

aurora energy limited

annual report **2011**



Delivering a reliable energy supply
to Otago's end-use consumers.

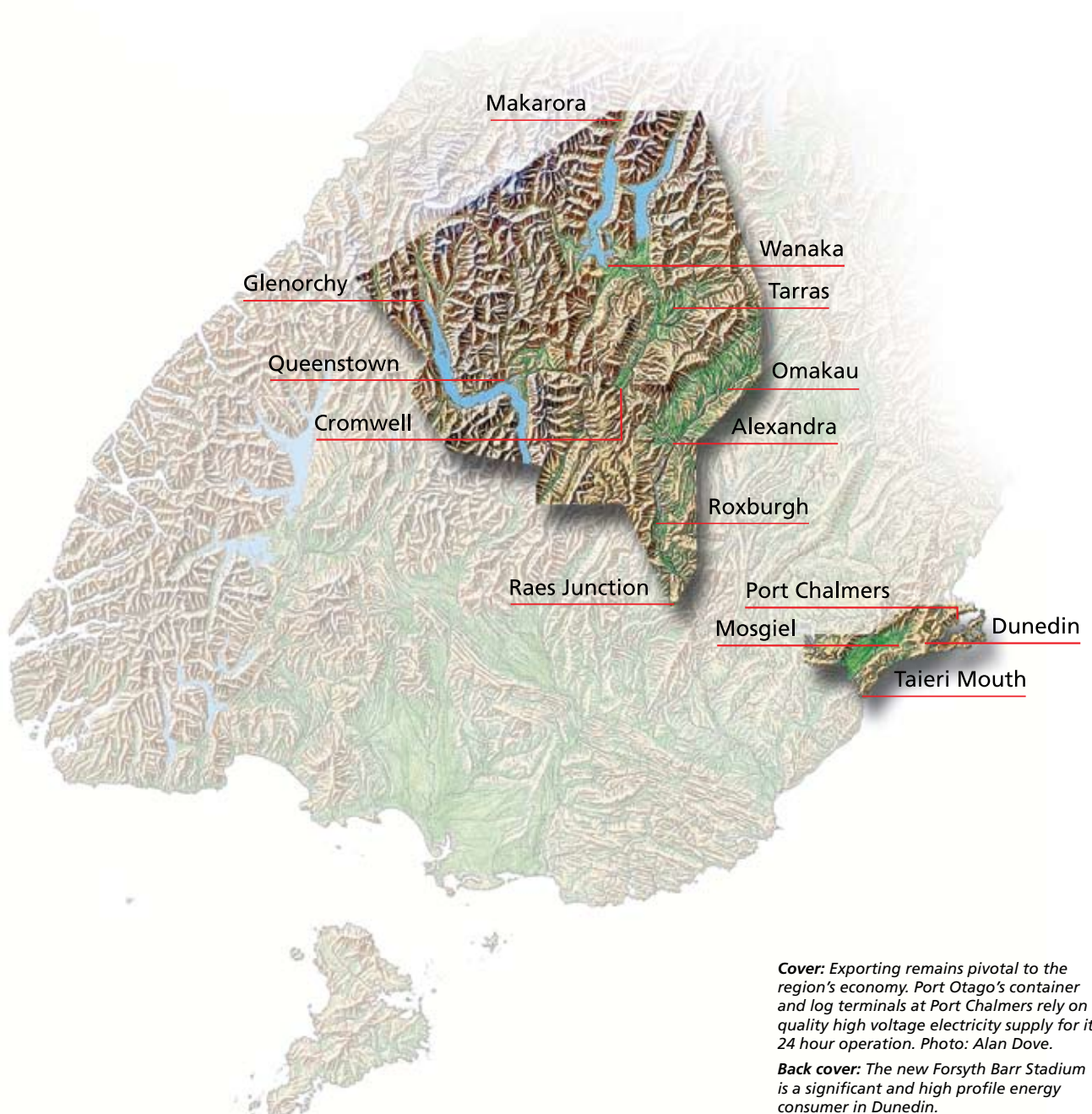
Aurora

Network Regions and Capability

ELECTRICITY DISTRIBUTION NETWORK AT A GLANCE

For year-ended 31 March 2011

Number of consumer connections	81,971
Energy received for distribution	1,340GWh
Capacity of transformers	877MVA
Capacity utilisation	31%
Number of zone substations	37
Number of bulk supply points	5
Length of lines and cables	5,621km



Cover: Exporting remains pivotal to the region's economy. Port Otago's container and log terminals at Port Chalmers rely on a quality high voltage electricity supply for its 24 hour operation. Photo: Alan Dove.

Back cover: The new Forsyth Barr Stadium is a significant and high profile energy consumer in Dunedin.



annual report 2011



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.

2010-2011 HIGHLIGHTS

- Aurora continues to be the main contributor of cash for Dunedin City Holdings Limited. Over the past five years total dividends to the shareholder from Aurora have amounted to \$65.44 million.
- Revenue increased by \$1.5 million to \$80.3 million.
- Assets increased in value to \$368.2 million.
- Consumer connections increased to 82,562.
- Four zone substations developed in Queenstown, Cardrona and Dunedin.
- Major participant in Energy Smart 'Warm Homes' initiative.

CONTENTS

2	Chairman's Report
8	Trend Statement
9	Statement of Service Performance
10	Network Performance Statistics
11	Directors' Report
13	Company Directory
14	Information on the Directors
16	Statement of Comprehensive Income
17	Statement of Changes in Equity
18	Balance Sheet
20	Statement of Cashflows
22	Notes to the Financial Statements
39	Auditor's Report

The recently commissioned Cardrona Zone Substation delivers energy to an international ski field and the historic Cardrona township.



The spectacular Forysth Barr Stadium in Dunedin, super-charged for 27,741 fans at the first Rugby World Cup match in Dunedin, England versus Argentina. The new stadium is a key energy consumer on Aurora's network and reliability of supply is critical.



RAY POLSON
CHAIRMAN

Chairman's Report

“ The audited net profit of **\$12.79 million** was a very pleasing result ”



FINANCIAL RESULTS FOR THE YEAR

I am pleased to present Aurora Energy Limited's twenty first annual report, covering the twelve months ending 30 June 2011.

The trading profit for the year was \$18.01 million (2010: \$18.83 million) after an increase in revenue of \$1.49 million to \$80.29 million (2010: \$78.80 million).

The audited net profit of \$12.79 million was a very pleasing result in a year in which energy handled across the network was slightly ahead of last year and lower than any of the preceding three years. The continuing flat levels of economic activity in the areas covered by the Aurora networks has impacted directly on growth and indirectly on contributions towards capital expenditure. The net profit is behind the \$15.58 million reported for the 2010 year, which benefited from a \$2.53 million reduction in deferred tax following the reduction last year in the corporate income tax rate. The directors are, however, very pleased with the result.

DIVIDENDS

The shareholder (Dunedin City Holdings Limited) has continued to benefit from Aurora's excellent financial results, with dividends equivalent to \$12.50 million (2010: \$15.03 million) being paid. Over the past five years, total dividends to the shareholder have amounted to \$65.44 million with \$41.41 million of this being paid over the past three years. Additional benefits were provided through the continued placement underground of overhead electricity distribution equipment for cityscape purposes, and the ongoing development of a high speed fibre optic communication network (the FLUTE Network) in the CBD.

OPERATING PERFORMANCE

Aurora has continued to maintain its high level of operating performance this year. A sound profit was achieved while distribution prices 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. Following the successful conclusion of the 1998-2007 Asset Services Contract, this agreement was renegotiated for a further 10 years commencing in July 2007, .

Aurora's requirements regarding ongoing quality of supply, predetermined maintenance requirements and statutory compliance obligations 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.

The System Average Interruption Duration Index (SAIDI) for the 2011 financial year was 131.8 minutes which is greater than the average of 97 minutes for the previous five years. Two large and atypical wind storms, with gale force winds gusting in excess of 120kph, affected Dunedin on 21 December and 12 May, and together caused 30.2 minutes of interruption.

GROWTH

The 1,342GWh of electricity handled during the 2011 financial year was slightly greater than the volume handled



The Remarkables zone substation, located beside the Kawarau River, was commissioned by Aurora to meet the demands of the Remarkables Ski Field (pictured right), near Queenstown.

in 2010 and less than any of the preceding three years.

The energy received for delivery to customers, which excludes energy generated inside the Aurora network, was 1,314GWh. This is the lowest since 2004 and materially less than the 1,369GWh of the 2009 year. The slowdown in economic activity in Dunedin and Queenstown resulted in the volume of electricity used in these regions being less than the previous year.

New connections increased by 1% (2010: 1.09%) to 82,562 during the year, which was again higher than the energy growth. The deterioration in economic conditions that commenced in the 2008 year continued through the current year, with tightened access to development capital impacting on growth rates in the Central Otago and Queenstown Lakes districts. While a continuation of reduced growth rates is anticipated in the coming 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 five-year regulatory control regime that commenced on 1 April 2010. The CPI-X price control regime was continued; however, a base price reset, effective from 1 April 2012, is likely and it is a concern that this still remains to be determined. Submissions and analysis, to try to prevent Aurora from being disadvantaged by changes in price control mechanisms, are incurring considerable cost and effort.

The Commission's proposed approach to key items such

as the Regulatory Asset Base and the Weighted Average Cost of Capital (WACC) will have serious 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 disturb the delicate balance between maintaining shareholder returns and the necessary investment in assets to maintain the quality of supply.

The allowable return on investment has to accommodate inflation on the Regulatory Asset Base, which will impact heavily on the cash flows. The likely environment will not be conducive to the long-term investment in fixed assets for the replacement and expansion of the networks.

It is encouraging that in mid-2011 the Commerce Commission proposed a new model for determining the price reset. This appears to be an improvement on its previous proposition. The underlying principles now proposed seem fundamentally sound. However the Commission's concerns about possible excess profits for line companies may result in the final determinations reflecting this more so than its initial principles. A further price reset is expected at the commencement of the following five year regulatory period on 1 April 2015.

The cost and time required to respond to Commerce Commission proposals is considerable, and it is unfortunate that, to date, the Commission has largely ignored the weight of submissions and inputs into its consultation process. The future quality of supply and growth of the electricity distribution sector is likely to be seriously affected by a continuation of the current lack of certainty as to direction. It will result in 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 usually much 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. This can be achieved by either direct merger of lines businesses or by the management of lines businesses by a specialised asset manager. Benefits are scale and process consistency, with retention of the underlying assets and establishment of required outcomes remaining in the control of the current owners. Aurora continues to explore all opportunities where it can work more closely 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 to reduce network capital expenditure and improve reliability of supply. The privately owned Tallaburn hydro station connected at Ettrick provides valuable support to the local network. Connection of Trustpower's Mahinerangi windfarm to Aurora's Mosgiel substation during the year added similar benefits to the Dunedin network.

Further options for generation developments continue to be explored by Aurora and with potential partners.

ULTRA-FAST BROADBAND

Aurora owns a high speed fibre optic communication network in Dunedin and Queenstown. *DELTA* is engaged to further grow this network, to operate and maintain the assets, and to advance Aurora's strategy of becoming the high speed fibre communications infrastructure owner in its areas of interest. The Dunedin fibre network has now grown to 12 kilometres with a backbone in place through the CBD.

During the 2011 year, *DELTA* and Aurora responded to the government proposal to partner in the development of fibre networks to 75% of urban residential properties by 2020. This provided an opportunity for Aurora to participate in a far more extensive and quicker roll-out of the high speed fibre communications network in our region than would otherwise have been the case. Considerable effort pursuing this opportunity was applied over the 2011 year, culminating in a binding offer to partner with government for areas covered by the Aurora network.

The government decided to partner with Telecom for up to 75% of the UFB coverage area. Aside from removing the opportunity to manage the community interests in an open access high speed communication network, the selection of Telecom as a national partner will see Dunedin interests very much submerged and consequently low on priority lists. The consequences of this is likely to result in delays in residential access to high speed communication services in Dunedin and Queenstown.

NETWORK DEVELOPMENT

Localised demand has continued to grow in some areas of Central Otago, driving investment in network capacity and upgrades. Of particular note this year is the completion of the new Cardrona substation and subtransmission lines, completion of the Commonage and Remarkables substations, and reconstruction of the Frankton substation.

Dunedin investment was centred around the need to renew aged equipment. Installation of new ripple plant equipment at Halfway Bush and South Dunedin substations replaced outdated equipment for load control, the Ward Street substation was refurbished, and the supply to the hospital and university strengthened.

Investment in the Aurora network will continue to be driven by asset renewal in Dunedin and growth in Central Otago. Future years will see capital investment for replacement of aged subtransmission cables and transformers in Dunedin and investment in capacity in Central Otago, particularly if signalled irrigation schemes and subsequent farm conversions come to fruition.

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, \$143,366 was paid to retailers, along with details of the 1,897 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 focusing on youth, education and culture. Sponsorships during the year included:

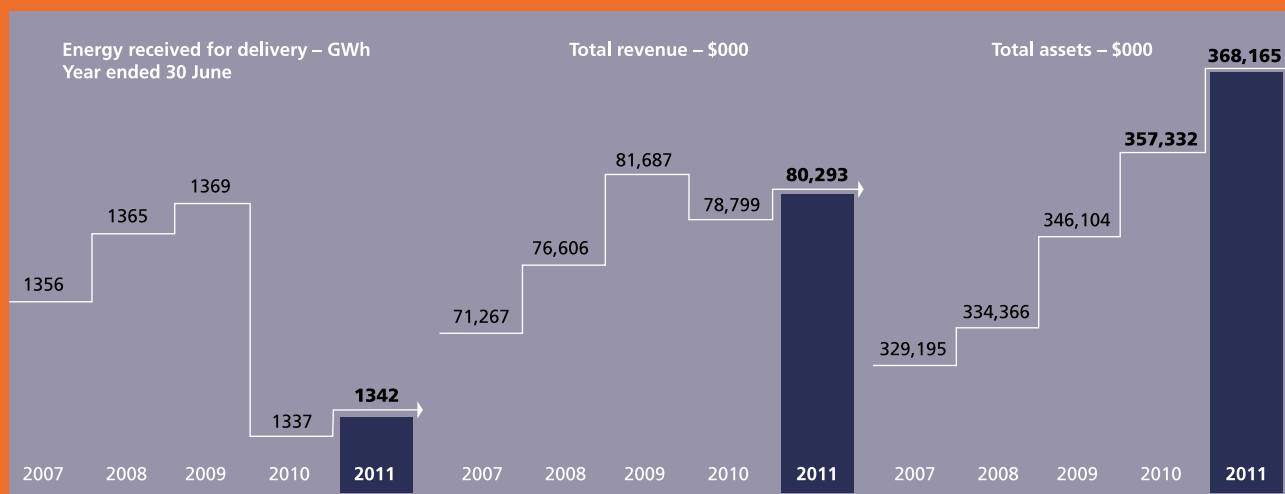
- Regional sponsorship of school science and technology fairs
- Dunedin Festival of the Arts
- University of Otago scholarships through the New Zealand Education Scholarship Trust
- Southern Lakes Festival of Colour
- Queenstown Summerdaze Festival
- Central Otago Blossom Festival.

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, \$952,000 was invested in undergrounding of overhead electricity distribution equipment in Kaikorai Valley Road, Dunedin. No underground conversion was undertaken outside Dunedin because lack of funds from local authorities meant they were unable to contribute their share of the cost.

RESULTS AT A GLANCE



FINANCIAL POSITION

Aurora's financial position remains strong, with total assets of \$368.2 million (2010: \$357.3 million) and term debt of \$126.9 million (2010: \$118.8 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 to maintain supply quality.

Capital expenditure for the year was \$22.4 million (2010: \$23.2 million) and is expected to remain in the range of \$20 million to \$25 million per year over coming years.

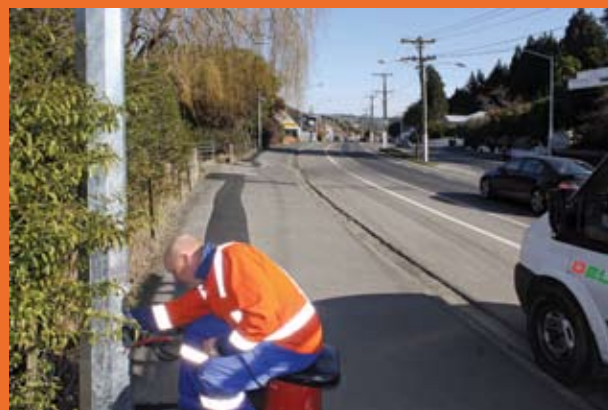
OUTLOOK

The outlook for Aurora is for a solid year in 2012. The effects of regulation and, in particular, the continued uncertainty regarding the proposed Starting Price Adjustments (P0) expected to be effective from April 2012, are a serious concern. In its present form, they 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.



R Polson
CHAIRMAN
31 August 2011



Supporting our community

Top: The undergrounding of the power network on Dunedin's Kaikorai Valley Road continues. The redundant power poles on the centre island will be removed when the new system is commissioned.

Centre: Aurora chief executive, Grady Cameron, presents the 2010 Aurora Energy New Zealand Education & Scholarship Trust Award to Rosie Whiting of Dunstan High School.

Bottom: Aurora plays a lead role in the Energy Smart 'Warm Homes' insulation initiative.

Trend Statement

Year ended 30 June		2011	2010	2009	2008	2007
Energy received into network	GWh	1,342	1,337	1,369	1,365	1,356
Energy received for delivery to customers	GWh	1,314	1,326	1,353	1,354	1,339
Energy delivery reliability (average time without supply per customer per annum)	minutes	131.8	93.2	65.4	134.4	102.0
Total revenue	\$000	80,293	78,799	81,687	76,606	71,267
Trading profit before tax (before subvention payments)	\$000	18,013	18,828	21,349	20,661	22,511
EBIT/average funds employed		7.3%	7.5%	8.2%	8.1%	8.9%
Tax – current year provision	\$000	5,386	4,284	4,229	3,770	4,616
– prior year (over)/under provision	\$000	(164)	(2,534)	14	(33)	(161)
Net profit for the year (before subvention payments)	\$000	12,791	16,630	16,604	16,376	17,568
Net profit for the year (after subvention payments) (1)	\$000	12,791	15,583	15,431	15,262	16,576
Cashflow from operating activities	\$000	26,134	24,720	27,677	23,598	28,806
Dividends paid	\$000	12,003	13,985	13,204	13,940	7,977
Equivalent dividends (actual dividends plus after tax value of subvention payments)	\$000	12,003	15,032	14,377	15,054	8,969
Shareholder's equity	\$000	176,512	175,753	174,287	173,001	172,086
Total assets	\$000	368,165	357,332	346,104	334,366	329,195
Return on average equity		7.26%	8.90%	8.89%	8.85%	10.07%
Equity to total assets		48%	49%	50%	52%	52%

Note:

(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. No subvention payments were made in 2011.

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 Holdings Limited.	Achieved. The Statement of Intent and Strategic Plan were reviewed and confirmed as being consistent with the objectives of Dunedin City Holdings Limited.	
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.	Achieved.	
		Achieved	Target
		\$000	\$000
	EBITDA	38,295	37,887
	Net profit	12,791	10,137
	Shareholder's funds	176,512	175,600
	Equivalent dividends	12,500	12,500
	Shareholder's funds to total assets	48%	47%
5	To obtain ownership or management of an additional group of utility assets.	Not achieved. The company will continue to pursue opportunities if and when they arise. No such opportunities have been identified during this financial year.	
6	To monitor the economic value added by the company and to monitor financial performance against rates of return established by Dunedin City Holdings Ltd.	Achieved.	
		Achieved	Target
		\$000	\$000
		5,663	5,095
7	To ensure that the reporting requirements of the company and shareholder are met.	Achieved. Company reporting was undertaken within the timeframes as stated in the Statement of Intent.	
8	To maximise the utilisation of electricity distribution assets while ensuring that reliability meets the needs of users.	Achieved. The distribution assets are constantly monitored to ensure that maximum utilisation is achieved within the bounds of safety and reliability.	
9	No transgression of the environmental and resource law occurs.	Achieved. No notification of any breaches of any resource laws has been received.	
10	To undertake appropriate undergrounding of overhead lines.	Achieved. 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		2011	2010	2009	2008	2007
System physical measures						
Average length of lines and cables	km	5,621	5,600	5,544	5,436	5,365
Average capacity of distribution transformers	MVA	877	868	860	840	829
Distribution transformer capacity utilisation		31%	33%	32%	34%	33%
Consumer measures						
Average number of consumer connections		81,971	81,129	80,249	79,076	77,712
System maximum demand	MW	274	285	275	283	276
Energy received for delivery	GWh	1,340	1,358	1,357	1,361	1,360
Average load factor		55%	54%	56%	55%	56%
Average minutes off per fault	CAIDI	76⁽²⁾	56	55	77 ⁽¹⁾	56
Average faults per annum	SAIFI	1.5	1.5	1.2	1.8	1.8
Average minutes off per annum	SAIDI	112⁽²⁾	83	68	140 ⁽¹⁾	101

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.

(2) An extreme weather event in Dunedin on 21 December 2010 was responsible for 12.6 minutes of the SAIDI index and 5 minutes of the CAIDI index.



New demand was generated by the Fonterra dry milk powder distribution centre and residential subdivisions in Mosgiel.

Directors' Report

For the year ended 30 June 2011

The directors of Aurora Energy Limited are pleased to report on the financial results and associated matters for the year ended 30 June 2011.

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 2011	\$000
Operating profit before income tax	18,013
less income tax expense	(5,386)
plus prior year (over)/under tax provision	164
Net profit for year after income tax	<u>12,791</u>

STATE OF AFFAIRS

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

DIVIDENDS

Total dividends of \$12.003 million were declared and paid for the year ended 30 June 2011. Equivalent dividends last year amounted to \$15.032 million.

RESERVES

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

	\$000
Cash flow hedge reserve – to (from)	(29)
Retained earnings – to (from)	<u>788</u>

REVIEW OF OPERATIONS

The directors are pleased with the operating results achieved for the year ended 30 June 2011.

Net profit of \$12.79 million (2010: \$15.58 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 that significant and ongoing capital expenditure, to sustain reliability and provide for growth, is required well in advance of the resulting revenue increase. During the 2011 year, the investment in capital assets to expand and strengthen the distribution network was again in excess of the net profit achieved. The Frankton substation in Queenstown was rebuilt to cater for future demands and was commissioned in May 2011. A new substation at Cardrona near Wanaka and extensive 66kV line upgrades were commissioned in March 11. In Dunedin, the refurbishment of the Ward Street substation was

commissioned in August 2010 together with an additional second line from that substation to both the Dunedin Public Hospital and the University of Otago.

The economic slowdown currently being experienced is expected to have a 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 2012 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 2011 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 2011 or existed at that date are disclosed in the related parties section of this report.

DIRECTORS' ELIGIBILITY FOR REAPPOINTMENT

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.

DIRECTORS' REMUNERATION

The remuneration paid to directors during the year was:

Raymond S Polson	\$ 44,500
Ross D Liddell	\$ 33,506
Michael O Coburn	\$ 21,250
Dr Norman G Evans	\$ 21,250
Paul R Hudson	\$ 21,250
Stuart J McLauchlan	\$ 23,500
	<u>\$ 165,256</u>



BOARD OF DIRECTORS

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

Aurora's Ward Street Zone Substation was modernised to meet the demand of the new Forsyth Barr Stadium and industry in the north end of Dunedin. An important part of this process was conserving the art deco 1938 substation building.

AUDIT COMMITTEE

Messrs Liddell, Polson and McLauchlan comprised the Audit and Risk Committee of the board during the year. The Audit and Risk 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

31 August 2011

R D Liddell
DEPUTY CHAIRMAN

DIRECTORS

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

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

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

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

Paul R Hudson *JP, BCom, CA*

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

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 – Macalister Todd Phillips
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 – Dunedin City Holdings Limited
Director – Dunedin Transport Limited
Director – Hunterfields Investments Limited
Director – McMahon Investments Limited

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

Non-executive director, October 2003
Director – Arthur Barnett Limited
Director – City Forests Limited
Director – DELTA Utility Services Limited
Director – Dunedin City Holdings Limited
Director – Dunedin Transport Limited
Director – Lake Hayes Estate Limited
Director – Newtons Coachways (1993) Limited
Director – New Zealand Land Trust Limited
and subsidiaries
Director – Ruboc Holdings Limited
Trustee – Hayes Trustees Limited

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

Non-executive director, July 2005
Chairman – Enabling Pty Limited (Aus)
Director – City Forests Limited

Director – DELTA Utility Services Limited
Director – Dunedin City Holdings Limited
Director – Dunedin Transport Limited
Director – Enabling NZ Limited
Director – Halo Investment Management Limited
Director – Halo Fund No 1 Limited
Director – Lifetime Health Diary Limited
Director – Upstart Angels Limited
(resigned 7 February 2011)

Paul R Hudson *JP, BCom, CA*

Non-executive director, November 1999
Chairman – Dunedin City Holdings Limited
Chairman – Dunedin Transport 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 – Helicopters (NZ) Limited
Chairman – NZ Sports Hall of Fame
Chairman – Pharmac
Chairman – Scott Technology Limited
Chairman – UDC Finance Limited
Director – AD Instruments Pty Limited
Director – Cargill Hotel 2002 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 – Dunedin Transport Limited
Director – HTS 110 Limited
Director – Lund South Limited
Director – Newtons Coachways (1993) Limited
Director – Otago & Southland Employers Association
Director – Roxdale Foods Limited
Director – Scenic Circle Hotels Limited and subsidiaries
Director – South Canterbury Finance Limited
and subsidiaries
Director – University of Otago Foundation
Studies Limited
Director – USC Investments Limited
Partner – GS McLauchlan & Co
Pro Chancellor – University of Otago
Director – Hornchurch Limited
(resigned August 2010)
Director – Southbury Corporation Limited
(resigned August 2010)



Aurora services a large rural community, with water reticulation systems for dairy, horticulture and viticulture placing a heavy demand on energy supply.

Pictured: Dairy farm near Momona on the Taieri Plain.

Financial Statements

“ The shareholder has continued to benefit from **Aurora's excellent financial results**, with dividends equivalent to \$12.5 million being paid.

Over the past five years, total dividends to the shareholder have amounted to

\$65.4 million ”

Statement of Comprehensive Income

For the year ended 30 June	Note	2011 \$000	2010 \$000
Operating revenue	3	80,269	78,729
Financial revenue	4	24	70
Total revenue		80,293	78,799
Less expenses			
Operating expense	5	53,847	52,589
Financial expenses	6	8,433	7,382
Total expenditure		62,280	59,971
Profit before tax and subvention		18,013	18,828
Subvention payment provided		0	1,495
Profit before tax		18,013	17,333
Income tax expense	9	5,222	1,750
Net profit/(loss) after tax for the year		12,791	15,583
Other comprehensive income			
Gain/(Loss) on cash flow hedges		143	23
Gain/(Loss) on terminated cash flow hedges		(172)	(155)
Total other comprehensive income		(29)	(132)
Total comprehensive income		12,762	15,451
Earnings per share – dollars	10	1.28	1.56

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	2011 \$000	2010 \$000
Equity at beginning of the year		175,753	174,287
Recognised income and expense			
Total comprehensive income		12,762	15,451
Less distribution to owner	8	12,003	13,985
Equity at end of the year		176,512	175,753

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

Balance Sheet

As at 30 June	Note	2011 \$000	2010 \$000
Equity			
Share capital	11	10,000	10,000
Cash flow hedge reserve	12	82	111
Retained earnings	13	166,430	165,642
Total equity		176,512	175,753
Current liabilities			
Trade and other payables	14	8,930	9,851
Other current liabilities	15	663	234
Taxation payable		2,538	1,443
Cash flow hedge instruments	21	258	453
Total current liabilities		12,389	11,981
Non-current liabilities			
Term borrowings	16	126,850	118,800
Deferred tax liability	17	52,414	50,798
Total non-current liabilities		179,264	169,598
Total liabilities		191,653	181,579
TOTAL EQUITY AND LIABILITIES		368,165	357,332

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

Balance Sheet

As at 30 June – continued	Note	2011 \$000	2010 \$000
Current assets			
Cash and cash equivalents	18	215	67
Trade and other receivables	19	9,709	9,337
Inventories	22	11	11
Total current assets		9,935	9,415
Non-current assets			
Investments	20	10	11
Deferred tax asset	17	194	299
Property, plant and equipment	23	358,026	347,607
Total non-current assets		358,230	347,917
TOTAL ASSETS		368,165	357,332

For and on behalf of the board of directors



R S Polson
CHAIRMAN
31 August 2011



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	2011 \$000	2010 \$000
Cash flows from operating activities			
<i>Cash was provided from</i>			
Receipts from customers		80,048	79,288
Interest and dividends received		5	5
		<hr/> 80,053	<hr/> 79,293
<i>Cash was disbursed to</i>			
Payments to suppliers		43,233	43,950
Interest paid		8,551	7,567
Intra group tax loss/subvention payments made		(376)	2,819
Income tax paid		2,750	67
Net GST paid/(received)		(239)	170
		<hr/> 53,919	<hr/> 54,573
Net cash inflows/(outflows) from operating activities	25	<hr/> 26,134	<hr/> 24,720
Cash flows from investing activities			
<i>Cash was provided from</i>			
Sale of investments		1	0
Sale of property, plant and equipment		128	0
		<hr/> 129	<hr/> 0
<i>Cash was disbursed to</i>			
Purchase of property, plant and equipment		22,162	23,275
		<hr/> 22,162	<hr/> 23,275
Net cash inflows/(outflows) from investing activities		<hr/> (22,033)	<hr/> (23,275)

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	2011 \$000	2010 \$000
Cash flows from financing activities			
<i>Cash was provided from</i>			
Proceeds from borrowings		42,600	33,870
		<u>42,600</u>	<u>33,870</u>
<i>Cash was disbursed to</i>			
Repayment of borrowings		34,550	21,270
Dividends paid		12,003	13,985
		<u>46,553</u>	<u>35,255</u>
Net cash inflows/(outflows) from financing activities		(3,953)	(1,385)
Net increase/(decrease) in cash, cash equivalents and bank overdraft		148	60
Cash and cash equivalents at beginning of the year		67	7
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	18	215	67

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 2011

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 31 August 2011.

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. The Statement of Cash flows is 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. 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.

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.

The 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 is comprised 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 are 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.

Standards issued but not yet effective

The new accounting standard that is relevant to the Company, NZ IFRS 9 "Financial Instruments", has been issued but as it is not yet compulsory, has not been adopted. NZ IFRS 9 will replace NZ IAS 39 "Financial Instrument: Recognition and Measurement". NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the income statement. The new standard is required to be adopted for the year ended 30 June 2014. The Company has not yet assessed the effect of the new standard and does not expect to early adopt it.

For the year ended 30 June	2011 \$000	2010 \$000
3 OPERATING REVENUE		
Sales revenue	78,955	77,691
Avoided transmission constraint and loss revenue	1,314	1,038
	<u>80,269</u>	<u>78,729</u>
4 FINANCIAL INCOME		
Interest and dividends received	<u>24</u>	<u>70</u>
5 OTHER EXPENSES		
Included in the operating expenses of the Company are the following items:		
Audit fees		
– for audit of financial statements	35	35
– for audit services in relation to regulatory (information disclosure) reporting	13	13
– for audit services in relation to price and quality thresholds and other regulatory reporting	29	14
Total audit fees	<u>77</u>	<u>62</u>

For the year ended 30 June	2011	2010
	\$000	\$000
Transmission costs	21,637	21,816
Depreciation	11,849	11,428
Maintenance costs	7,868	7,699
Other contractor costs	1,002	800
Directors fees	165	170
Bad debts written off	50	28
Lease expense	81	81
Increase/(Decrease) in impairment provision for doubtful, trade and other receivables	8	7
6 FINANCIAL EXPENSES		
Interest – related parties	8,670	7,619
Interest amortised from cash flow hedge close out	(237)	(237)
Total financial expenses	8,433	7,382
7 LEASE COMMITMENTS		
Non-cancellable operating lease commitments		
Payable within one year	58	26
Payable between one to five years	138	17
Payable later than five years	6	7
	202	50
8 DIVIDENDS		
Interim dividend December \$0.500/share (\$0.500, 2010)	5,000	5,000
Final dividend June \$0.700/share (\$0.899, 2010)	7,003	8,985
\$1.200 per share for 2011 (\$1.399: 2010)	12,003	13,985
9 INCOME TAX		
Operating profit before income tax	18,013	17,333
Tax thereon at 30%	5,404	5,200
<i>Plus/(Less) the tax effect of differences</i>		
Revenue not liable for taxation	0	(1,076)
Expenditure (deductible)/non-deductible for taxation purposes	203	160
Under/(Over) tax provision in prior years	(248)	156
Deferred tax adjustment arising from tax rate change	(137)	(3,476)
Deferred tax adjustment arising from removal of depreciation on buildings	0	786
Tax effect of differences	(182)	(3,450)
Tax expense	5,222	1,750

For the year ended 30 June	2011	2010
	\$000	\$000
<i>Represented by</i>		
Current tax provision	3,653	3,204
Deferred tax provision	1,954	1,080
Under/(Over) tax provision in prior years	(248)	156
Net deferred tax adjustment arising from tax rate change	(137)	(3,476)
Net deferred tax adjustment arising from removal of depreciation on buildings	0	786
Income tax	5,222	1,750
Effective tax rate	29.0%	10.1%

Imputation credit account

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 2011, the company had direct access to consolidated group imputation credits totalling \$5,835,746 (2010: \$721,132), and indirect access to group members imputation credit account balances (that predate their joining the income tax consolidated group) of \$nil (2010: \$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	1.28	1.56

11 EQUITY – SHARE CAPITAL

Issued capital – 10,000,000 ordinary shares	10,000	10,000
---------------------------------------------	--------	--------

12 CASH FLOW HEDGE RESERVE

Balance at beginning of the year	111	243
Net revaluations	195	33
Cash flow hedge closed out	(239)	(226)
Deferred tax arising on hedges (note 17)	15	61
Balance at end of the year	82	111

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	165,642	164,044
Net profit for the year	12,791	15,583
Dividend distributions	(12,003)	(13,985)
Balance at end of the year	166,430	165,642

For the year ended 30 June	2011	2010
	\$000	\$000

14 TRADE AND OTHER PAYABLES

Trade payables	2,679	3,050
Due to related parties – other	6,193	5,289
– Dunedin City Holdings Limited	58	1,512
	<u>8,930</u>	<u>9,851</u>

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

15 OTHER CURRENT LIABILITIES

GST payable	663	234
	<u>663</u>	<u>234</u>

16 TERM BORROWINGS (SECURED)

Dunedin City Treasury Limited – related party	126,850	118,800
-----------------------------------------------	---------	---------

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 \$130,000,000

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	126,850	118,800
	<u>126,850</u>	<u>118,800</u>

The weighted average interest rate for the loan inclusive of any current portion, was 6.83% (2010 : 6.64%).

17 DEFERRED TAX

2011 \$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	(50,462)	0	(746)	0	(51,208)	(51,208)
Provisions	(165)	0	(919)	21	(1,105)	(1,084)
Revaluations of interest rate swaps	128	(56)	0	72	0	72
Close out of interest rate swaps	0	71	(71)	101	(101)	0
Balance at end of the year	<u>(50,499)</u>	<u>15</u>	<u>(1,736)</u>	<u>194</u>	<u>(52,414)</u>	<u>(52,220)</u>

17 DEFERRED TAX – continued**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	(52,170)	61	1,610	299	(50,798)	(50,499)

For the year ended 30 June

2011	2010
\$000	\$000

18 CASH AND CASH EQUIVALENTS

Cash and bank	215	67
---------------	-----	----

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	9,682	9,096
Less estimated impairment	(77)	(68)
	9,605	9,028
Due from related parties		
– Dunedin City Council and Group entities	104	309
– other related parties	0	0
	9,709	9,337

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

20 INVESTMENTS

Investments – listed companies	10	11
	10	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	(258)	(390)
Foreign exchange forward contracts – payable	0	(63)
	(258)	(453)

22 INVENTORIES

Network spare parts	11	11
	11	11

23 PROPERTY, PLANT AND EQUIPMENT

2011 \$000	Land	Buildings	Electrical network	Plant equipment	Sub-total
Cost					
Balance at beginning of the year	4,224	11,530	377,202	2,109	395,065
Purchases	0	0	20,031	39	20,070
Disposal	0	0	(215)	0	(215)
Transfer	0	0	163	0	163
Balance at end of the year	4,224	11,530	397,181	2,148	415,083
Accumulated depreciation					
Balance at beginning of the year	0	968	54,420	1,002	56,390
Depreciation	0	130	11,436	172	11,738
Disposal	0	0	(71)	0	(71)
Balance at end of the year	0	1,098	65,785	1,174	68,057
Carrying amounts	4,224	10,432	331,396	974	347,026

2011 \$000	Sub-total	Motor vehicles	Office equipment	Optical fibre network	Construction in progress	Total
Cost						
Balance at beginning of the year	395,065	191	16	903	7,873	404,048
Purchases	20,070	0	0	2,327	0	22,397
Disposal	(215)	0	0	0	0	(215)
Transfer	163	0	0	1,267	(1,430)	0
Balance at end of the year	415,083	191	16	4,497	6,443	426,230
Accumulated depreciation						
Balance at beginning of the year	56,390	20	11	20	0	56,441
Depreciation	11,738	11	3	82	0	11,834
Disposal	(71)	0	0	0	0	(71)
Balance at end of the year	68,057	31	14	102	0	68,204
Carrying amounts	347,026	160	2	4,395	6,443	358,026

23 PROPERTY, PLANT AND EQUIPMENT – continued

2010 \$000	Land	Buildings	Electrical network	Plant equipment	Sub-total
Cost					
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
Accumulated depreciation					
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
Carrying amounts	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
Cost						
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
Accumulated depreciation						
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
Balance at end of the year	56,390	20	11	20	0	56,441
Carrying amounts	338,675	171	5	883	7,873	347,607

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

For the year ended 30 June	2011	2010
	\$000	\$000

24 CAPITAL EXPENDITURE COMMITMENTS

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

5,552	8,998
-------	-------

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

Net profit/(loss) for the year	12,791	15,583
--------------------------------	--------	--------

Items not involving cash flows

Depreciation	11,977	11,428
Increase/(Decrease) in deferred tax	1,721	(1,671)
Other non-cash items	(29)	(132)
(Increase)/Decrease in cash flow hedge	(195)	(33)

Impact of changes in working capital items

(Increase)/Decrease in trade and other receivables	(372)	445
(Increase)/Decrease in investments	1	0
Increase/(Decrease) in trade and other payables	(921)	(1,284)
Increase/(Decrease) in provision for tax	1,095	409
Increase/(Decrease) in other current liabilities	429	(92)

Items classified as investing or financing activities

Capital creditors in accounts payable	(234)	67
Loss/(Gain) on disposal of investments	(1)	0
Loss/(Gain) on disposal of property, plant and equipment	(128)	0

Net cash inflows/(outflows) from operating activities

26,134	24,720
--------	--------

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	0	1,495
Management fees	200	200
Subvention/Tax loss offset payment	0	1,086
	200	2,781

For the year ended 30 June	2011	2010
	\$000	\$000

26 RELATED PARTY TRANSACTIONS – continued

Purchases of goods and services from Dunedin City Council:

Rates and property leases	379	349
Interest/Facility fees	0	1
Capital work	796	0
	<u>1,175</u>	<u>350</u>

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

Capital work	14,668	14,306
Network management and operation	14,988	14,593
Interest/Facility fees	8,670	7,619
Subvention/Tax loss offset payments	0	1,734
Contracting services	1,357	1,221
Management fees	90	90
Accounting, administration and secretarial	192	185
Sundry and consulting	113	84
Lease of meters	39	40
	<u>40,117</u>	<u>39,872</u>

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

Dunedin City Holdings Limited	58	1,512
Other Dunedin City Council Group entities	133,300	124,542
	<u>133,358</u>	<u>126,054</u>

Sales of services to Dunedin City Council:

Headworks fees	478	0
Other	113	65
	<u>591</u>	<u>65</u>

Sales of services to Dunedin City Council Group entities:

Interest	0	3
Shut-down charges	13	71
Rent	26	26
Service failure penalties	129	37
Headworks	0	283
Other	19	0
	<u>187</u>	<u>420</u>

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

Dunedin City Council	36	3
Other Dunedin City Council Group entities:	<u>68</u>	<u>306</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 was 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 \$13,322 were provided by Lund South Limited (2010: \$200,509). No monies were owing to Lund South Limited at the end of the year (2010: nil).

Mr S J McLauchlan is pro chancellor of the University of Otago. In the ordinary course of business during the financial period covered by this report, services valued at \$60,271 were provided to the University of Otago (2010: \$13,693). \$3,433 was outstanding at 30 June 2011 (2010: \$19,321).

Mr McLauchlan is a director of Scenic Circle Hotels Limited. During the financial period covered by this report, services valued at \$240 were purchased from Scenic Circle Hotels Limited (2010: \$1,559). No monies were owing to Scenic Circle Hotels Limited at the end of the year (2010: nil).

27 FINANCIAL INSTRUMENT RISK

Dunedin City Treasury Limited, which is part of the Dunedin City Holdings Group, coordinates 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 notional principal outstanding with regard to the interest rate swaps is:

	2011	2010
	\$000	\$000
Maturing in less than one year	10,000	0
Maturing between one and five years	0	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:

	2011 \$000	2010 \$000
Cash and cash equivalents	215	67
Trade and other receivables	9,709	9,337
Short-term investments	10	11
	<u>9,934</u>	<u>9,415</u>
Past due, but not impaired, receivables are:		
Past due receivables		
Age analysis: 30-60 days	21	563
60-90 days	50	24
90 days plus	119	301
	<u>190</u>	<u>888</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 2011:

\$000	Maturity dates				More		No maturity	Total
	less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 Years	than 5 Years			
Financial assets								
Cash and cash equivalents	215	0	0	0	0	0	0	215
Trade and other receivables	9,709	0	0	0	0	0	0	9,709
Short-term investments	0	0	0	0	0	0	0	0
Long-term investments	0	0	0	0	0	0	10	10
	9,924	0	0	0	0	0	10	9,934
Financial liabilities								
Trade and other payables	8,930	0	0	0	0	0	0	8,930
Other current liabilities	663	0	0	0	0	0	0	663
Taxation payable	2,538	0	0	0	0	0	0	2,538
Cash flow hedge instruments	0	0	258	0	0	0	0	258
Term borrowings	0	0	0	0	126,850	0	0	126,850
	12,131	0	258	0	126,850	0	0	139,239

The following table analyses the exposure of the Company's financial liabilities to liquidity risk as at 30 June 2010:

\$000	Maturity dates				More		Total
	less than	1 to 3	3 months	1 to 5	than	No	
	1 month	months	to 1 year	Years	5 Years	maturity	
Financial assets							
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
	9,404	0	0	0	0	11	9,415
Financial liabilities							
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
	11,528	0	453	0	118,800	0	130,781

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 liabilities					
Cash flow hedge instruments	258	0	406	0	(261)
Term borrowings (hedged)	10,000	0	(406)	0	261
Term borrowings (unhedged)	16,850	169	0	(169)	0
	27,108	169	0	(169)	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).

	2011			Total \$000
	Level 1 \$000	Level 2 \$000	Level 3 \$000	
Financial liabilities				
Derivative financial liabilities	0	258	0	258

28 SEGMENT REPORTING

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

29 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.

30 EVENTS AFTER BALANCE DATE

There were no significant events after balance date.

Independent Auditor's Report

To the readers of Aurora Energy Limited's financial statements and statement of service performance for the year ended 30 June 2011

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.

We have audited:

- the financial statements of the company on pages 16 to 38, that comprise the balance sheet as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on page 9.

Opinion on the financial statements and the statement of service performance

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 2011; and
 - financial performance and cash flows for the year ended on that date.
- the statement of service performance of the company on page 9:
 - complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the company's achievements measured against the performance targets adopted for the year ended 30 June 2011.

Opinion on other legal requirements

In accordance with the *Financial Reporting Act 1993* we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 31 August 2011. This 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 our responsibilities, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

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.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments; we consider internal control relevant to the company's preparation of the financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. In accordance with the *Financial Reporting Act 1993*, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing the financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company's financial position, financial performance and cash flows; and
- give a true and fair view of its service performance achievements.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error.

The Board of Director's responsibilities arise from the *Energy Companies Act 1992* and the *Financial Reporting Act 1993*.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our 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 New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the company.



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



New residential developments demand a quality electricity supply from modern underground networks. Pictured is a new subdivision in the Central Otago township of Wanaka.

www.auroraenergy.co.nz

