain/(Loss) on cashflow hedges		23	(623)
Gain/(Loss) on terminated cashflow hedges		(155)	(318)
Total other comprehensive income		(132)	(941)
Total comprehensive income		15,451	14,490
<b>Earnings per share – dollars</b>	<b>10</b>	<b>1.56</b>	<b>1.54</b>

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

## Statement of Changes in Equity

For the year ended 30 June

	Note	2010 \$000	2009 \$000
<b>Equity at beginning of the year</b>		<b>174,287</b>	<b>173,001</b>
<b>Recognised income and expense</b>			
Total comprehensive income		15,451	14,490
Less distribution to owner	8	13,985	13,204
<b>Equity at end of the year</b>		<b>175,753</b>	<b>174,287</b>

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

# Balance Sheet

As at 30 June

	Note	2010 \$000	2009 \$000
<b>Equity</b>			
Share capital	11	10,000	10,000
Cash flow hedge reserve	12	111	243
Retained earnings	13	165,642	164,044
<b>Total equity</b>		<b>175,753</b>	<b>174,287</b>
<b>Current liabilities</b>			
Trade and other payables	14	9,851	11,135
Other current liabilities	15	234	326
Taxation payable		1,443	1,034
Cashflow hedge instruments	21	453	486
<b>Total current liabilities</b>		<b>11,981</b>	<b>12,981</b>
<b>Non-current liabilities</b>			
Term borrowings	16	118,800	106,200
Deferred tax liability	17	50,798	52,636
<b>Total non-current liabilities</b>		<b>169,598</b>	<b>158,836</b>
<b>Total liabilities</b>		<b>181,579</b>	<b>171,817</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>357,332</b>	<b>346,104</b>

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



# Balance Sheet

As at 30 June – continued

	Note	2010 \$000	2009 \$000
<b>Current assets</b>			
Cash and cash equivalents	18	67	7
Trade and other receivables	19	9,337	9,782
Short-term investments	20	0	0
Cash flow hedge instruments	21	0	0
Inventories	22	11	11
Total current assets		9,415	9,800
<b>Non-current assets</b>			
Investments	20	11	11
Deferred tax asset	17	299	466
Property, plant and equipment	23	347,607	335,827
Total non-current assets		347,917	336,304
<b>TOTAL ASSETS</b>		<b>357,332</b>	<b>346,104</b>

For and on behalf of the board of directors



R S Polson  
CHAIRMAN

1 September 2010



R D Liddell  
DEPUTY CHAIRMAN

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

# Statement of Cash Flows

For the year ended 30 June

	Note	2010 \$000	2009 \$000
<b>Cash flows from operating activities</b>			
<i>Cash was provided from</i>			
Receipts from customers		79,288	80,822
Interest and dividends received		5	132
		<hr/> 79,293	<hr/> 80,954
<i>Cash was disbursed to</i>			
Payments to suppliers		43,950	43,637
Interest paid		7,567	7,151
Tax loss/subvention payments		2,819	1,912
Income tax paid		67	724
Net GST paid/(received)		170	(147)
		<hr/> 54,573	<hr/> 53,277
<b>Net cash inflows/(outflows) from operating activities</b>	<b>25</b>	<hr/> <b>24,720</b>	<hr/> <b>27,677</b>
<b>Cash flows from investing activities</b>			
<i>Cash was provided from</i>			
Sale of investments		0	55
		<hr/> 0	<hr/> 55
<i>Cash was disbursed to</i>			
Purchase of property, plant and equipment		23,275	21,086
		<hr/> 23,275	<hr/> 21,086
<b>Net cash inflows/(outflows) from investing activities</b>		<hr/> <b>(23,275)</b>	<hr/> <b>(21,031)</b>

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

# Statement of Cash Flows

For the year ended 30 June – continued

	Note	2010 \$000	2009 \$000
<b>Cash flows from financing activities</b>			
<i>Cash was provided from</i>			
Proceeds from borrowings		33,870	29,140
		33,870	29,140
<i>Cash was disbursed to</i>			
Repayment of borrowings		21,270	22,600
Dividends paid		13,985	13,204
		35,255	35,804
<b>Net cash inflows/(outflows) from financing activities</b>		<b>(1,385)</b>	<b>(6,664)</b>
<b>Net increase/(decrease) in cash, cash equivalents and bank overdraft</b>		<b>60</b>	<b>(18)</b>
Cash and cash equivalents at beginning of the year		7	25
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>18</b>	<b>67</b>	<b>7</b>

*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 2010

## 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 1 September 2010.

### 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

	2010 \$000	2009 \$000
<b>3 OPERATING REVENUE</b>		
Sales revenue	77,691	78,457
Avoided transmission constraint and loss revenue	1,038	3,098
	<u>78,729</u>	<u>81,555</u>
<b>4 FINANCIAL INCOME</b>		
Interest and dividends received	<u>70</u>	<u>132</u>
<b>5 OTHER EXPENSES</b>		
Included in the operating expenses of the Company are the following items:		
Audit fees		
– for audit of financial statements	35	34
– for audit services in relation to regulatory (information disclosure) reporting	13	16
Total audit fees	<u>48</u>	<u>50</u>
Transmission costs	21,816	24,504
Depreciation	11,428	10,968
Maintenance costs	7,699	9,671
Other contractor costs	800	813
Directors' fees	170	160
Bad debts written-off	28	54
Lease expense	81	71
Increase/(Decrease) in impairment provision for trade and other receivables	7	19



For the year ended 30 June	2010	2009
	\$'000	\$'000
<b>6 FINANCIAL EXPENSES</b>		
Interest – related parties	7,619	7,155
Interest amortised from cash flow hedge close out	(237)	(455)
Total financial expenses	7,382	6,700
<b>7 LEASE COMMITMENTS</b>		
Non-cancellable operating lease commitments		
Payable within one year	26	42
Payable between one to five years	17	38
Payable later than five years	7	8
	50	88
<b>8 DIVIDENDS</b>		
Interim dividend December \$0.500/share (\$0.500, 2009)	5,000	5,000
Interim dividend March \$0/share (\$0.280, 2009)	0	2,800
Interim dividend May \$0/share (\$0.280, 2009)	0	2,800
Final dividend June \$0.899/share (\$0.206, 2009)	8,985	2,604
\$1.399 per share for 2010 (\$1.320, 2009)	13,985	13,204
<b>9 INCOME TAX</b>		
Operating profit before income tax	17,333	19,674
Tax thereon at 30%	5,200	5,902
<i>Plus/(Less) the tax effect of differences</i>		
Revenue not liable for taxation	(1,076)	(1,705)
Expenditure (deductible)/non-deductible for taxation purposes	160	32
Under/(Over) tax provision in prior years	156	14
Deferred tax adjustment arising from tax rate change	(3,476)	0
Deferred tax adjustment arising from removal of depreciation on buildings	786	0
Tax effect of differences	(3,450)	(1,659)
Tax expense	1,750	4,243
<i>Represented by</i>		
Current tax provision	3,204	3,364
Deferred tax provision	1,080	865
Under/(Over) tax provision in prior years	156	14
Net deferred tax adjustment arising from tax rate change and removal of depreciation on buildings	(2,690)	0
Income tax	1,750	4,243
Deferred tax adjustment arising from tax rate change	10.1%	21.6%

For the year ended 30 June	2010	2009
	\$000	\$000
<b>Imputation credit account</b>		
Balance at beginning of the year	(6,315)	(4,753)
Tax refunds	(784)	(1,605)
Taxation payments made	850	2,330
Credits attached to dividends paid	0	(2,287)
Balance at end of the year	(6,249)	(6,315)

Aurora Energy Limited is a member of an Income Tax Consolidated Group and has access to the income tax consolidated group's imputation credit account. As at 30 June 2010, the company had direct access to consolidated group imputation credits totalling \$721,132, and indirect access to group members imputation credit account balances (that predate their joining the income tax consolidated group) of \$1,163,272.

#### 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.

##### Number of shares

Weighted average number of ordinary shares	10,000,000	10,000,000
Basic earnings per share in dollars	1.56	1.54

#### 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	243	1,184
Net revaluations	33	(890)
Cash flow hedge closed out	(226)	(455)
Deferred tax arising on hedges (note 17)	61	404
Balance at end of the year	111	243

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	164,044	161,817
Net profit for the year	15,583	15,431
Dividend distributions	(13,985)	(13,204)
Balance at end of the year	165,642	164,044

For the year ended 30 June	2010	2009
	\$000	\$000

#### 14 TRADE AND OTHER PAYABLES

Trade payables	3,050	3,670
Due to related parties – other	5,289	5,734
– Dunedin City Holdings Limited	1,512	1,731
	<u>9,851</u>	<u>11,135</u>

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

#### 15 OTHER CURRENT LIABILITIES

GST payable	234	326
	<u>234</u>	<u>326</u>

#### 16 TERM BORROWINGS (SECURED)

Dunedin City Treasury Limited – related party	<u>118,800</u>	<u>106,200</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 \$120,000,000.

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	118,800	106,200
	<u>118,800</u>	<u>106,200</u>

The weighted average interest rate for the loan inclusive of any current portion, was 6.64% (2009 : 7.14%).

#### 17 DEFERRED TAX

##### 2010 \$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	(52,386)	0	1,924	0	(50,462)	(50,462)
Provisions	70	0	(235)	0	(165)	(165)
Revaluations of interest rate swaps	146	(18)	0	128	0	128
Close out of interest rate swaps	0	79	(79)	171	(171)	0
Balance at end of the year	<u>(52,170)</u>	<u>61</u>	<u>1,610</u>	<u>299</u>	<u>(50,798)</u>	<u>(50,499)</u>

## 17 DEFERRED TAX - continued

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	(51,709)	404	(865)	466	(52,636)	(52,170)

For the year ended 30 June

2010  
\$000

2009  
\$000

## 18 CASH AND CASH EQUIVALENTS

Cash and bank	67	7
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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	9,096	9,769
Less estimated impairment	(68)	(61)
	9,028	9,708
Due from related parties		
– Dunedin City Council and Group entities	309	48
– Other related parties	0	26
	9,337	9,782

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

## 20 INVESTMENTS

Investments – listed companies	11	11
	11	11

### 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 – payable	(390)	(473)
Foreign exchange forward contracts – payable	(63)	(13)
	(453)	(486)

## 22 INVENTORIES

Network spare parts	11	11
	11	11



## 23 PROPERTY, PLANT AND EQUIPMENT

2010 \$000	Land	Buildings	Electrical network	Plant equipment	Sub-total
<b>Cost</b>					
Balance at beginning of the year	4,074	10,219	353,481	2,092	369,866
Purchases	150	1,311	21,135	17	22,613
Disposal	0	0	0	0	0
Transfer	0	0	2,586	0	2,586
Balance at end of the year	4,224	11,530	377,202	2,109	395,065
<b>Accumulated depreciation</b>					
Balance at beginning of the year	0	841	43,345	804	44,990
Depreciation	0	127	11,075	198	11,400
Disposal	0	0	0	0	0
Transfer	0	0	0	0	0
Balance at end of the year	0	968	54,420	1,002	56,390
<b>Carrying amounts</b>	4,224	10,562	322,782	1,107	338,675

2010 \$000	Sub-total	Motor vehicles	Office equipment	Optical fibre network	Construction in progress	Total
<b>Cost</b>						
Balance at beginning of the year	369,866	42	16	457	10,459	380,840
Purchases	22,613	149	0	446	0	23,208
Disposal	0	0	0	0	0	0
Transfer	2,586	0	0	0	(2,586)	0
Balance at end of the year	395,065	191	16	903	7,873	404,048
<b>Accumulated depreciation</b>						
Balance at beginning of the year	44,990	13	9	1	0	45,013
Depreciation	11,400	7	2	19	0	11,428
Disposal	0	0	0	0	0	0
Other	0	0	0	0	0	0
Balance at end of the year	56,390	20	11	20	7,873	347,607
<b>Carrying amounts</b>	338,675	171	5	883	7,873	347,607

## 23 PROPERTY, PLANT AND EQUIPMENT

2009 \$000	Land	Buildings	Electrical network	Plant equipment	Sub-total
<b>Cost</b>					
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
<b>Accumulated depreciation</b>					
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
<b>Carrying amounts</b>	<b>4,074</b>	<b>9,378</b>	<b>310,136</b>	<b>1,288</b>	<b>324,876</b>

2009 \$000	Sub-total	Motor vehicles	Office equipment	Optical fibre network	Construction in progress	Total
<b>Cost</b>						
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
<b>Accumulated depreciation</b>						
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
<b>Carrying amounts</b>	<b>324,876</b>	<b>29</b>	<b>7</b>	<b>456</b>	<b>10,459</b>	<b>335,827</b>

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

For the year ended 30 June	2010	2009
	\$000	\$000

#### 24 CAPITAL EXPENDITURE COMMITMENTS

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

8,998	7,788
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#### 25 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES

Net profit/(loss) for the year	15,583	15,431
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##### *Items not involving cash flows*

Depreciation	11,428	10,968
Increase/(Decrease) in deferred tax	(1,671)	461
Net of tax movement of cash flow hedge instruments	(132)	(941)
Increase/(Decrease) in cash flow hedge instrument valuation	(33)	890

##### *Impact of changes in working capital items*

(Increase)/Decrease in trade and other receivables	445	(732)
(Increase)/Decrease in investments	0	0
(Increase)/Decrease in inventories	0	0
Increase/(Decrease) in trade and other payables	(1,284)	1,970
Increase/(Decrease) in provision for tax	409	742
Increase/(Decrease) in other current liabilities	(92)	238

##### *Items classified as investing or financing activities*

Capital creditors in accounts payable	67	(1,350)
Gain on sale of cash flow hedge instruments	0	0

#### **Net cash inflows/(outflows) from operating activities**

24,720	27,677
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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:

Purchases of goods and services from Dunedin City Holdings Limited:

Subvention payments provided for	1,495	1,675
Management fees	200	200
Subvention/Tax loss offset payment	1,086	0
	2,781	1,875

For the year ended 30 June	2010	2009
	\$000	\$000

## 26 RELATED PARTY TRANSACTIONS - continued

Purchases of goods and services from Dunedin City Council:

Capital work	0	37
Rates and property leases	349	329
Interest/facility fees	1	1
	<u>350</u>	<u>367</u>

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

Capital work	14,306	13,024
Network management and operation	14,593	14,136
Interest/Facility fees	7,619	7,155
Subvention/tax loss offset payments	1,734	1,912
Contracting services	1,221	1,172
Management fees	90	90
Accounting, administration and secretarial	185	187
Sundry and consulting	84	64
Lease of meters	40	43
	<u>39,872</u>	<u>37,783</u>

Tax losses within the Dunedin City Holdings Group total \$7,116,000.

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

Dunedin City Holdings Limited	1,512	1,731
Other Dunedin City Council Group entities	124,542	112,420
	<u>126,054</u>	<u>114,151</u>

Sales of services to Dunedin City Council:

Headworks fees	0	45
Other	65	21
	<u>65</u>	<u>66</u>

Sales of services to Dunedin City Council Group entities:

Interest	3	3
Shut-down charges	71	32
Rent	26	49
Service failure penalties	37	32
Other	283	0
	<u>420</u>	<u>116</u>

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

Dunedin City Council	3	24
Other Dunedin City Council Group entities:	<u>306</u>	<u>24</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 S J McLauchlan is a director of Lund South Limited. Lund South Limited is a party to the construction of the Commonage zone substation and the refurbishment of the Ward Street zone substation. In the ordinary course of business during the financial period covered by this report, services valued at \$200,509 were provided by Lund South Limited (2009: \$783,492). No monies were owing to Lund South Limited at the end of the year (2009: 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 short-term 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. A large part of the Company's debt is borrowed on a long-term fixed interest rate basis. 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:

	2010	2009
	\$000	\$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
	<u>10,000</u>	<u>10,000</u>

### Credit risk

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

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

	2010 \$000	2009 \$000
Cash and cash equivalents	67	7
Trade and other receivables	9,337	9,782
Short-term investments	11	11
Cash flow hedge instruments	0	0
	<u>9,415</u>	<u>9,800</u>

Past due, but not impaired, receivables are:

Past due receivables

Age analysis:	30-60 days	563	48
	60-90 days	24	18
	90 days plus	301	74
		<u>888</u>	<u>140</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 2010:

\$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
<b>Financial assets</b>							
Cash and cash equivalents	67	0	0	0	0	0	67
Trade and other receivables	9,337	0	0	0	0	0	9,337
Short-term investments	0	0	0	0	0	0	0
Long-term investments	0	0	0	0	0	11	11
	<u>9,404</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11</u>	<u>9,415</u>

\$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
<b>Financial liabilities</b>							
Trade and other payables	9,851	0	0	0	0	0	9,851
Other current liabilities	234	0	0	0	0	0	234
Taxation payable	1,443	0	0	0	0	0	1,443
Cash flow hedge instruments	0	0	453	0	0	0	453
Term borrowings	0	0	0	0	118,800	0	118,800
	<u>11,528</u>	<u>0</u>	<u>453</u>	<u>0</u>	<u>118,800</u>	<u>0</u>	<u>130,781</u>

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	Total
	less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 Years	than 5 Years	maturity	
<b>Financial assets</b>							
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
	9,789	0	0	0	0	11	9,800
<b>Financial liabilities</b>							
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
	11,461	0	1,520	0	106,200	0	119,181

### 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	390	0	169	0	(172)
Term borrowings (hedged)	10,000	0	(169)	0	172
Term borrowings (unhedged)	28,800	288	0	(288)	0
	39,190	288	0	(288)	0

### Fair value of financial instruments

Fair value measurements recognised in the statement of financial position.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- Level 3 Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 29 FINANCIAL INSTRUMENT RISK – continued

	2010			Total \$000
	Level 1 \$000	Level 2 \$000	Level 3 \$000	
<b>Financial liabilities</b>				
Derivative financial liabilities	0	453	0	453
	0	453	0	453

## 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.

TO THE READERS OF  
AURORA ENERGY LIMITED'S  
FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2010

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, on her behalf, for the year ended 30 June 2010.

## 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 2010;
    - 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 2010.
- Based on our examination the company kept proper accounting records.

The audit was completed on 1 September 2010, 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 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 2010. 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 2010. 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  
Christchurch, New Zealand





Dunedin's Logan Park sports precinct and  
Otago Polytechnic campus (background)

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