

# **Nelson Electricity Ltd**



---

**Financial Statements for the  
Year Ended 31 March 2009**

---

**NELSON ELECTRICITY LIMITED**

**DIRECTORY**

**DIRECTORS**

Paul Donald Le Gros	Chair
David William Richard Dew	
Kenneth John Forrest	
Ian Francis Kearney	
Michael John McCliskie	

**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**

Michael Wilkes 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 2009**

The Directors have pleasure in submitting their 2009 annual report.

### **DIRECTORS HOLDING OFFICE**

The Company's Directors at 31 March 2009 were:

David William Richard Dew  
Kenneth John Forrest  
Paul Donald Le Gros  
Ian Francis Kearney  
Michael John McCliskie

### **PRINCIPAL ACTIVITY**

The Company's principal activity during the year ended 31 March 2009 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
Michael John McCliskie	Director Network Tasman Ltd

#### ***Remuneration of Directors***

Directors' remuneration in respect of the year ended 31 March 2009 was:

David William Richard Dew	\$14,460
Kenneth John Forrest	\$14,460 (Paid to Marlborough Lines Ltd)
Paul Donald Le Gros	\$10,295 (Chairman part year)
Ian Francis Kearney	\$14,460
Michael John McCliskie	\$8,544 (Part Year)
Brian Lawrence Rhoades	\$17,100 (Chairman part year)
Graeme John Sutton	\$5,917 (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 \$1,847,571 (net of loss rental rebates) and for the supply of fibre-optic cable capacity to a value of \$5,540.

## 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 \$2,076,573. 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 2008/09 financial year the Company employed four full time staff. One staff member received total remuneration of an amount greater than \$130,000 but less than \$140,000. 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 2009.

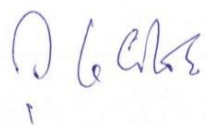
## CHANGES IN ACCOUNTING POLICIES

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 for the immediate future.

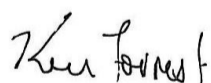
## AUDITORS

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 on 12 June 2009**



.....  
Paul Donald Le Gros  
**Chairman**



.....  
Kenneth John Forrest  
**Director**

For Nelson Electricity Limited

**Nelson Electricity Limited**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
for the year ended 31 March 2009

	NOTES	YEAR ENDED 31-Mar-09 \$	YEAR ENDED 31-Mar-08 \$
<b>INCOME</b>			
Network revenue		8,290,309	7,479,501
Interest income		44,683	29,240
Loss rental rebates		602,345	163,159
Miscellaneous income		108,840	117,918
		<b>9,046,177</b>	<b>7,789,818</b>
<b>EXPENDITURE</b>			
Operations and maintenance		2,990,848	2,654,567
Administration costs		1,189,901	1,093,243
Audit fees		18,890	24,106
Other fees paid to auditors		4,000	3,000
Directors' fees		85,235	63,120
Interest expense		253,332	292,682
Bad debts expense		34,512	3,246
Depreciation	5	1,196,344	1,169,453
		<b>5,773,062</b>	<b>5,303,417</b>
<b>SURPLUS BEFORE TAXATION</b>		<b>3,273,115</b>	<b>2,486,401</b>
Tax Expense	2	1,196,542	962,265
<b>SURPLUS AFTER TAXATION</b>		<b>2,076,573</b>	<b>1,524,136</b>

**Nelson Electricity Limited**  
**STATEMENT OF MOVEMENTS IN EQUITY**  
for the year ended 31 March 2009

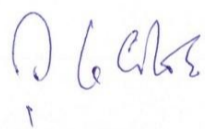
	NOTES	YEAR ENDED 31-Mar-09 \$	YEAR ENDED 31-Mar-08 \$
<b>EQUITY AT BEGINNING OF YEAR</b>		25,157,118	20,889,324
Increase in revaluation reserves	3	-	4,543,658
Net surplus for year	4	2,076,573	1,524,136
Total recognised revenues and expenses		2,076,573	6,067,794
Distributions to owners	4	(1,800,000)	(1,800,000)
<b>EQUITY AT END OF YEAR</b>		<b>25,433,691</b>	<b>25,157,118</b>

*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 2009

	NOTES	AS AT 31-Mar-09 \$	AS AT 31-Mar-08 \$
<b>EQUITY</b>			
Share capital	3	1,000	1,000
Revaluation reserves	3	24,526,293	24,526,293
Pre-acquisition reserves	4	1,290,564	1,290,564
Retained earnings	4	(384,166)	(660,739)
		<b>25,433,691</b>	<b>25,157,118</b>
<b>Represented By</b>			
<b>CURRENT ASSETS</b>			
Bank		58,094	29,878
Accounts receivable		696,329	605,819
Stock		204,660	125,587
Tax refund due		-	50,390
		<b>959,083</b>	<b>811,674</b>
<b>CURRENT LIABILITIES</b>			
Creditors and accruals		745,440	497,992
Employee entitlements		26,437	28,148
Tax payable		391,704	-
		<b>1,163,581</b>	<b>526,140</b>
<b>WORKING CAPITAL</b>			
		<b>(204,498)</b>	<b>285,534</b>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	5	28,619,831	28,462,166
Deferred tax asset	6	18,358	9,418
		<b>28,638,189</b>	<b>28,471,584</b>
<b>NON-CURRENT LIABILITIES</b>			
Term loan	7	3,000,000	3,600,000
		<b>3,000,000</b>	<b>3,600,000</b>
<b>NET ASSETS</b>			
		<b>25,433,691</b>	<b>25,157,118</b>

Authorised for issue for and on behalf of the Board.



Paul Donald Le Gros  
Chairman



Kenneth John Forrest  
Director

For Nelson Electricity Limited

12 June 2009

***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 2009

NOTES

**CASH FLOWS FROM OPERATING ACTIVITIES**

**Cash was provided from**

Receipts from customers  
Interest received

**Cash was applied to**

Payments to suppliers  
Interest paid  
Net GST paid  
Taxation paid

**Net cash inflow from operating activities**

8

**CASH FLOWS FROM INVESTING ACTIVITIES**

**Cash was applied to**

Purchase of fixed assets

**Net cash outflow from investing activities**

**CASH FLOWS FROM FINANCING ACTIVITIES**

**Cash was provided from**

Term debt raised

**Cash was applied to**

Retirement of Term Debt  
Dividends paid

**Net cash outflow from financing activities**

**Net decrease in cash held**

Opening cash brought forward

**Cash at end of year**

**CASH BALANCES IN STATEMENT OF FINANCIAL POSITION**

Bank

Short term deposits

**YEAR ENDED**  
**31-Mar-09**  
**\$**

**YEAR ENDED**  
**31-Mar-08**  
**\$**

8,910,984

7,747,950

44,683

29,240

**8,955,667**

**7,777,190**

(4,153,067)

(4,074,031)

(253,934)

(293,332)

(3,053)

(11,196)

(763,388)

(890,000)

**(5,173,442)**

**(5,268,559)**

**3,782,225**

**2,508,631**

(1,354,009)

(829,765)

**(1,354,009)**

**(829,765)**

-

130,000

(600,000)

-

(1,800,000)

(1,800,000)

**(2,400,000)**

**(1,670,000)**

**28,216**

**8,866**

29,878

21,012

**58,094**

**29,878**

13,094

29,878

45,000

0

**58,094**

**29,878**

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

## 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 2009 Nelson Electricity's shares are held by Marlborough Lines Limited (50%) and Network Tasman Limited (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 Limited 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 2009

**(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**

Surplus before taxation  
Taxation @ 30% (prior year 33%)  
Adjustments to prior years  
Plus effect of permanent differences

**Taxation Expense**

This taxation charge is represented by

Current taxation  
Deferred taxation

**Imputation Credit Account**

Balance 1 April  
Imputation credits attached to dividends paid in the year  
Income tax payments during the year  
Balance 31 March

	YEAR ENDED 31-Mar-09	YEAR ENDED 31-Mar-08
	\$	\$
	3,273,115	2,486,401
	981,935	820,512
	51,276	280
	163,331	141,473
<b>Taxation Expense</b>	<b>1,196,542</b>	<b>962,265</b>
	1,205,482	960,618
	(8,940)	1,647
	<b>1,196,542</b>	<b>962,265</b>
	72,032	68,599
	(771,429)	(886,567)
	763,387	890,000
	<b>63,990</b>	<b>72,032</b>

**3. EQUITY**

As at 31 March 2009 Marlborough Lines Limited and Network Tasman Limited each held 500 fully paid up shares. (2008: 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.

**Share capital – 1,000 shares**

	31-Mar-09	31-Mar-08
	\$	\$
	1,000	1,000

**ASSET REVALUATION RESERVES**

Distribution system assets were last 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 last revalued to net current value as at 1 April 2007 as determined by Telfer Young Ltd registered property valuers.

	<b>31-Mar-09</b>	<b>31-Mar-08</b>
	<b>\$</b>	<b>\$</b>
<b>Movements in Revaluation Reserves (during period)</b>		
Opening balance	24,526,293	19,982,635
Revaluations - Land	-	312,000
Revaluations - Distribution System Assets	-	4,231,658
Closing Balance	24,526,293	24,526,293
Comprising:		
Revaluation Reserve - Land	1,366,461	1,366,461
Revaluation Reserve - Distribution System Assets	23,159,832	23,159,832

**4. RETAINED EARNINGS / PRE ACQUISITION RESERVES**

**RETAINED EARNINGS**

	<b>AS AT</b>	<b>AS AT</b>
	<b>31-Mar-09</b>	<b>31-Mar-08</b>
	<b>\$</b>	<b>\$</b>
<b>Opening balance 1 April</b>	(660,739)	(384,875)
Net surplus for year	2,076,573	1,524,136
Dividends paid	(1,800,000)	(1,800,000)
<b>Closing balance 31 March</b>	<b>(384,166)</b>	<b>(660,739)</b>

**PRE-ACQUISITION RESERVES**

Retained earnings accumulated to 19/06/96, when the company was purchased by Network Tasman Limited and Marlborough Lines Limited

	<b>AS AT</b>	<b>AS AT</b>
	<b>31-Mar-09</b>	<b>31-Mar-08</b>
	<b>\$</b>	<b>\$</b>
	1,290,564	1,290,564

**5. FIXED ASSETS**

As at 31 March 2008

	<b>AS AT</b>	<b>AS AT</b>
	<b>31-Mar-09</b>	<b>31-Mar-08</b>
	<b>\$</b>	<b>\$</b>
Land (at valuation)	1,474,500	1,474,500
Buildings (at cost)	356,361	200,000
Accumulated Depreciation	8,000	4,000
	348,361	196,000
<b>Distribution System Assets (DRC)</b>		
Subtransmission Assets (Replacement Cost)	3,953,036	3,953,036
Accumulated Depreciation	2,066,499	1,995,164
	1,886,537	1,957,872
Zone Substations (Replacement Cost)	4,585,621	4,282,547
Accumulated Depreciation	3,256,870	2,990,751
	1,328,750	1,291,796
Distribution Assets (Replacement Cost)	43,030,284	41,782,221
Accumulated Depreciation	22,368,036	21,426,810
	20,662,248	20,355,411
Other System Fixed Assets (Replacement Cost)	5,547,089	6,170,078
Accumulated Depreciation	2,993,440	3,114,875
	2,553,649	3,055,203
Plant and Equipment (Cost)	260,843	286,716
Accumulated Depreciation	204,457	234,827
	56,386	51,889
Capital Work in Progress (Cost)	309,399	79,495
<b>Total Fixed Assets</b>	<b>28,619,831</b>	<b>28,462,166</b>
Depreciation Charged		
Buildings	4,000	4,000
Distribution System Assets	1,157,246	1,138,225
Plant and Equipment	35,098	27,228
<b>Total</b>	<b>1,196,344</b>	<b>1,169,453</b>

**Nelson Electricity Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 March 2009

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

The most recent regulatory (modified Optimised Deprival Value) valuation for Nelson Electricity's network (31 March 2008) assets is \$22.783m. (2007 \$20.224m)

**6. DEFERRED TAXATION**

	AS AT 31-Mar-09 \$	AS AT 31-Mar-08 \$
Balance 1 April	9,418	11,065
Current period provision	8,940	(1,647)
<b>Balance 31 March</b>	<b>18,358</b>	<b>9,418</b>

**7. TERM LOANS**

	AS AT 31-Mar-09 \$	AS AT 31-Mar-08 \$
<b>Westpac Trust Multi Option Credit Facility.</b>	3,000,000	3,600,000
Effective interest rate at 31 March 2009 is 3.66%. (2008: 9.16%)		
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-09 \$	YEAR ENDED 31-Mar-08 \$
<b>Net surplus after taxation</b>	2,076,573	1,524,136
<b>Add (less) non-cash items</b>		
Depreciation	1,196,344	1,169,453
Movement in deferred taxation	(8,940)	1,647
	1,187,404	1,171,100
<b>Add (less) movements in working capital</b>		
(Increase)/Decrease in receivables	(90,510)	(12,628)
(Increase)/Decrease in stocks	(79,074)	(36,085)
Increase/(Decrease) in creditors and accruals	115,474	(268,533)
Increase/(Decrease) in employee entitlements	(1,711)	(5,382)
(Increase)/Decrease in taxation provision	442,094	70,619
	386,273	(252,009)
<b>Less items classified as investing activities</b>		
Capital expenditure in creditors (net movement)	131,975	65,404
<b>Net cash inflow from operating activities</b>	<b>3,782,225</b>	<b>2,508,631</b>

**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:

	2009 \$	2008 \$
Marlborough Lines Limited	257,496	257,496
Network Tasman Limited	170,496	170,496
Payable to Marlborough Lines at 31 March (net)	21,458	21,548
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 \$31,018 remained payable to Marlborough Lines at 31 March 2009. (2008: \$24,236).

9.3 Network Tasman on-charged to Nelson Electricity Transpower national grid charges during the year totalling \$2,449,917(net) (2008: \$2,071,697).

As at 31 March 2009 Nelson Electricity owed Network Tasman \$204,104(net) for transmission charges.(2008: \$175,148).

9.4 Network Tasman credited Nelson Electricity with loss rental rebates (from Transpower) totalling \$602,345 (net). As at 31 March 2009 Network Tasman owed Nelson Electricity \$10,107 (net) for loss rental rebates. (2008: \$21,953).

9.5 Network Tasman provided access to its fibre optic network to Nelson Electricity to a value of \$5,540. (2008:\$5,386). As at 31 March 2009 the value outstanding to Network Tasman was \$527. (2008; \$501).

9.6 During the year Nelson Electricity paid dividends totalling \$900,000 to each of Marlborough Lines and Network Tasman. (2008: \$900,000 each).

**Nelson Electricity Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 March 2009

	2009	2008
9.6 Directors fees paid to Marlborough Lines Limited in respect of Mr K Forrest.	\$ 14,460	\$ 10,080

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. (2008: Nil)

**10. COMMITMENTS AND CONTINGENT LIABILITIES**

As at 31 March 2009 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 \$228,364. (2008 \$259,765)

**11. LEASE COMMITMENTS**

As at 31 March 2009 the company had lease commitments in relation to one item of office equipment. Expenditure on this lease totalled \$3,480 for the year to 31 March 2009 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, 1-2 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. (2008: Nil)

**13. STATEMENT OF CORPORATE INTENT TARGETS**

The Shareholders adopted a Statement of Corporate Intent for the 2008/2009 year, which provided for the following targets.

**Financial Targets**

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

	2009	2008
Target return	6.50%	9.26%
Actual return	8.21%	9.77%
Conventional "Return on Equity" calculation. (Prior year Commerce Commission "Return on Investment" formula)		

**(b) Profitability**

	2009	2008
Target after tax profit	\$1.781m	\$1.519m
Actual after tax profit	\$2.076m	\$1.525m

**(c) Dividends**

	2009	2008
Target Dividend	\$1.781m	\$2.119m
Tax paid profit	\$2.076m	\$1.525m
Dividends declared	\$1.800m	\$1.800m
Declared dividends represent 86.7% of tax paid surplus.		

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

### System Reliability Targets

<b>SAIDI</b>	System average interruption duration index. (Exclusive of Transpower interruptions)	Target	45 Minutes	40 Minutes
		Actual	115.28 Minutes	16.92 Minutes
<b>SAIFI</b>	System average interruption frequency index.	Target	0.90	0.90
		Actual	1.89	0.18
<b>CAIDI</b>	Customer average interruption duration index.	Target	33.3 Minutes	33.3 Minutes
		Actual	187.75 minutes	91.85 Minutes
<b>Faults Per 100Kms of Line</b>		Target	4	4
		Actual	9.96	8.78

With 85% of its electricity network underground Nelson Electricity has traditionally reported very low system interruption statistics. During the 2008/09 year the system recorded a number of extreme events which added significantly to the SAIDI minutes recorded. The incidents included an intrusion into the Haven Road switchyard by an individual, a tropical storm which affected the upper South island on 30 July 2008 and a main feeder failure.

### 14. NEW ZEALAND INTERNATIONAL FINANCIAL REPORTING STANDARDS

14.1 The Directors of Nelson Electricity Limited have decided that the company will not adopt the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) in the short term.

14.2 Previous study of the effects of introducing NZ IFRS indicated that Nelson Electricity would 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 (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 would be 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 2009 asset values a deferred tax liability of \$6.568m 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 85.93% to 63.68%. 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 2009**

The Auditor-General is the auditor of Nelson Electricity Limited (the company). The Auditor-General has appointed me, Michael Wilkes, 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 2009.

**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 2009;
    - the results of its operations and cash flows for the year ended on that date.
- The performance information of the company on pages 11 and 12 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 31 March 2009.
- based on our examination the company kept proper accounting records.

The audit was completed on 12 June 2009, and is the date at which our opinion is expressed.

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

**Basis of Opinion**

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

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and 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 2009. 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 2009. The Board of Directors' responsibilities arise from the Energy Companies Act 1992 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and 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.



**Michael Wilkes**  
Deloitte  
On behalf of the Auditor-General  
Christchurch, New Zealand