

Nelson Electricity Ltd



**Financial Statements for the
Year Ended 31 March 2008**

NELSON ELECTRICITY LIMITED

DIRECTORY

DIRECTORS

Brian Lawrence Rhoades Chair
David William Richard Dew
Kenneth John Forrest
Ian Francis Kearney
Graeme John Sutton

MANAGEMENT

P L Goodall General Manager
G J Hoare Company Secretary

REGISTERED OFFICE

C/- Marlborough Lines Limited
1-3 Alfred Street, PO Box 144
Blenheim
New Zealand

NELSON OFFICE

Haven Road
PO Box 7083
Nelson
New Zealand

AUDITOR

G R Mitchell of Deloitte (on behalf of the Controller and Auditor General)

BANKER

Westpac Banking Group, Nelson

Legal Advisors

Buddle Findlay, Wellington

NELSON ELECTRICITY LIMITED

DIRECTORS' REPORT 2008

The Directors have pleasure in submitting their 2008 annual report.

DIRECTORS HOLDING OFFICE

The Company's Directors at 31 March 2008 were:

David William Richard Dew
Kenneth John Forrest
Ian Francis Kearney
Brian Lawrence Rhoades
Graeme John Sutton

PRINCIPAL ACTIVITY

The Company's principal activity during the year ended 31 March 2008 was the management and operation of the electricity distribution network for the Nelson City area.

ENTRIES MADE IN THE INTERESTS REGISTER

General Notice of Interests

David William Richard Dew	Director Marlborough Lines Ltd
Kenneth John Forrest	Director Marlborough Lines Ltd
Ian Francis Kearney	Director Network Tasman Ltd
Graeme John Sutton	Director Network Tasman Ltd

Remuneration of Directors

Directors' remuneration in respect of the year ended 31 March 2008 was:

David William Richard Dew	\$10,080
Kenneth John Forrest	\$10,080 (paid to Marlborough Lines Ltd)
Michael John Glover	\$4,200 (part year)
Ian Francis Kearney	\$10,080
Brian Lawrence Rhoades	\$22,800 (Chairman)
Graeme John Sutton	\$5,880 (part year)

No loans have been made by the Company to any Director nor has the Company guaranteed any debts incurred by Directors.

Related Party Transactions

The Company has been invoiced for management services by its shareholding companies as follows:

Marlborough Lines Ltd	\$257,496
Network Tasman Ltd	\$170,496

The Company has been invoiced by Network Tasman Ltd for services provided by Transpower NZ Ltd to a value of \$2,071,696 and for the supply of fibre-optic cable capacity to a value of \$5,836.

DIRECTORS' REPORT CONTINUED

Directors' Insurance

The company has arranged a policy of Directors and Officers liability insurance cover to a value of \$5m.

Use of Company Information

During the year the Board received no notices from the Company's Directors requesting use of company information received in their capacity as Directors which would not otherwise have been available to them.

RESULTS

The Company's after tax profit for the period was \$1,524,136. The Directors consider the result is satisfactory.

DIVIDENDS

During the year the Directors recommended and paid fully imputed dividends totalling \$1,800,000.

REMUNERATION OF EMPLOYEES

During the 2007/08 financial year the Company employed four full time staff. One staff member received total remuneration of an amount greater than \$120,000 but less than \$130,000. A company motor vehicle was also provided to this staff member.

DONATIONS

The Company did not make any donations during the year ended 31 March 2008.

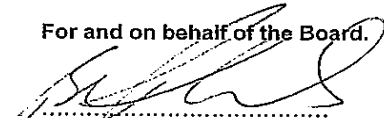
CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year. All policies have been applied on bases consistent with those used in the previous year. The Company has elected to defer the introduction of NZ IFRS until the financial year ending 31 March 2009.

AUDITORS

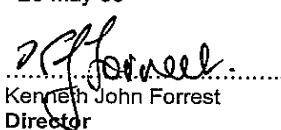
As required by the Energy Companies Act 1992 the Auditor General appoints the Company's Auditors. The Directors negotiate their fee and terms of audit. Details of audit fees paid are disclosed in the financial statements.

For and on behalf of the Board.



.....
Brian Lawrence Rhoades
Chairman

28-May-08



.....
Kenneth John Forrest
Director

For Nelson Electricity Limited

Nelson Electricity Limited

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2008

Nelson Electricity Limited
STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 31 March 2008

NOTES	YEAR ENDED 31-Mar-08 \$	YEAR ENDED 31-Mar-07 \$
INCOME		
Network revenue	7,479,501	7,402,436
Interest income	29,240	40,554
Loss rental rebates	163,159	224,926
Miscellaneous income	117,918	28,255
Other income	0	4,522
	7,789,818	7,700,693
EXPENDITURE		
Operations and maintenance	2,654,567	2,769,048
Administration costs	1,093,243	1,049,485
Audit fees	24,106	23,149
Other fees paid to auditors	3,000	3,000
Directors' fees	63,120	63,120
Interest expense	292,682	256,472
Bad debts expense	3,246	(544)
Depreciation	5 1,169,453	991,358
	5,303,417	5,155,088
SURPLUS BEFORE TAXATION	2,486,401	2,545,605
Tax Expense	2 962,265	941,788
SURPLUS AFTER TAXATION	1,524,136	1,603,817

Nelson Electricity Limited
STATEMENT OF MOVEMENTS IN EQUITY
for the year ended 31 March 2008

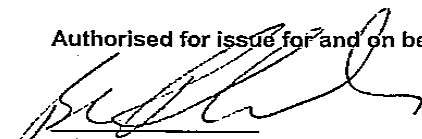
NOTES	YEAR ENDED 31-Mar-08 \$	YEAR ENDED 31-Mar-07 \$
EQUITY AT BEGINNING OF YEAR	20,889,324	21,405,507
Increase in revaluation reserves	3 4,543,658	-
Net surplus for year	4 1,524,136	1,603,817
Total recognised revenues and expenses	6,067,794	1,603,817
Distributions to owners	4 (1,800,000)	(2,120,000)
EQUITY AT END OF YEAR	25,157,118	20,889,324


This statement should be read in conjunction with the Notes to the Financial Statements

Nelson Electricity Limited
STATEMENT OF FINANCIAL POSITION
as at 31 March 2008

	NOTES	AS AT 31-Mar-08 \$	AS AT 31-Mar-07 \$
EQUITY			
Share capital	3	1,000	1,000
Revaluation reserves	3	24,526,293	19,982,635
Pre-acquisition reserves	4	1,290,564	1,290,564
Retained earnings	4	(660,739)	(384,875)
		25,157,118	20,889,324
Represented By			
CURRENT ASSETS			
Bank		29,878	21,012
Accounts receivable		605,819	593,192
Stock		125,587	89,501
Tax refund due		50,390	121,009
		811,674	824,714
CURRENT LIABILITIES			
Creditors and accruals		497,992	701,122
Employee entitlements		28,148	33,529
		526,140	734,651
WORKING CAPITAL			
		285,534	90,063
NON-CURRENT ASSETS			
Fixed assets	5	28,462,166	24,258,196
Deferred tax asset	6	9,418	11,065
		28,471,584	24,269,261
NON-CURRENT LIABILITIES			
Term loan	7	3,600,000	3,470,000
		3,600,000	3,470,000
NET ASSETS			
		25,157,118	20,889,324

Authorised for issue for and on behalf of the Board.


Brian Lawrence Rhoades
Chairman


Kenneth John Forrest
Director

For Nelson Electricity Limited

28-May-08

This statement should be read in conjunction with the Notes to the Financial Statements

Nelson Electricity Limited
STATEMENT OF CASH FLOWS
for the year ended 31 March 2007

	NOTES	YEAR ENDED 31-Mar-08 \$	YEAR ENDED 31-Mar-07 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from			
Receipts from customers		7,747,950	7,674,784
Interest received		29,240	40,554
		7,777,190	7,715,338
Cash was applied to			
Payments to suppliers		(4,074,031)	(3,667,003)
Interest paid		(293,332)	(256,396)
Net GST (Paid) Received		(11,196)	11,490
Taxation paid		(890,000)	(992,857)
		(5,268,559)	(4,904,766)
Net cash inflow from operating activities	8	2,508,631	2,810,572
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from			
Disposal of fixed assets		-	4,444
Cash was applied to			
Purchase of fixed assets		(829,765)	(679,779)
Net cash outflow from investing activities		(829,765)	(675,335)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from			
Term debt raised		130,000	0
Cash was applied to			
Retirement of Term Debt		0	(30,000)
Dividends paid		(1,800,000)	(2,120,000)
Net cash outflow from financing activities		(1,670,000)	(2,150,000)
Net decrease in cash held		8,866	(14,763)
Opening cash brought forward		21,012	35,775
Cash at end of year		29,878	21,012
CASH BALANCES IN STATEMENT OF FINANCIAL POSITION			
Bank		29,878	21,012
Short term deposits		0	0
		29,878	21,012

This statement should be read in conjunction with the Notes to the Financial Statements

Nelson Electricity Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2008

1. STATEMENT OF ACCOUNTING POLICIES

Entity Statement

Nelson Electricity Limited is a public company registered under the Companies Act 1993 and a reporting entity for the purposes of the Financial Reporting Act 1993.

These financial statements have been prepared pursuant to the Energy Companies Act 1992 and in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

As at 31 March 2008 Nelson Electricity's shares are held by Marlborough Lines Ltd (50%) and Network Tasman Ltd (50%).

Measurement Base

The financial statements have been prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are disclosed.

Nelson Electricity Ltd qualifies for differential reporting as it is not an issuer, all of the shareholders are represented on the board and it is not large. The company has elected not to apply any differential reporting exemptions in these financial statements.

Accounting Policies

(a) Goods and Services Tax (GST)

The Statement of Financial Performance and Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables which include GST invoiced.

(b) Fixed Assets

Land assets are carried at current market value.

Distribution system assets are carried at depreciated replacement cost as assessed by independent valuers.

Revaluation surpluses are transferred directly to the asset revaluation reserve.

It is intended that distribution system assets and land assets will be revalued every three years. Where possible it is intended that this revaluation will be undertaken in conjunction with the valuation required for Commerce Commission regulatory purposes.

Subsequent additions are recorded at cost.

All other assets are stated at cost less depreciation.

(c) Depreciation

Fixed assets have been depreciated in order to write off cost less estimated residual value over their estimated useful life on the following basis:

Buildings	2.00% straight line
Distribution System	1.43% to 6.67% straight line
Plant and Equipment	14.40% to 60.00% diminishing value

(d) Taxation

The income taxation expense charged to the Statement of Financial Performance includes both the current year's provision and the income tax effects of timing differences calculated using the liability method. This is applied on a partial basis. The Directors have elected not to create a deferred tax liability in respect of potential tax depreciation recoverable on system fixed assets on the basis that these assets are not for sale and the liability would never crystallise.

A debit balance in the deferred tax account, arising from timing differences or income tax losses is only recognised when there is virtual certainty of realisation.

(e) Receivables

Receivables are stated at the amount that they are expected to realise. Bad debts will be written off in the year in which they are identified.

(f) Inventories

Inventories are valued on the basis of the lower of cost (on a weighted average basis) and net realisable value. Allowance is made for damaged or obsolete items.

Nelson Electricity Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2008

(g) Financial Instruments

The company is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short term deposits, debtors, creditors and loans. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance. Except for loans, which are recorded at cost and those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.

(h) Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases are recognised as expenses in the periods in which they occur.

(i) Network Revenue

The company's principal source of revenue arises from the supply of network services to electricity retailers who trade across the network. Terms and conditions for supply of these services are provided for in "use of system" agreements signed with the electricity retailers.

(j) Employee Entitlements

Provision is made in respect of the company's liability for employees annual leave. Annual leave is calculated on an actual entitlement basis.

(k) Statement of Cash Flows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the company invests as part of its day to day cash management.

Operating activities include cash received from all income sources of the company and records the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of the company.

(l) Comparative Information

There have been no changes to comparative information.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year. All policies have been applied on bases consistent with those used in the previous year.

2.TAXATION

	YEAR ENDED 31-Mar-08	YEAR ENDED 31-Mar-07
	\$	\$
Surplus before taxation	2,486,401	2,545,605
Taxation @ 33%	820,512	840,050
Over provision from prior years	280	1
Plus effect of permanent differences	141,473	101,737
Taxation Expense	962,265	941,788
This taxation charge is represented by		
Current taxation	960,618	941,492
Deferred taxation	1,647	296
	962,265	941,788
Imputation Credit Account		
Balance 1 April	68,599	119,078
Imputation credits attached to dividends paid in the year	(886,567)	(1,044,179)
Income tax payments during the year	890,000	1,050,000
Refunds received from Inland Revenue	0	(56,300)
Balance 31 March	72,032	68,599

3.EQUITY

As at 31 March 2008 Marlborough Lines Ltd and Network Tasman Ltd each held 500 fully paid up shares. (2007: 500 shares)
All shares carry equal voting rights and the right to share equally in any winding up of the company. None of the shares carry fixed dividend rights.

	31-Mar-08	31-Mar-07
	\$	\$
Share capital – 1,000 shares	1,000	1,000

Nelson Electricity Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2008

ASSET REVALUATION RESERVES

Distribution system assets were revalued as at 1 April 2007. The valuation was completed by PricewaterhouseCoopers, who are experienced valuers of commercial businesses in the New Zealand electricity sector. The basis for revaluation was depreciated replacement cost (DRC) and the valuation exercise was completed in accordance with the requirements of FRS 3.

The Company's Haven Road land was also revalued to net current value as at 1 April 2007 as determined by Telfer Young Ltd registered property valuers.

	31-Mar-08	31-Mar-07
	\$	\$
Movements in Revaluation Reserves (during period)		
Opening balance	19,982,635	19,982,635
Revaluations - Land	312,000	-
Revaluations - Distribution System Assets	4,231,658	-
Closing Balance	24,526,293	19,982,635
Comprising:		
Revaluation Reserve - Land	1,366,461	1,054,461
Revaluation Reserve - Distribution System Assets	23,159,832	18,928,174

4. RETAINED EARNINGS / PRE ACQUISITION RESERVES

	AS AT	AS AT
	31-Mar-08	31-Mar-07
	\$	\$
RETAINED EARNINGS		
Opening balance 1 April	(384,875)	131,308
Net surplus for year	1,524,136	1,603,817
Dividends paid	(1,800,000)	(2,120,000)
Closing balance 31 March	(660,739)	(384,875)

PRE-ACQUISITION RESERVES

	AS AT	AS AT
	31-Mar-08	31-Mar-07
	\$	\$
Retained earnings accumulated to 19/06/96, when the company was purchased by Network Tasman Limited and Marlborough Lines Limited	1,290,564	1,290,564

5. FIXED ASSETS

As at 31 March 2008

	AS AT	AS AT
	31-Mar-08	31-Mar-07
	\$	\$
Land (at valuation)	1,474,500	1,162,500
Buildings (at cost)	200,000	175,284
Accumulated Depreciation	4,000	89,152
	196,000	86,132
Distribution System Assets (DRC)		
Subtransmission Assets (Replacement Cost)	3,953,036	3,958,899
Accumulated Depreciation	1,995,164	1,787,455
	1,957,872	2,171,444
Zone Substations (Replacement Cost)	4,282,547	3,273,235
Accumulated Depreciation	2,990,751	2,083,592
	1,291,796	1,189,643
Distribution Assets (Replacement Cost)	41,782,221	36,289,474
Accumulated Depreciation	21,426,810	18,533,104
	20,355,411	17,756,370
Other System Fixed Assets (Replacement Cost)	6,170,078	3,525,472
Accumulated Depreciation	3,114,875	1,714,128
	3,055,203	1,811,344
Plant and Equipment (Cost)	286,716	270,362
Accumulated Depreciation	234,827	207,986
	51,889	62,376
Capital Work in Progress (Cost)	79,495	18,387
Total Fixed Assets	28,462,166	24,258,196
Depreciation Charged		
Buildings	4,000	3,506
Distribution System Assets	1,138,225	963,347
Plant and Equipment	27,228	24,505
Total	1,169,453	991,358

Nelson Electricity Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2008

The company's electricity network assets and land and buildings were revalued as at 1 April 2007 - See note 3.

The most recent Optimised Deprival Valuation for Nelson Electricity's network (31 March 2007) assets is \$20.224m. (2006 \$20.290m)

6. DEFERRED TAXATION

	AS AT 31-Mar-08 \$	AS AT 31-Mar-07 \$
Balance 1 April	(11,065)	(11,361)
Current period provision	1,647	296
Balance 31 March	(9,418)	(11,065)

7. TERM LOANS

	AS AT 31-Mar-08 \$	AS AT 31-Mar-07 \$
Westpac Trust Multi Option Credit Facility.	3,600,000	3,470,000

Effective interest rate at 31 March 2008 is 9.16%. (2007: 8.17%)
Three year facility, reviewed and able to be extended annually.

The facility limit is \$8.1m. The company has granted a negative pledge as an alternative to issuing security in respect of the facility. The facility expires on 31 October 2011.

8. RECONCILIATION OF SURPLUS AFTER TAXATION WITH CASH FLOW FROM OPERATING ACTIVITIES

	YEAR ENDED 31-Mar-08 \$	YEAR ENDED 31-Mar-07 \$
Net surplus after taxation	1,524,136	1,603,817
Add (less) non-cash items		
Depreciation	1,169,453	991,358
Movement in deferred taxation	1,647	296
	1,171,100	991,654
Add (less) movements in working capital		
(Increase)/Decrease in receivables	(12,628)	14,645
(Increase)/Decrease in stocks	(36,085)	48,027
Increase/(Decrease) in creditors and accruals	(268,533)	290,732
Increase/(Decrease) in employee entitlements	(5,382)	(898)
(Increase)/Decrease in taxation provision	70,619	(51,364)
	(252,009)	301,142
Less items classified as investing activities		
Capital expenditure in creditors (net movement)	65,404	(86,041)
Net cash inflow from operating activities	2,508,631	2,810,572

9. RELATED PARTY TRANSACTIONS

9.1 Shareholding companies have in the past year provided management and operational support to Nelson Electricity to the following values:

	2008 \$	2007 \$
Marlborough Lines Ltd	257,496	257,496
Network Tasman Ltd	170,496	170,496
Payable to Marlborough Lines at 31 March (net)	21,548	21,458
Payable to Network Tasman at 31 March (net)	14,208	14,208

9.2 Nelson Electricity reimburses Marlborough Lines for salaries paid to Nelson Electricity staff on its behalf. Salaries totalling \$24,236 remained payable to Marlborough Lines at 31 March 2008. (2007: \$23,546)

9.3 Network Tasman on-charged to Nelson Electricity Transpower national grid charges during the year totalling \$2,071,697(net) (2007: \$2,111,171)
As at 31 March 2008 Nelson Electricity owed Network Tasman \$175,148 (net) for transmission charges. (2007: \$176,637).

9.4 Network Tasman credited Nelson Electricity with loss rental rebates (from Transpower) totalling \$163,159 (net). As at 31 March 2008 Network Tasman owed Nelson Electricity \$21,593 (net) for loss rental rebates. (2007: \$6,162)

9.5 Network Tasman provided access to its fibre optic network to Nelson Electricity to a value of \$5,836. (2007: \$6,144).
As at 31 March 2008 the value outstanding to Network Tasman was \$501. (2007: \$549 Nil)

9.6 During the year Nelson Electricity paid dividends totalling \$900,000 to each of Marlborough Lines and Network Tasman. (2007: \$1,060,000 each)

Nelson Electricity Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2008

	2008	2007
	\$	\$
	10,080	10,080

9.6 Directors fees paid to Marlborough Lines Ltd in respect of Mr K Forrest.

9.7 There were no related party transactions at nil or nominal value.

9.8 There were no related party debts written off or forgiven during the year. (2007: Nil)

10. COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 March 2008 proceedings had been entered against the company in the High Court by Network Tasman Ltd to determine the ownership of a section of overhead 33kV lines which supply Nelson Electricity and for which both parties have previously claimed ownership. The net value of the disputed lines in Nelson Electricity's balance sheet is \$259,765. (2007 Nil)

11. LEASE COMMITMENTS

As at 31 March 2008 the company had lease commitments in relation to one item of office equipment. Expenditure on this lease totalled \$1,450 for the year to 31 March 2008 and this amount is included in the administration costs listed in the Statement of Financial Performance.

Lease commitments over the next 5 years are estimated as follows:

Less than 1 year \$3,480, less than 2 years \$3,480, 3-5 years \$10,440. Beyond 5 years it is likely that the company will continue to lease similar equipment at a similar cost.

12. FINANCIAL INSTRUMENTS

12.1 Credit Risk

Credit risk is the risk that an outside party will not be able to meet its obligations to the company. The company places its cash deposits with high credit quality financial institutions. Credit risk in respect of accounts receivable is minimised through the company's ability to place bonding requirements on its major electricity retailing customers and the substantial financial nature of these businesses. The maximum credit risk is the book value of accounts receivable in the Statement of Financial Position. The company does not have any other significant concentrations of credit risk.

12.2 Interest Rate Risk

Interest rate risk is the risk that interest rates will change, increasing or decreasing the cost of borrowing or lending. The company's short term deposits are at fixed interest rates and mature within one year. The company has the opportunity to vary interest rates on its non current borrowings on the basis of terms and interest rates offered by the bank at the completion of each term. The interest rate applying to the company's current borrowings is disclosed in note 7.

12.3 Currency Risk

The company has no present exposure to risks arising from movement in exchange rates. (2007: Nil)

13. STATEMENT OF CORPORATE INTENT TARGETS

The Shareholders adopted a Statement of Corporate Intent for the 2007/2008 year, which provided for the following targets.

Financial Targets

(a) Estimated "Return on Investment" from core business

Target return

Actual return

(Commerce Commission ROI formula used excluding revaluations)

(b) Profitability

Target after tax profit

Actual after tax profit

(c) Dividends

Target Dividend

Tax paid profit

Dividends declared

Declared dividends represent 118% of tax paid surplus.

	2008	2007
	9.26%	8.39%
	9.77%	9.44%
	\$1.519m	\$1.441m
	\$1.525m	\$1.603m
	\$2.119m	\$2.040m
	\$1.525m	\$1.603m
	\$1.800m	\$2.120m

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

System Reliability Targets

SAIDI	System average interruption duration index. (Exclusive of Transpower interruptions)	Target	40 Minutes	40 Minutes
		Actual	16.92 Minutes	25.75 Minutes
SAIFI	System average interruption frequency index.	Target	0.90	0.90
		Actual	0.18	0.27
CAIDI	Customer average interruption duration index.	Target	33.3 Minutes	33.3 Minutes
		Actual	91.85 Minutes	95.37 Minutes
Faults Per 100Kms of Line		Target	4	4
		Actual	8.8	8.9

14. NEW ZEALAND INTERNATIONAL FINANCIAL REPORTING STANDARDS

14.1 The Directors of Nelson Electricity Ltd have decided that adoption of the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) will be deferred until the financial year ending 31 March 2009. This requires recasting of the 31 March 2007 Statement of Financial Position and the Company's operating revenues and expenditure in the 2007/2008 financial year to provide meaningful prior year comparatives for the first year (2008) disclosures under NZ IFRS. The Statement of Financial Position as at 31 March 2008 will need to be restated under NZ IFRS.

14.2 Preliminary study of the effects of introducing NZ IFRS indicates that Nelson Electricity will be affected in the following areas:

- A requirement to account for the true cost of financing at balance date including bringing to charge gains or losses on any interest rate hedging arrangements in place at balance date.
- Creation of provisions to reflect likely usage of staff benefits in excess of current year entitlements in the ensuing year.
- Creation of a deferred tax liability equivalent to the tax effect (0.30%) on the difference between the accounting and tax carrying values for the Company's fixed assets excluding land.

14.3 From the above mentioned changes the company presently has no interest rate hedging mechanisms in place and there is thus no comparative gain or loss to account for. The creation of a provision to reflect the following year's drawdown in excess of entitlement is unlikely to be necessary on the basis of current staff sick leave usage. Of greater significance is the requirement to create a deferred tax liability in relation to the company's revalued fixed assets. It is estimated that on the basis of the Company's 31 March 2008 asset values a deferred tax liability of \$6.410m would be needed. That is a direct transfer from shareholders funds to term liabilities which in the current year would have reduced shareholders funds as a percentage of total assets from 85.91% to 62.61%. These assessments are intended to be indicative only.

14.4 The actual adoption of NZ IFRS may result in changes of a different magnitude to those indicated above.

15. EVENTS SUBSEQUENT TO BALANCE DATE

There were no events subsequent to balance date requiring notification in these financial statements.

**AUDIT REPORT
TO THE READERS OF
NELSON ELECTRICITY LIMITED'S
FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE
FOR THE YEAR ENDED 31 MARCH 2008**

The Auditor-General is the auditor of Nelson Electricity Limited (the company). The Auditor-General has appointed me, Graeme Mitchell, using the staff and resources of Deloitte, to carry out the audit of the financial statements and performance information of the company, on his behalf, for the year ended 31 March 2008.

Unqualified Opinion

In our opinion:

- the financial statements of the company on pages 4 to 12:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - the company's financial position as at 31 March 2008;
 - the results of its operations and cash flows for the year ended on that date.
- The performance information of the company on pages 13 and 14 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 31 March 2008.
- based on our examination the company kept proper accounting records.

The audit was completed on 28 May 2008, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and performance information 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 performance information. 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 performance information. 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 performance information.

We evaluated the overall adequacy of the presentation of information in the financial statements and performance information. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

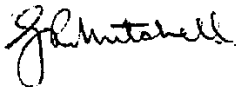
The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the company as at 31 March 2008. They must also give a true and fair view of the results of its operations and cash flows for the year ended on that date. The Board of Directors is also responsible for preparing the performance information that gives a true and fair view of performance achievements for the year ended 31 March 2008. The Board of Directors' responsibilities arise from the Energy Companies Act 1992 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and performance information 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 New Zealand Institute of Chartered Accountants.

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



G R Mitchell
Deloitte
On behalf of the Auditor-General
Wellington, New Zealand