

securing our future during transitional

Report from the Chairman John Hasker AM



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A new era

The 2008/2009 year has seen Aurora emerge as a fully integrated energy and network business which generates, distributes and retails electricity and provides wholesale telecommunications services. We are firmly focused on securing our future and delivering on our strategy and our purpose statement to see the Tasmanian community prosper from our efforts.

During the year, our shareholders directed us to purchase Alinta Energy (Tamar Valley) Pty Ltd, subsequently renamed Aurora Energy (Tamar Valley) Pty Ltd, trading as AETV Power, and complete the construction of the Tamar Valley Power Station. We are now focused on optimising our investment in this \$360 million asset.

Our entry into the generation market will guarantee energy security, while also providing an exciting growth opportunity for our business. I am confident that the experience of the Board, management team and workforce at AETV Power will enable it to deliver benefits to the Tasmanian community.

Pleasing result in extraordinary circumstances

Our financial results have been directly affected by the major developments that have taken place in our business during the financial year. We have seen weakness in revenues in some areas, due to the global financial crisis and lower customer demand. In response, we sought to manage any discretionary expenditure.

However, our financial performance was impacted by pre-operating losses for the power station and our exposure to unprecedented Tasmanian energy market prices in June 2009. The power station had limited generating capacity until the main unit completed commissioning in September 2009, and was unable to mitigate this exposure.

While we have suffered a decline in profits, we can take considerable pride in the fact that we delivered \$24 million to the Tasmanian Government and the community by way of income tax equivalents and dividends paid. This was achieved within some difficult trading conditions. Our key measure of operating profit was \$4.6 million lower than the previous year's, a pleasing result given factors set out in more detail in the Chief Financial Officer's report on pages 92-93 and the full financial statements.

Complex operating environment

We have new activities and acquisitions on our books at a time when the trading conditions are difficult and the Tasmanian economy, while resilient in the face of decline elsewhere, is expected to slow.

Long-standing national and Tasmanian regulatory reforms are entering their final stages and these will affect our business. We continue to keep a very close watch on developments in the climate change debate, while fulfilling our greenhouse reporting responsibilities.

The continuing roll-out of retail contestability adds further uncertainty for Aurora. From 1 July 2009, about half of our electricity revenue will be associated with the contestable market. Our customers expect a very high standard of service delivery and competitive pricing and these expectations are justified. Managing the impact of price rises on our customers in these difficult economic times and communicating the drivers behind them remains a challenge for us.

Safety leads a swag of achievements

I cannot overstate the importance of our vastly improved safety results this year. The parent company's Lost Time Injury Frequency Rate of 1.8 represents our best-ever performance, well under our Balanced Scorecard target of 4.5. The Tamar Valley Power Station construction project delivered a zero Lost Time Injury Frequency Rate, another outstanding result.

I congratulate the entire Aurora workforce on its commitment to improving the safety culture in our business. This result has been achieved in a climate of increasing pressures, as an unprecedented program of work to upgrade our assets continues.

The Aurora parent entity invested a record \$168 million in capital expenditure in 2008/2009, up from a record high of \$135 million in the previous year. This is in line with our capital expenditure program approved by the Tasmanian Economic Regulator in the current Pricing Determination, with the investment in capital expenditure in the distribution network designed to enhance and improve reliability of supply.

The achievements of our telecommunications team have been outstanding. As the Tasmanian Government's partner in the development of the Australian Government's National Broadband Network, we are well-positioned at the forefront of major initiatives in this area. Further details are on page 26.

The commencement of a roll-out of the CablePI household safety device to more than 200,000 Tasmanian homes and small businesses was another milestone for our business (page 27). It has already detected a number of potentially dangerous electrical problems in Tasmania and is attracting considerable attention interstate. Again, it is a credit to the vision and drive of our people.

A team contribution

CEO Dr Peter Davis and the Aurora Executive Team have worked hard to deliver value in difficult times. I have been impressed with their capacity to lead their parts of the business while also working together as a team. I would like to acknowledge the experience of my Board colleagues, and to thank them for the confidence they have shown in our new directions. The counsel provided by our Company Secretary, Robert Kimber, is also appreciated and we wish him well in his retirement at the end of this year.

The support we received during 2008/2009 from our shareholder Ministers, the Hon David Llewellyn MP as Minister for Energy and Resources, and the Hon Michael Aird MLC as Treasurer, gave us clear direction.

Looking forward

The developments in 2008/2009 leave Aurora Energy well placed to see the Tasmanian community prosper from our efforts, as we strengthen energy security through completion of the Tamar Valley Power Station, and commence our assistance with the roll-out of the National Broadband Network.

We continue to expand our national retail footprint where it is commercially sensible and where it lowers our overall cost to serve. The Network business continues to deliver robust returns and deliver record capital expenditure as the electricity infrastructure in Tasmania is strengthened.

Following recent acquisitions, a key focus for 2009/2010 is the integration and optimisation of new businesses, particularly the successful commissioning of the power station and its role in the Aurora Group, and in supporting the exciting new developments in relation to the National Broadband Network and the household safety device, CablePI.



John Hasker AM
Chairman