

Nelson Electricity Ltd



**Financial Statements for the
Year Ended 31 March 2011**

NELSON ELECTRICITY LIMITED

DIRECTORS' REPORT 2011

The Directors have pleasure in submitting their 2011 annual report.

DIRECTORS HOLDING OFFICE

The Company's Directors at 31 March 2011 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 2011 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 2011 was:

David William Richard Dew	\$15,000
Kenneth John Forrest	\$15,000 (Paid to Marlborough Lines Ltd)
Paul Donald Le Gros	\$30,000 (Chairman)
Ian Francis Kearney	\$15,000
Michael John McCliskie	\$15,000

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 \$2,234,606 (net of loss rental rebates) and for the supply of fibre-optic cable capacity to a value of \$6,359.

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 \$2,198,612. 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 2010/11 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 2011.

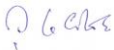
CHANGES IN ACCOUNTING POLICIES

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.

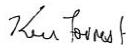
AUDITORS

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 20 June 2011



.....
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 2011

NOTES	YEAR ENDED 31-Mar-11 \$	YEAR ENDED 31-Mar-10 \$
INCOME		
Network revenue	8,833,208	8,325,509
Interest income	13,154	4,225
Loss rental rebates	220,208	152,510
Miscellaneous income	16,712	143,330
	9,083,282	8,625,574
EXPENDITURE		
Operations and maintenance	2,977,623	3,168,107
Administration costs	1,108,429	1,319,112
Audit fees	30,675	28,386
Other fees paid to auditors	0	25,256
Directors' fees	90,000	90,000
Interest expense	128,226	105,482
Bad debts expense	(2,400)	1,885
Depreciation	1,329,744	1,238,723
5	5,662,297	5,976,951
SURPLUS BEFORE TAXATION	3,420,985	2,648,623
Tax Expense	2	943,238
SURPLUS AFTER TAXATION	2,198,612	1,705,385

Nelson Electricity Limited
STATEMENT OF MOVEMENTS IN EQUITY
for the year ended 31 March 2011

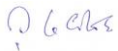
NOTES	YEAR ENDED 31-Mar-11 \$	YEAR ENDED 31-Mar-10 \$
EQUITY AT BEGINNING OF YEAR	25,722,076	25,433,691
Increase in revaluation reserves	3	4,359,376
Net surplus for year	4	2,198,612
Total recognised revenues and expenses	6,557,988	1,705,385
Distributions to owners	4	(1,800,000)
EQUITY AT END OF YEAR	30,480,064	25,722,076

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

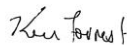
Nelson Electricity Limited
STATEMENT OF FINANCIAL POSITION
as at 31 March 2011

	NOTES	AS AT 31-Mar-11 \$	AS AT 31-Mar-10 \$
EQUITY			
Share capital	3	1,000	1,000
Revaluation reserves	3	28,885,669	24,526,293
Pre-acquisition reserves	4	1,290,564	1,290,564
Retained earnings	4	302,831	(95,781)
		30,480,064	25,722,076
Represented By			
CURRENT ASSETS			
Bank		34,713	42,740
Accounts receivable		789,266	718,271
Stock		336,575	305,488
		1,160,554	1,066,499
CURRENT LIABILITIES			
Creditors and accruals		782,274	843,012
Employee entitlements		22,425	23,063
Tax payable		405,565	189,685
		1,210,264	1,055,760
WORKING CAPITAL			
		(49,710)	10,739
NON-CURRENT ASSETS			
Fixed assets	5	33,817,455	28,892,525
Deferred tax asset	6	12,319	18,812
		33,829,774	28,911,337
NON-CURRENT LIABILITIES			
Term loan	7	3,300,000	3,200,000
		3,300,000	3,200,000
NET ASSETS			
		30,480,064	25,722,076

Authorised for issue for and on behalf of the Board.



Paul Donald Le Gros
Chairman



Kenneth John Forrest
Director

For Nelson Electricity Limited

20 June 2011

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 2011

	NOTES	YEAR ENDED 31-Mar-11 \$	YEAR ENDED 31-Mar-10 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from			
Receipts from customers		8,999,132	8,599,409
Interest received		13,154	4,225
		9,012,286	8,603,634
Cash was applied to			
Payments to suppliers		(4,347,724)	(4,634,308)
Interest paid		(126,568)	(100,868)
Net GST paid		49,277	(9,684)
Taxation paid		(1,000,000)	(1,145,711)
		(5,425,015)	(5,890,571)
Net cash inflow from operating activities	8	3,587,271	2,713,063
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was applied to			
Purchase of fixed assets		(1,895,298)	(1,511,417)
Net cash outflow from investing activities		(1,895,298)	(1,511,417)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from			
Term debt raised		100,000	200,000
Cash was applied to			
Retirement of Term Debt		-	-
Dividends paid		(1,800,000)	(1,417,000)
Net cash outflow from financing activities		(1,700,000)	(1,217,000)
Net decrease in cash held		(8,027)	(15,354)
Opening cash brought forward		42,740	58,094
Cash at end of year		34,713	42,740
CASH BALANCES IN STATEMENT OF FINANCIAL POSITION			
Bank		34,713	42,740
Short term deposits		-	-
		34,713	42,740

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 2011 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 adjusted 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 80% 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 2011

(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. Interest rate risk is mitigated through the use of swap contracts. Any contracts in place at 31 March are subject to fair value assessment and adjusted to income and expenditure as appropriate.

(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

Consistent with changes signalled in the New Zealand Government budget in May 2010, capital contributions received in relation to new works have been offset against the capital cost in the 2010/11 financial year.

2.TAXATION

	YEAR ENDED 31-Mar-11 \$	YEAR ENDED 31-Mar-10 \$
Surplus before taxation	3,420,985	2,648,623
Taxation @ 30%	1,026,296	794,587
Adjustments to prior years	-	-
Plus effect of permanent differences	196,077	148,651
Taxation Expense	1,222,373	943,238
This taxation charge is represented by		
Current taxation	1,215,880	942,791
Deferred taxation	6,493	447
	1,222,373	943,238
Imputation Credit Account		
Balance 1 April	602,408	63,990
Imputation credits attached to dividends paid in the year	(771,429)	(607,286)
Income tax payments during the year	1,000,000	1,145,704
Balance 31 March	830,979	602,408

3.EQUITY

As at 31 March 2011 Marlborough Lines Limited and Network Tasman Limited each held 500 fully paid up shares. (2010: 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-11 \$	31-Mar-10 \$
Share capital – 1,000 shares	1,000	1,000

Nelson Electricity Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2011

ASSET REVALUATION RESERVES

Distribution system assets were revalued as at 1 April 2010. The valuation was completed by PricewaterhouseCoopers, who are experienced valuers of commercial businesses in the New Zealand electricity sector. The basis for revaluation was adjusted depreciated replacement cost (DRC) and the valuation exercise was completed in accordance with the requirements of FRS 3. Following valuation at DRC an impairment test was completed using a discounted cash flow model (DCF). This resulted in a sustainable revaluation uplift of \$4.359m.

The Company's Haven Road land was also last revalued to net current value as at 1 April 2010 as determined by Telfer Young Ltd registered property valuers.

	31-Mar-11	31-Mar-10
	\$	\$
Movements in Revaluation Reserves (during period)		
Opening balance	24,526,293	24,526,293
Revaluations - Land	207,000	-
Revaluations - Distribution System Assets	4,152,376	-
Closing Balance	28,885,669	24,526,293
Comprising:		
Revaluation Reserve - Land	1,573,461	1,366,461
Revaluation Reserve - Distribution System Assets	27,312,208	23,159,832

4.RETAINED EARNINGS / PRE ACQUISITION RESERVES

RETAINED EARNINGS

	AS AT 31-Mar-11	AS AT 31-Mar-10
	\$	\$
Opening balance 1 April	(95,781)	(384,166)
Net surplus for year	2,198,612	1,705,385
Dividends paid	(1,800,000)	(1,417,000)
Closing balance 31 March	302,831	(95,781)

PRE-ACQUISITION RESERVES

	AS AT 31-Mar-11	AS AT 31-Mar-10
	\$	\$
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 2011

	AS AT 31-Mar-11	AS AT 31-Mar-10
	\$	\$
Land (at valuation)	1,681,500	1,474,500
Buildings (at cost)	201,621	387,825
Accumulated Depreciation	(19,690)	(15,657)
	181,932	372,168
Distribution System Assets (DRC)		
Subtransmission Assets (Replacement Cost)	3,067,054	3,953,036
Accumulated Depreciation	(1,952,989)	(2,137,833)
	1,114,064	1,815,203
Zone Substations (Replacement Cost)	4,766,360	4,624,334
Accumulated Depreciation	(3,418,042)	(3,204,868)
	1,348,318	1,419,466
Distribution Assets (Replacement Cost)	48,222,219	44,137,913
Accumulated Depreciation	(24,073,070)	(23,410,874)
	24,149,149	20,727,039
Other System Fixed Assets (Replacement Cost)	8,614,146	5,677,016
Accumulated Depreciation	(3,585,608)	(3,118,339)
	5,028,538	2,558,677
Plant and Equipment (Cost)	257,565	289,856
Accumulated Depreciation	(203,669)	(221,585)
	53,896	68,271
Capital Work in Progress (Cost)	260,058	457,201
Total Fixed Assets	33,817,455	28,892,525
Depreciation Charged		
Buildings	4,032	7,657
Distribution System Assets	1,293,943	1,187,070
Plant and Equipment	31,769	43,996
Total	1,329,744	1,238,723

Nelson Electricity Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2011

The company's electricity network assets and land and buildings were revalued as at 1 April 2010 - See note 3.

The most recent regulatory (modified Optimised Deprival Value) valuation for Nelson Electricity Limited's network (31 March 2010) assets is \$23.707m. (2009 \$23.259m)

6. DEFERRED TAXATION

		AS AT 31-Mar-11	AS AT 31-Mar-10
Balance 1 April	(Asset)	\$ 18,812	\$ 18,358
Prior period adjustment		-	901
Current period provision		(6,493)	(447)
Balance 31 March	(Asset)	12,319	18,812

7. TERM LOANS

		AS AT 31-Mar-11	AS AT 31-Mar-10
Westpac Term Debt Facility.		\$ 3,300,000	\$ 3,200,000

Effective interest rate at 31 March 2011 is 3.57%. (2010: 3.49%)

Two year facility, reviewable and able to be extended annually.

The facility limit is \$5.0m. The company has granted a negative pledge as an alternative to issuing security in respect of the facility. The facility expires on 30 April 2013.

There is one interest rate swap in place at balance date to hedge interest rate risk on \$2m. The contract will expire on 2 June 2011 and its fair value as at 31 March was assessed as a loss of \$3,653.

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

		YEAR ENDED 31-Mar-11	YEAR ENDED 31-Mar-10
Net surplus after taxation		\$ 2,198,612	\$ 1,705,385
Add (less) non-cash items			
Depreciation		1,329,744	1,238,723
Movement in deferred taxation		6,493	(454)
		1,336,237	1,238,269
Add (less) movements in working capital			
(Increase)/Decrease in receivables		(70,995)	(21,940)
(Increase)/Decrease in stocks		(31,087)	(100,828)
Increase/(Decrease) in creditors and accruals		81,431	(60,442)
Increase/(Decrease) in employee entitlements		(638)	(3,374)
(Increase)/Decrease in taxation provision		215,880	(202,019)
		194,591	(388,603)
Less items classified as investing activities			
Capital expenditure in creditors (net movement)		(142,169)	158,012
Net cash inflow from operating activities		3,587,271	2,713,063

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:

	2011	2010
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 Limited reimburses Marlborough Lines Limited for salaries paid to Nelson Electricity Limited staff on its behalf. Salaries totalling \$27,539 remained payable to Marlborough Lines Limited at 31 March 2011. (2010: \$31,464).

9.3 Network Tasman Limited on-charged to Nelson Electricity Limited Transpower national grid charges during the year totalling \$2,454,815. (2010: \$2,479,341).

As at 31 March 2010 Nelson Electricity Limited owed Network Tasman Limited \$204,583 for transmission charges.(2010: \$206,578).

9.4 Network Tasman Limited credited Nelson Electricity Limited with loss rental rebates (from Transpower) totalling \$220,208. As at 31 March 2011 Network Tasman Limited owed Nelson Electricity Limited \$41,660 for loss rental rebates. (2010: \$20,025).

9.5 Network Tasman Limited provided access to its fibre optic network to Nelson Electricity Limited to a value of \$6,359. (2010:\$6,245). As at 31 March 2011 the value outstanding to Network Tasman Limited was \$546. (2010; \$536).

9.6 During the year Nelson Electricity Limited paid dividends totalling \$900,000 to each of Marlborough Lines Limited and Network Tasman Limited. (2010: \$708,500 each).

Nelson Electricity Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2011

	2011	2010
	\$	\$
	15,000	15,000

9.6 Directors fees paid to Marlborough Lines Limited 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. (2010: Nil)

10. COMMITMENTS AND CONTINGENT LIABILITIES

In July 2010 Nelson Electricity and Network Tasman settled a long running dispute over the ownership of sections of overhead 33kV lines supplying Nelson City. The agreement reached provides for Nelson Electricity to have uninterrupted use of the lines, meet any maintenance costs but not pay an annual rental for the lines. Nelson Electricity will also negotiate an interconnection agreement with Network Tasman in relation to the lines

11. LEASE COMMITMENTS

As at 31 March 2011 the company had lease commitments in relation to one item of office equipment. Expenditure on this lease totalled \$4,480 for the year to 31 March 2011 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 \$4,920, 1-2 years \$4,920, 3-5 years \$14,760. 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. When appropriate the Company will also enter into interest rate hedge arrangements to fix borrowing costs in the medium 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. (2010: Nil)

13. STATEMENT OF CORPORATE INTENT TARGETS

The Shareholders adopted a Statement of Corporate Intent for the 2010/2011 year, which provided for the following targets.

Financial Targets

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

Target return

Actual return

Conventional "Return on Equity" calculation.

(b) Profitability

Target after tax profit

Actual after tax profit

(c) Dividends

Target Dividend

Tax paid profit

Dividends declared

Declared dividends represent 81.9% of tax paid surplus.

	2011	2010
	7.85%	6.47%
	8.48%	6.67%
	\$2.086m	\$1.636m
	\$2.199m	\$1.705m
	\$2.086m	\$1.636m
	\$2.199m	\$1.705m
	\$1.800m	\$1.417m

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2010

System Reliability Targets

SAIDI	System average interruption duration index. (Exclusive of Transpower interruptions)	Target Actual
SAIFI	System average interruption frequency index.	Target Actual
CAIDI	Customer average interruption duration index.	Target Actual
Faults Per 100Kms of Line		Target Actual

45 Minutes 115 Minutes	45 Minutes 79.30 Minutes
0.90 0.58	0.90 0.76
50 Minutes 198 Minutes	33.3 Minutes 341.84 Minutes
4 1.10	4 9.94

The Nelson Electricity SAIDI statistics for the year ending 31 March 2011 were above forecast by 70 minutes. The SAIDI for Nelson Electricity (excluding Transpower) being 115 minutes compared to a target of 45 minutes. The major influence was due to one long duration Zone Substation outage of 3.5 hours that contributing to 104 SAIDI minutes. This outage was a protection issue where the system tripped supply to half of the Nelson Electricity network due to a circulating earth current. The temporary 11kV network configuration at the time and other set of circumstances surrounding this outage was unique and identifying the cause was difficult. This was further exaggerated by the low frequency of large fault situations on the network making familiarisation of these types of issues difficult to maintain. Nelson Electricity has reinforced switching procedures to ensure a situation like this cannot occur as well as additional familiarisation training for control room operators and faultman. Excluding this one event the unplanned SAIDI would have been less than 2 minutes and the total SAIDI 10 minutes for the year.

The SAIFI were below target by 0.36. This means that the frequency of outages was lower than target by 0.36 times per consumer for the year. This is an excellent outcome and results from there being a low number of outages on the network during the year.

The CAIDI statistics were well above the target by 147 minutes primarily as a result of the long duration of the Zone Substation outage as outlined in the SAIDI note above. This means that the average outage duration experienced by the consumer was 197 minutes long.

The "faults per 100km of line" measure was below the forecast of 4.0 faults per 100km of line by 1.54 faults. The extremely low result reflects that there was a lower than normal number of faults experienced during the year.

NOTE: These statistics measure the performance of the 33kV and 11kV networks only.

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. 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.
- b. Creation of provisions to reflect likely usage of staff benefits in excess of current year entitlements in the ensuing year.
- c. Creation of a deferred tax liability equivalent to the tax effect (28%) on the difference between the accounting and tax carrying values for the Company's fixed assets excluding land.

14.3 The creation of a provision to reflect the following year's drawdown in excess of sick leave 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 2011 asset values a deferred tax liability of \$6.525m 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 87.11% to 68.26%. 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

The 2010 Budget announced by the Government on 20 May 2010 included a number of changes which will impact this Company.

From 1 October 2010 the rate of Goods and Services Tax applicable in New Zealand increased from 12.5% to 15%.

From 1 April 2011 companies will pay income tax at the rate of 28 cents in the dollar.

The Government has determined that from 1 April 2011 tax depreciation deductions will no longer be available for buildings with an estimated useful life of 50 years or more. Depreciation deducted for tax purposes amounted to \$4,032 in the 2011 financial year.

The Government also determined that capital contributions received in relation to assets constructed will now be taxable income over a period of ten years or alternatively deducted from the tax value of the asset, reducing the tax depreciation claim. Capital contributions totalling \$65,848 have thus been offset against new asset values in the 2011 year.

INDEPENDENT AUDITOR'S REPORT
TO THE READERS OF
NELSON ELECTRICITY LIMITED'S
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2011

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 statement of service performance of the company on her behalf.

We have audited:

- the financial statements of the company on pages 4 to 12, that comprise the statement of financial position as at 31 March 2011, the statement of financial performance, 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 pages 11 and 12.

Opinion on the financial statements

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 2011; and
 - financial performance for the year ended on that date.
- the statement of service performance of the company on pages 11 and 12:
 - complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the company's service performance for the year ended on that date, including its performance achieved as compared with forecast targets specified in the statement of forecast service performance for the financial year.

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 20 June 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 we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporates 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 financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand; and
- 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 Directors' responsibilities arise from the Financial Reporting Act 1993 and the Energy Companies Act 1992.

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.



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