thelines company

annual report

2014

Contents

Results in Brief

Financial performance

	2014 $'000	2013 $'000	2012 $'000	2011 $'000	2010 $'000	2009 $'000
Revenue	48,591	45,377	42,211	43,543	40,523	37,540
EBITDA	23,434	22,249	22,333	22,712	18,956	15,504
EBIT	12,646	11,613	12,568	14,100	10,617	8,508
Profit before tax	9,568	8,244	9,352	11,004	8,396	5,741
Profit for the year	7,315	5,840	6,733	7,744	6,060	4,031
Operating cash flow before tax	22,633	19,536	17,368	19,349	16,554	11,187
Dividends paid	4,950	4,932	3,560	3,250	3,000	4033
Total assets	249,776	234,358	233,190	181,438	177,442	174,044
Shareholder funds	145,565	141,281	140,489	101,970	96,074	92,888
Shareholder equity	142,565	138,281	137,489	98,970	93,074	89,888
Debt to assets ratio	25.3%	22.2%	21.8%	28.2%	29.9%	31.3%
Capital ratio	58.1%	59.3%	59.0%	54.5%	52.5%	51.6%
Return on average equity	5.1%	4.2%	4.9%	7.8%	6.5%	4.9%
Earnings per share net of tax (cents)	56	44	51	59	46	31

Operating performance

	2014	2013	2012	2011	2010	2009
Outage minutes per customer						
Planned	84	83	72	64	91	58
Unplanned	187	117	253	228	193	237
Total	271	200	325	292	284	295
Outage per customer						
Planned	0.46	0.54	0.51	0.48	0.56	0.81
Unplanned	3.67	1.78	3.48	2.99	3.06	3.88
Total	4.13	2.32	3.99	3.47	3.62	4.69

Report from the Chair and Chief Executive

The Lines Company Limited (TLC) key focus for the 2013/14 year was stabilisation of the organisation and looking forward and planning for the future.

The stabilisation was necessary for both customers and staff given the evolution over the last eight years of TLC's lines charging structure that was designed and implemented to ensure the organisation would be sustainable into the future.

The looking forward activity during the year was about establishing a process to map the future of the Company given the changes network companies are going to experience over the next 20 years. Hazard control, the environment, and the influence of technology are going to change the face of the industry. Regulatory and political issues will also impact on the direction of the industry. Aligning these drivers with customer perception is the challenge, given that it is not possible for a business to survive without satisfying customers' needs.

We have to regularly remind ourselves in the electricity industry that we are transporting a product which requires a constant level of hazard control. TLC's detailed Asset Management Plan (AMP) has a primary focus on minimising and controlling hazards associated with the assets. This focus is supported by many related procedures and processes. During the year, there were no serious events involving either staff or the public.

The challenges faced by TLC are driven by the region and environment we are in. We must accept that the demands on the network today are completely different to those when it was built during the region's post Second World War farming development. During the development of the area dry stock farms were typically 300 acres, now they are at least 1,000 acres with 4,000 to 5,000 stock units. Creeks and streams must now be fenced requiring electricity to pump large amounts of water, 24/7, supplying large numbers of animals. Farmers also depend on a reliable power supply for their communications, data and ability to trade. These requirements are totally different to the network built by returned servicemen. Rural and urban areas continue to depopulate. Between 2001 and 2013 population fell in TLC's rural areas by 12% and in the urban areas by 7%. Government department offices in places like Taumarunui have been closed and relocated. The subsidies used to construct network lines in these areas ceased many years ago. TLC has to find innovative solutions to meeting these constraints.

Looking to the future, technologies like solar, electric cars, batteries and advanced metering will have a huge impact on the industry. Industry documents are suggesting that GDP growth and increasing energy consumption are now disconnected. For the last few decades they have been closely related. TLC's demand-based pricing methodologies have protected it against reducing energy consumption volumes and positioned it well for the future technologies.

Report from the Chair and Chief Executive

Key achievements and initiatives for the year included:

Corporate

- •Independent across the Company review of safety compliance.
- •WESCT purchase of remaining 10% of shares in the Company.
- •Changed transactional bank to reduce costs.
- •Changed senior management structure and staffing.
- •Focused on planning for the future.
- •A number of legacy disputes settled and resources put in to collect outstanding receivables.
- •IT business continuity and disaster recovery review completed.

Network

- •A rework of many of the financial and regulatory models.
- •Rework of pricing methodology.
- •Changes to staffing and structure.
- •Increased level of customer demand side management advice.
- •Relationships with key regulators improved.

Contracting (Including JDE)

- •Sale of Scope Oil.
- •Reintegration of Field Services with Network Operations.
- •New JDE manager put in place.
- •Best JDE performance ever on the back of a major industrial contract.

Generation

- •Initated a review of these investments.
- •Further investment to improve availability completed.
- •Resource consent to increase the output of one scheme granted.
- •Another two resource consents to improve station performance being prepared.

Metering

- •Initiated On Network advanced meter installation.
- •Initiated Off Network advanced meter rollout.
- •Secured more metering sites.

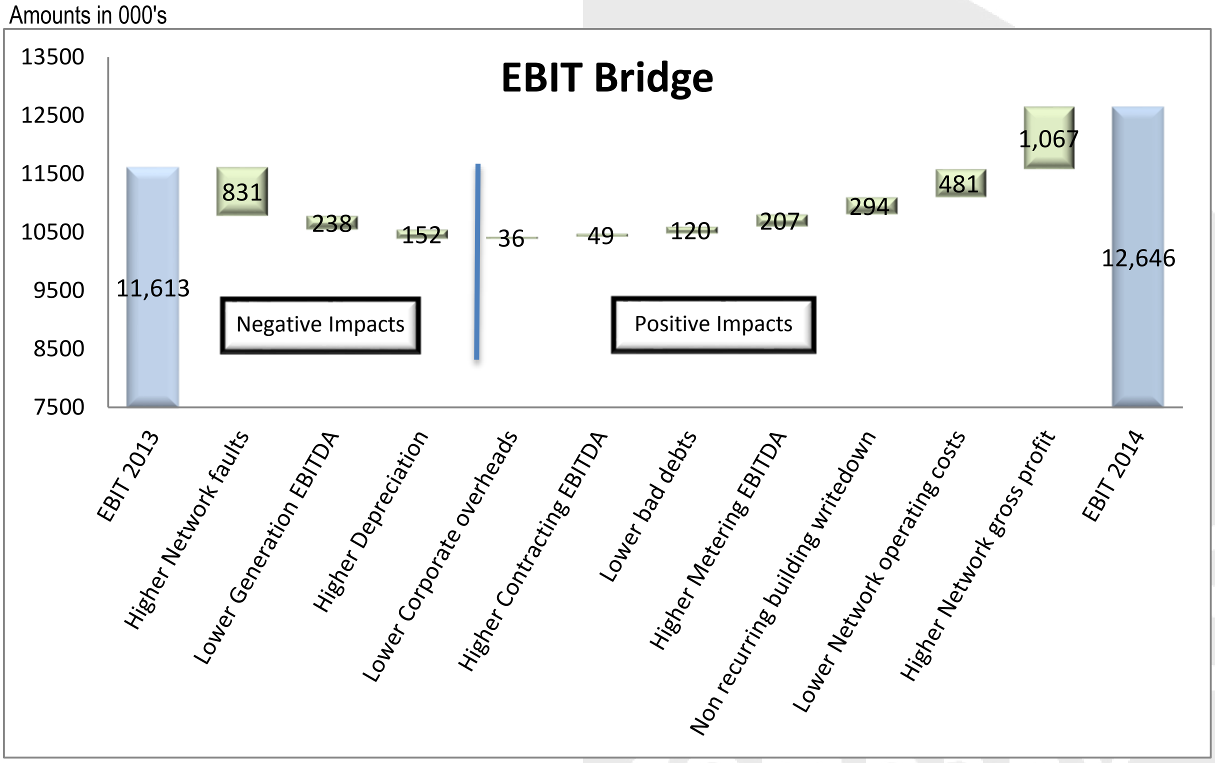
These initiatives allowed the organisation to continue to build on previous achievements to create long term benefits for shareholders, customers and staff.

Report from the Chair and Chief Executive

Finance

The dividends paid to shareholders were $4.95 million, a good result given the trading conditions the Company faced. Net profit after tax was $7.3m, an improvement of 25% on 2012/13 result of $5.8m. Operating cashflows of $22.6m were equally strong, posting a 17% improvement on the prior year.

The changes in Earnings before Interest and Tax (EBIT) can be viewed as follows.



EBIT in 2013/14 ($12.6m) showed solid growth on 2012/13 EBIT ($11.6m). With the exception of our generation assets, all operating divisions returned increased earnings. Our generation result was impacted by dry conditions and the writeoff of previously capitalised development costs not expected to be recovered. Network earnings were constrained by increased fault maintenance costs, which in 2012/13 were abnormally low by historical standards.

The 2013/14 earnings result was below the target set in the 2013/14 Statement of Corporate Intent leading to below expected returns on assets and equity as detailed in the Statement of Service Performance on page 21. If adjusted for the unexpected writeoff of previously capitalised generation development costs, 2013/14 earnings performance would be largely in line with expectations. Borrowings exceeded target as a result of TLC providing funding assistance to a related entity to purchase the 10% shareholding sold by King Country Energy Power Trust.

Earnings forecast in the 2014/15 Statement of Corporate Intent are for continued growth, and to date trading results are in line with these projections.

Report from the Chair and Chief Executive

In addition to the key high level points made above there have been many other improvements and gains made during the year.

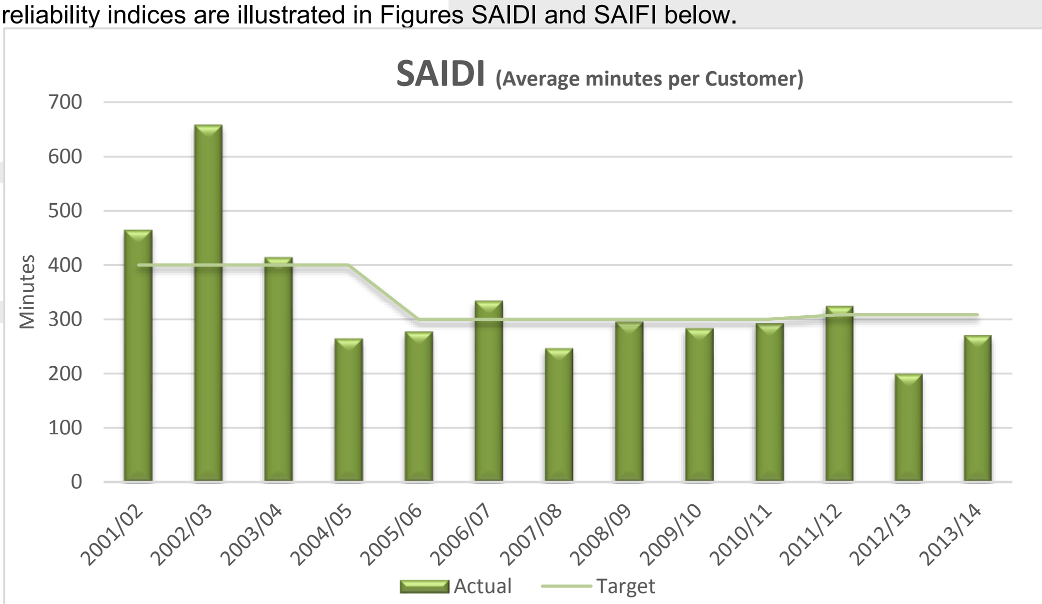
Customer Engagement

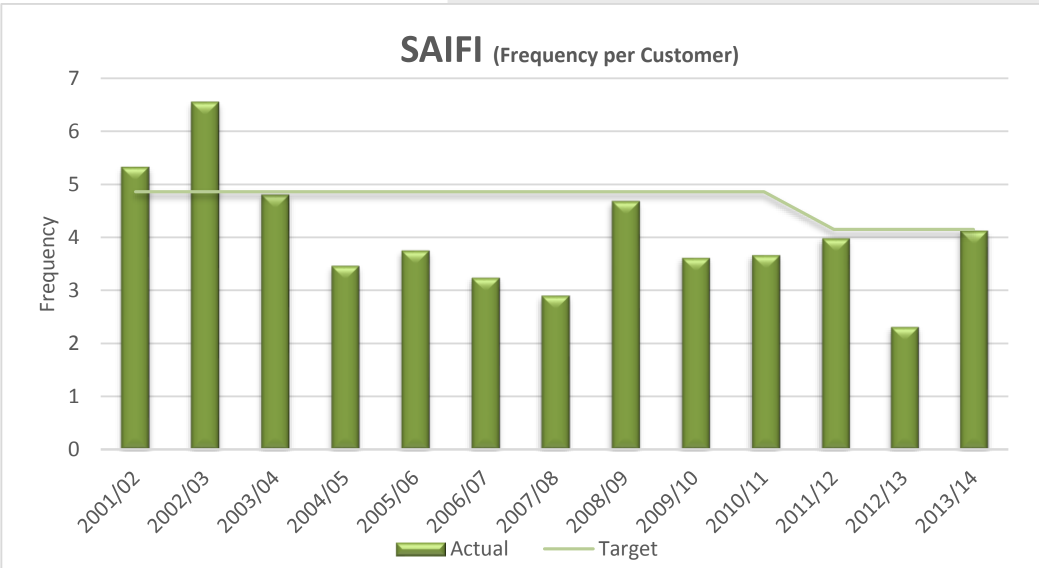
Nobody likes receiving a bill associated with electricity and as such most organisations in the industry come in for criticism. Despite some problematic customer issues the organisation has continued to achieve milestones during the year. These included:

- Reduced levels of deadlocked complaints with the EGCC.
- An in home display that has extended range became available. This device gives customers energy demand and load control information about their premises.
- Handled approximately 6,000 telephone calls where advice on demand side management was given.
- A sponsorship program that has assisted local organisations and communities.
- The completion of a customer trailer to display energy usage.

Reliability

The network reliability indices are illustrated in Figures SAIDI and SAIFI below.





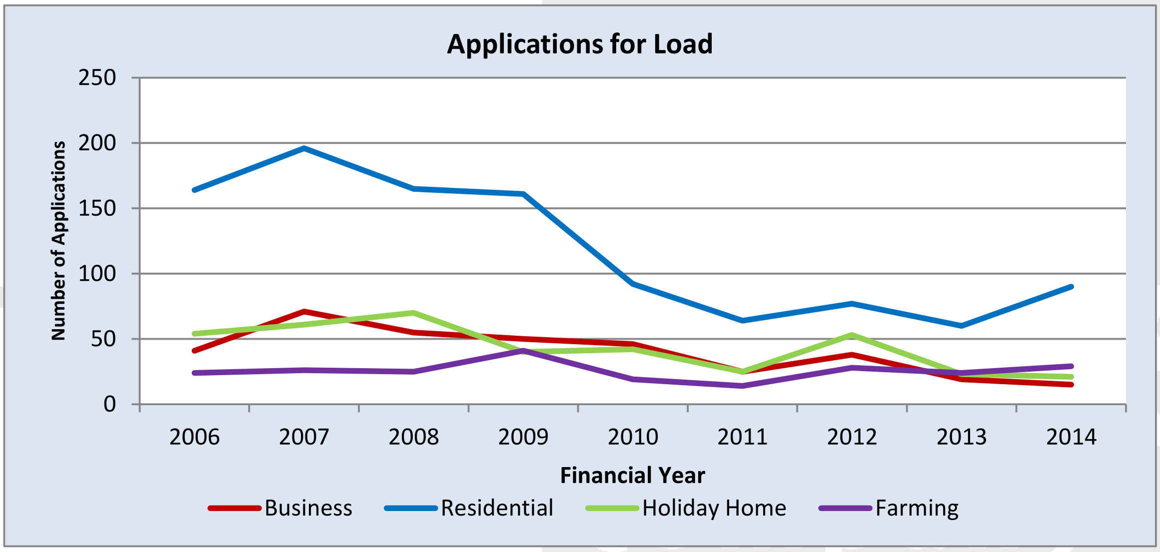
Report from the Chair and Chief Executive

The network reliability indices tracked below the previous year's figures until a series of spring storms quickly extended the indices in the September/October period. This fast acceleration in the indices during the spring period meant that a firm eye had to be kept on figures for the remainder of the year. TLC did not however postpone or reduce renewal works as part of its strategy to meet performance and compliance targets. With respect to compliance, TLC needed to comply with the assessment limits for the 2013/14 year because it had exceeded the limits in 2011/12 year. Commerce Commission quality standards require a network company to comply with the assessment limits for two out of three years.

Compliance in the 2013/14 year was important for TLC given it had chosen not to apply to the Commerce Commission for a customised price path.

New Connections and Growth

The company has seen a level of new connection growth in residential applications while others remain steady, as illustrated below.



The number of TLC's new connections are low by industry standards and illustrates the difficulties the region covered by the TLC network is experiencing.

NZ Steel announced the commissioning of the construction of a third new ship to be put on the iron sand export run. This will result in a threefold increase in the demand and energy requirements for the site.

Pricing

A review of the forward price path as allowed under the Commerce Commission Default Price Path methodology was completed during the year. This showed that TLC has less headroom than originally thought but substantially more than that being recovered by present pricing. Beginning with the 2014/15 pricing year, the board has resolved to reduce this gap over the next three to four years through forecast price increases of 4-5% including inflation only growth in Transpower charges. Transpower charges for the 2014/15 year exceeded inflation. The reality is that to have a safe, reliable and sustainable network, that produces adequate returns, prices have to increase. If network renewal and development requirements are to take place, funds have to be obtained.

Report from the Chair and Chief Executive

IT and Business Continuity

TLC carried out an external review of its IT business continuity and disaster recovery systems during the year. An output of this work was a plan to take the IT and business continuity activities forward. Strategically, IT investment is seen as vital for the longer term reduction in operating costs and improvements in customer service. The implementation of these initiatives will unfold over the next few years.

The business continuity work included a project where the earthquake resilience of the present building was evaluated. This work determined that the head office building had a rating of just greater than that required by councils for a building with people working inside them but well short of that recommended for an essential service such as a control room. Other risks were also considered and the process identified the need for TLC to at least have a suitable site for an emergency relocation when an extreme event occurs. As a result of this 4000m² of industrial land was purchased opposite the existing Waitete works depot.

Conclusion

There is no doubt that TLC's initiative to move away from volume based energy charges set the organisation on a path that aligns it with where the environment and future technologies will take the industry. TLC has to continue down this path to ensure it is sustainable and provides the products and services its customers want and must do this in a commercial and hazard controlled way. The projection for 2014/15 is an EBIT of $14.0 million and dividend of $5 million.

None of this can be done without people. We would like to thank the customers, stakeholders, directors and staff for their continued support of the organisation.

Malcolm Don
Chairman

Brent Norriss
CEO

Independent Auditor's Report

To the Shareholders of The Lines Company Limited and Group's financial statements and statement of service performance for the year 31 March 2014

The Auditor-General is the auditor of The Lines Company Limited (the company) and group. The Auditor-General has appointed me, Sharon Cresswell, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements and statement of service performance of the company and group on her behalf.

We have audited:

- the financial statements of the company and group on pages 23 to 69, that comprise the balance sheets as at 31 March 2014, the statements of comprehensive income, statements of changes in equity and cash flow statements 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 and group on pages 21 to 22.

Opinion

Financial statements and the statement of service performance

In our opinion,

- the financial statements of the company and group on pages 23 to 69:
  - comply with generally accepted accounting practice in New Zealand;
  - comply with International Financial Reporting Standards; and
  - give a true and fair view of the company and group's:
    - financial position as at 31 March 2014; and
    - financial performance and cash flows for the year ended on that date;
- the statement of service performance of the company and group on pages 21 to 22:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company and group's achievements measured against the performance targets adopted for the year ended 31 March 2014.

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 and group as far as appears from an examination of those records.

Our audit was completed on 26 June 2014. This is the date at which our opinion is expressed.

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

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

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' 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 preparation of the company and group's 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 and group'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. Also we did not evaluate the security and controls over the electronic publication 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;
- give a true and fair view of the company and group's financial position, financial performance and cash flows; and
- give a true and fair view of the company and group's 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 is also responsible for the publication of the financial statements and statement of service performance, whether in printed or electronic form.

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

Responsibilities of the Auditor
We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 45(1) of the Energy Companies Act 1992.

Independence
When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out assignments in the areas of Default Price-Quality Path Compliance audit, Information Disclosure audit, other 53ZD request audits, and other accounting and regulatory advice which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Company or any of its subsidiaries.

Sharon Cresswell

Sharon Cresswell
PricewaterhouseCoopers
On behalf of the Auditor-General
Hamilton, New Zealand

Business unit analysis

Business units

For management purposes, the Group is currently organised into five operating divisions. These divisions are the basis on which the Group reports its primary business unit information.

Principal activities are as follows:

A. Network, which provides an electrical distribution system for the conveyance of electricity from the national grid and generators to the network's customers' supply points.
B. Meters and relays, which owns and supplies meter and relay equipment for both customers of the The Lines Company network and on other networks in New Zealand.
C. Contracting, which provides electrical maintenance and electrical asset construction services to customers and is an internal service provider for electrical work required by the Network.
D. Generation, which involves the investigation, design, construction and management of small hydro-electricity schemes in the North Island.
E. Corporate services, which provides managerial support for the operating divisions listed above.

Business unit information about these businesses follows on pages 13 to 15.

Pricing for intercompany transactions is on a commercial arms length basis with reference to the cost of using external service providers.

Continuing operations

The following business unit analysis presents net results in some areas, i.e. some revenue is netted off against expenses where revenue is passed through from another internal business unit and will therefore not necessarily be directly comparable to the revenue and expenses on the Statements of Comprehensive Income.

A. Network

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Revenue	36,476	34,574	36,476	34,574
Less transmission charges	6,724	5,889	6,724	5,889
Gross profit	29,752	28,685	29,752	28,685
Expenditure				
Maintenance costs	3,151	2,319	3,151	2,319
Network support costs	1,732	2,032	1,732	2,032
Billing & revenue collection	1,276	1,084	1,276	1,084
Customer liaison	658	1,005	658	1,005
Regulatory & pass through costs	162	131	162	131
Insurance	137	104	137	104
Bad debts and impairment of trade receivables	336	147	336	147
Depreciation and amortisation	7,201	7,147	7,201	7,147
Total expenditure	14,653	13,969	14,653	13,969
Earnings before interest and tax	15,099	14,716	15,099	14,716

Business unit analysis

B. Meters and relays

	Group		Parent	
	2014 $'000	**2013** $'000	**2014** $'000	**2013** $'000
Revenue	3,564	3,257	602	579
Expenditure				
Administration costs	388	285	182	167
Depreciation and amortisation	2,011	1,959	473	496
Total expenditure	2,399	2,244	655	663
Earnings before interest and tax	1,165	1,013	(53)	(84)

C. Contracting

	Group		Parent	
	2014 $'000	**2013** $'000	**2014** $'000	**2013** $'000
Revenue				
External revenue				
Construction contract revenue	2,247	2,196	1,924	1,800
Service contract revenue	4,849	3,786	369	404
Internal revenue				
Revenue from Network maintenance services	1,816	1,553	1,594	1,235
Revenue from Network capital works	5,014	6,619	5,014	6,619
	13,926	14,154	8,901	10,058
Expenditure				
Costs including labour, materials and overheads	11,663	11,808	7,786	8,297
Bad debts and impairment of trade receivables	-	319	-	312
Impairment of loan to subsidiary	-	-	229	-
Depreciation and amortisation	711	657	637	568
Total expenditure	12,374	12,784	8,652	9,177
Surplus before profit adjustment on internal capital works	1,552	1,370	249	881
Less profit adjustment on internal capital works	94	402	94	402
Earnings before interest and tax	1,458	968	155	479

Internal revenue is charged to the Network division for its maintenance and capital works on similar commercial terms that customers external to the Group would be charged. Internal revenue is deducted from revenue and expense in the Statements of Comprehensive Income.

Business unit analysis

D. Generation

	Group 2014 $'000	Group 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Revenue	1,389	1,521	430	449
Expenditure				
Costs including labour, materials and overheads	923	1,094	257	504
Development costs	711	434	-	-
Impairment of loan to subsidiary	-	-	1,349	503
Depreciation and amortisation	693	604	92	92
Total expenditure	2,327	2,132	1,698	1,099
Deficit before interest and tax	(938)	(611)	(1,268)	(650)

E. Corporate services

	Group 2014 $'000	Group 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Revenue	30	39	63	72
Expenditure				
Finance	830	763	830	755
Auditor remuneration - financial statement audit fees	173	148	114	92
Auditor remuneration - financial stmt audit fees prior year	-	10	6	16
Auditor remuneration - regulatory audit fees	71	36	71	36
Auditor remuneration - OAG fees	15	15	15	18
Auditor remuneration - other services	53	18	53	14
Building maintenance	100	91	100	91
Corporate expenses	901	1,642	901	1,648
Directors fees and expenses	200	248	200	248
Information technology	319	156	319	156
Public and human relations	679	520	679	520
Project investigations	209	342	209	342
Network pricing & regulatory	446	254	446	254
(Gain) on sale of investment	-	-	(206)	-
Depreciation and amortisation	172	269	172	269
Total expenditure	4,168	4,512	3,909	4,459
Deficit before interest and tax	(4,138)	(4,473)	(3,846)	(4,387)

Expenditure in 2012/13 includes a $0.3m writedown of the TLC Head Office building in Te Kuiti and $0.7m of restructuring costs.

Geographical segments
The Group operates mainly in the King Country, New Zealand in one geographical location; however, it does own meter and relay assets that are located throughout New Zealand and one hydro generation station in Gisborne/East Cape.

Corporate Governance Statement

This Governance Statement provides information on how The Lines Company Group is directed and controlled and, in particular, the role of the Board of Directors.

Overview

Principal Activities

During the year the Company has been engaged principally in the construction and operation of an electricity distribution network.

Ownership

The Lines Company Limited (the "Company") is owned by the Waitomo Energy Services Customer Trust (WESCT) and a subsidiary of WESCT. During the year, the King Country Energy Power Trust sold its shares in the Company to a subsidiary of WESCT.

Regulatory Framework

The Company came into existence on 26 March 1993. The Company is a profit oriented, limited liability company incorporated in New Zealand and registered under the Companies Act 1993. Activities of the electricity lines business are regulated under the terms of the Electricity Act 1992 and the Electricity Industry Reform Act 1998. Compliance with the Commerce Act 1986 and the Electricity Industry Reform Act 1998 is administered by the Commerce Commission.

Authority of the Board

The Board's authority and accountability is based on the regulatory framework and the Statement of Corporate Intent (SCI). The SCI is produced annually and sets out the Company's strategic objectives, specific goals and performance targets, as agreed with the shareholders. The Company reports half yearly and annually to its shareholders.

The Board and Management of the Company are committed to ensuring that the Company adheres to best practice governance principles.

Board Composition and Performance

The Directors and Chair are appointed by the shareholders. All Directors are non executive members and are independent.

The Constitution of the Company contains the following mandate:

- the number of Directors may not be fewer than 4 nor more than 7;
- at every annual general meeting one third of the Directors shall retire from office;
- a retiring Director is eligible for re-election.

The primary responsibilities of the Board include:

- the approval of the annual financial report;
- the establishment of the long term goals of the Company and strategic plans to achieve those goals;
- succession planning for the CEO;
- the review and adoption of annual budgets for the financial performance of the Company and monitoring the results;
- ensuring that the Company has implemented adequate systems of internal controls including internal financial controls together with appropriate monitoring of compliance activities;
- ensuring legislative compliance;
- monitoring executive management;
- communicating with stakeholders; and
- health and safety.

Governance statement

Risk Management

The Board has adopted a formal risk policy and risk management framework. The Board is responsible for reviewing and ratifying systems of risk management and the systems of internal controls.
The Board monitors the operational and financial aspects of the Company's activities and considers the recommendations and advice of external auditors and other external advisors on the operational and financial risks that face the Company.

Treasury Management

Exposure to treasury related financial risks is managed in accordance with the Company's treasury policy. This policy sets out financial and treasury management objectives, specific responsibilities, limits on management authority, permissible financial instruments and reporting and monitoring requirements. Under the treasury policy the Board is responsible for approving all treasury and interest rate strategies and any changes to those strategies.

Board Meetings

The Board met formally eight times during the financial year, excluding meetings held by teleconference.

Board Committees

The Board has three operating committees.

Remuneration Committee

The Remuneration Committee comprises the Chair and one additional director. The purpose of the committee is to ensure that the Company's CEO and senior executives are fairly rewarded for their individual contributions to the Company's overall performance.

The Remuneration Committee reviews the remuneration of the CEO and senior executive officers on an annual basis and makes recommendations on remuneration packages and terms of employment to the Board. Remuneration packages, which consist of base salary, fringe benefits, incentive schemes (including performance-related bonuses), superannuation, and entitlements upon retirement or termination, are reviewed with due regard to performance and other relevant factors.

Audit Committee

The Audit Committee comprises the Chair and other directors available. The Audit Committee provides a forum for the effective communication between the Board and external and internal auditors.

The Audit Committee reviews:

- the effectiveness of management information systems and systems of internal control;
- the appointment of external auditors; and
- the efficiency and effectiveness of the internal and external audit functions, including reviewing the respective audit plans.

The Audit Committee generally invites the CEO, CFO, and the external auditors to attend Audit Committee meetings. The Audit Committee also meets with and receives reports from the external auditors concerning any matters that arise in connection with the performance of their role, including the adequacy of internal controls.

Ethics Committee

The Ethics Committee comprises the Chair and the CEO. Questions or concerns of an ethical nature, including possible breaches in legal obligation or company policy, are referred to the Ethics Committee.

Governance statement

Rotation and appointment of directors

At the 2013 Annual Meeting, Messrs Earl Rattray and John Linsday retired as Directors. In accordance with the Company Constitution, at each annual meeting of the company one-third (or the number nearest to one-third) of the directors must retire from office. A retiring director is eligible for re-election. At the 2014 Annual Meeting, Messrs Peter Till and Arthur Muldoon retire and are eligible for re-election. In March 2014, Messrs Alex Ball and John Rae were appointed.

Remuneration of directors

The following persons held office as Directors during the year and received the following remuneration:

	2014	2013
Alex Ball	625	-
A Malcolm Don (Chair)	61,000	61,000
John C Lindsay	10,833	32,500
Arthur P Muldoon	32,500	32,500
John Rae	625	-
Earl Rattray	10,833	32,500
Peter Till	32,500	32,500
Simon Young	32,500	32,500
	181,416	**223,500**

Entries recorded in the interest register

In their personal capacity as customers or as a director of a company listed below, the Directors may have received lines charges and contracting services. All such services were on a commercial arms length basis.

The following changes were registered in the interest register for 2014

Alex Ball
- Director of Astus Services Group New Zealand Limited
- Director of Waterfall Capital Limited
- Director of Top Energy Limited
- Chief of Staff of Internal Consulting Group NZ Limited
- Director of Alex Ball Consulting Limited
- Advisory Board Member for Propellerhead Limited

Arthur Muldoon
- Director of Solar Systems Limited

John Rae
- Director PIE Funds Management Limited
- Chairman of Tepu Limited
- Director of Eastland Group Limited
- Chairman of Smart Environmental Limited
- Chairman of New Zealand Council for Infrastructure Development
- Managing Director of FJ Hawkes & Co. Limited
- Director of Kingyo Foods Limited
- Director of Gobble Limited

Simon Young
- Director of Top Energy Limited

Directors' Loans

There were no loans by the Company to Directors during the year.

Use of information by Directors

There were no requests received from Directors to use Company information received in their capacity as Directors that would not otherwise have been available to them.

Governance statement

Auditors

Under section 45 of the Energy Companies Act 1992, the Auditor General is the auditor of the Company. The Auditor General has appointed PricewaterhouseCoopers to undertake the audit.

To ensure that the ability and independence of the auditors to carry out their statutory audit role is not impaired, or could reasonably be perceived to be impaired, the Auditor is not typically engaged in non audit activities, except where providing advice on regulatory matters. Other than the audit of the Annual Report, the Auditor also performs the audit of the regulatory required Electricity Lines Business Information Disclosure and Default Price Path Threshold Disclosure provided to the Commerce Commission.

Directors' indemnity and insurance

The Company has insured all its Directors and Staff against liabilities to other parties that may arise from their positions as Directors or Staff. This insurance does not cover liabilities arising from criminal actions.
The Company has insurance for legal expenses incurred in defense of liability claims.

Directors' and Officers' interests

The following interests may lead to conflict of interest:

Alex Ball	- Director of Top Energy Limited
A Malcolm Don (Chair)	- Director of Counties Power Limited
Arthur Muldoon	- Director of Solar Systems Limited
John Rae	- Director of Eastland Group Limited
Peter Till	- Chief Executive, Ruapehu District Council
Simon Young	- General Manager of Opunake Hydro Limited - Director of Top Energy Limited

The only possible transactions between the above entities and The Lines Company is the supply of line functions and associated services in the normal course of trading.

Ethical conduct

As part of the Board's commitment to the highest standard of conduct, the Company has adopted an ethics policy to guide executives, management and employees in carrying out their duties and responsibilities.
The policy is reviewed annually.

Ethical matters that are uncertain are referred to the Ethics Committee for resolution.

Governance statement

Employee remuneration

Grouped below, in accordance with section 211(1)(g) of the Companies Act 1993, are the number of employees or former employees of the Company, excluding Directors of the Company, who received remuneration and other benefits in their capacity as employees, totalling $100,000 or more, during the year:

	Number of employees	
	2014	2013
$930,000 - $940,000 *	-	1
$330,000 - $340,000	1	-
$270,000 - $280,000 *	-	1
$240,000 - $250,000	-	1
$230,000 - $240,000	1	-
$200,000 - $210,000	1	1
$180,000 - $190,000	-	1
$140,000 - $150,000	1	1
$130,000 - $140,000	1	3
$120,000 - $130,000	4	2
$110,000 - $120,000	2	2
$100,000 - $110,000	-	1
	11	14

* Includes retirement gratuities and allowances that have been accumulated from past financial years in accordance with the individuals contractual entitlements.

Directors' Report

Statement of service performance

Performance against targets set in the Statement of Corporate Intent for the year ended 31 March 2014 was as follows: (All dollar amounts are in $'000)

Comments on key reasons impacting actual performance vs target are provided on page 6 under Finance.

	Actual	Target
1. Return on average net assets	3.9%	4.4%
2. Return on equity		
Average equity (including subordinated debentures)	143,423	142,825
Return on Equity	5.1%	5.6%
Revaluation of Assets	0.0%	0.0%
Return on Equity, including asset revaluations	5.1%	5.6%
3. Borrowings (excluding subordinated debentures)	53,200	40,600
4. Equity (including subordinated debentures) to assets ratio	57.4%	> 40%
5. Domestic price ranking in MED survey		
Within upper quartile in MED domestic supply price survey. To be ranked greater than 10th out of 45 electricity lines company regions.		
Waitomo	22nd	> 10th
King Country	16th	> 10th
6. Dividends	4,950	4,950
7. Reliability		
The performance target relating to SAIDI and SAIFI reliability in the Statement of Corporate Intent was for TLC to not breach the reliability limits as set out in the Default Price Path Annual Compliance Statement. The audited Default Price Path Annual Compliance Statement for the year to 31 March 2014 shows that TLC has not breached the reliability limits.		
8. Customer satisfaction		
Customers perceive that TLC values its customers. Measurement is growth in customer perception of at least 10% on base survey done in July 2013	11%	>10%
To have at least 90% of customers, who have been surveyed and have an opinion, believe that in general The Lines Company does a good job servicing its customers	82%	>90%
Number of customer clinics - at least 12	53	> 12
9. Staff Safety and Health		
Average annual man hours lost through accidents occurring during the year - less than 2.5	0.63	< 2.5

Statement of service performance

	Actual	Target
Staff turnover - < 15%	8%	< 15%
10. Development		
To have at least 3 electrical or lines trainees	8	3
To expend $60,000 in supporting community projects	$75,876	$60,000
11. Generation		
The plant is available for at least 90% of time	97%	>90%

Statements of Comprehensive Income

for the year ended 31 March 2014

	Note	Group 2014 $'000	Group 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Revenue	4	48,555	45,373	39,864	37,878
Investment income	7	36	4	294	169
Total revenue from continuing operations	4	48,591	45,377	40,158	38,047
Transmission charges		(6,724)	(5,889)	(6,724)	(5,889)
Total staff costs recognised as expense		(9,968)	(9,177)	(7,835)	(7,426)
Cost of inventories recognised as expense		(3,661)	(3,848)	(2,417)	(2,271)
Impairment loss recognised on trade receivables	14	(358)	(478)	(357)	(470)
Impairment of loan to subsidiaries	17	-	-	(1,578)	(503)
Depreciation and amortisation	18&20	(10,788)	(10,636)	(8,575)	(8,572)
Finance costs	8	(3,114)	(3,373)	(3,042)	(3,373)
Auditors remuneration - financial statement audit fees		(173)	(148)	(114)	(92)
Auditors remuneration - financial stmt audit fees prior year		-	(10)	(6)	(16)
Auditors remuneration - regulatory audit fees		(71)	(36)	(71)	(36)
Auditors remuneration - OAG fees		(15)	(15)	(15)	(18)
Auditors remuneration - other services		(53)	(18)	(53)	(14)
Directors fees and expenses		(200)	(248)	(200)	(248)
Gain on sale of assets		106	24	70	24
Gain on sale of investment		-	-	206	-
Loss on revaluation of non-current assets	18	-	(294)	-	(294)
Writeoff of capitalised development costs		(711)	(316)	-	-
Other expenses		(3,293)	(2,671)	(2,108)	(1,978)
Total expenses from continuing activities		(39,023)	(37,133)	(32,819)	(31,176)
Profit before tax		9,568	8,244	7,339	6,871
Income tax expense	9	(2,253)	(2,404)	(2,341)	(1,854)
Profit for the year		7,315	5,840	4,998	5,017
Profit for the year is attributable to:					
Equity holders of the parent		7,330	5,867	4,998	5,017
Minority interest		(15)	(27)	-	-
Other comprehensive income which subsequently may be reclassified to profit and loss					
Cashflow hedge reserve	28	1,458	(30)	1,458	(30)
Income tax relating to components of other comprehensive income	9	(408)	72	(408)	72
Other comprehensive income for the year		1,050	42	1,050	42
Total comprehensive income for the year		8,365	5,882	6,048	5,059
Total comprehensive income is attributable to:					
Equity holders of the parent		8,380	5,909	6,048	5,059
Minority interest		(15)	(27)	-	-

Some prior year balances have been re-classified for consistency.

Notes to the financial statements are included on pages 29 to 69

Balance Sheets
as at 31 March 2014

		Group		Parent	
		2014	2013	2014	2013
	Note	$'000	$'000	$'000	$'000
Current assets					
Cash and cash equivalents	13	3,521	1,501	2,950	879
Trade and other receivables	14	1,933	2,956	727	1,495
Construction contracts	15	98	134	98	134
Inventories	16	1,418	1,895	1,278	1,161
		6,970	6,486	5,053	3,669
Non-current assets					
Property, plant and equipment	18	225,523	223,613	202,653	201,706
Goodwill	19	1,640	1,640	-	-
Intangible assets	20	1,455	1,440	893	817
Investment in subsidiaries	21	-	-	18,550	19,080
Deferred tax asset	10	594	1,085	541	1,049
Other financial assets	17	13,594	94	18,373	8,098
		242,806	227,872	241,010	230,750
Total assets		249,776	234,358	246,063	234,419
Current liabilities					
Trade and other payables	22	4,490	3,923	3,433	3,196
Bank borrowings	23	-	1,500	-	1,500
Other financial liabilities	24	266	1,724	5,361	5,928
Current tax liability	11	390	483	36	86
Provision for staff entitlements	26	1,773	1,703	1,343	1,476
		6,919	9,333	10,173	12,186
Non-current liabilities					
Provision for staff entitlements	26	8	18	8	18
Bank borrowings	23	51,950	39,450	51,950	39,450
Convertible notes issued by subsidiary	23	1,250	-	-	-
Subordinated debentures	23	3,000	3,000	3,000	3,000
Deferred tax liability	10	44,084	44,276	43,253	43,184
		100,292	86,744	98,211	85,652
Total liabilities		107,211	96,077	108,384	97,838
Net assets		142,565	138,281	137,679	136,581
Equity					
Share capital	27	8,013	8,013	8,013	8,013
Minority interest		885	179	-	-
Retained earnings		58,629	56,101	54,628	54,580
Cashflow hedge reserves	28	(192)	(1,242)	(192)	(1,242)
Revaluation reserves	29	75,230	75,230	75,230	75,230
Total equity		142,565	138,281	137,679	136,581

25 June 2014

Angus Malcolm Don, Director

Arthur Patrick Muldoon, Director

Notes to the financial statements are included on pages 29 to 69

Statements of Changes in Equity

for the year ended 31 March 2014

		Group					
	Note	Share Capital $'000	Minority Interest $'000	Retained Earnings $'000	Cashflow Hedge Reserves $'000	Revaluation Reserves $'000	Total Equity $'000
Balance as at 31 March 2012		8,013	206	55,324	(1,220)	75,166	137,489
Profit for the year		-	(27)	5,867	-	-	5,840
Other comprehensive income							
Deferred tax adjustment on prior period buildings revaluations	10	-	-	-	-	64	64
Interest rate swaps	28	-	-	-	(22)	-	(22)
Total other comprehensive income		-	-	-	(22)	64	42
Transactions with owners							
Transaction with minority interest		-	-	(158)	-	- -	158
Dividends	12	-	-	(4,932)	-	-	(4,932)
Total transactions with owners		-	-	(5,090)	-	-	(5,090)
Balance as at 31 March 2013		8,013	179	56,101	(1,242)	75,230	138,281
Profit for the year		-	(15)	7,330	-	-	7,315
Other comprehensive income							
Interest rate swaps	28	-	-	-	1,050	-	1,050
Total other comprehensive income		-	-	-	1,050	-	1,050
Transactions with owners							
Transaction with minority interest	17	-	721	148	-	-	869
Dividends	12	-	-	(4,950)	-	-	(4,950)
Total transactions with owners		-	721	(4,802)	-	-	(4,081)
Balance as at 31 March 2014		8,013	885	58,629	(192)	75,230	142,565
Attributable to Equity Holders of the Company		8,013	885	58,629	(192)	75,230	142,565

Notes to the financial statements are included on pages 29 to 69

Statements of Changes in Equity

for the year ended 31 March 2014

	Note	Share Capital $'000	Minority Interest $'000	Retained Earnings $'000	Cashflow Hedge Reserves $'000	Revaluation Reserves $'000	Total Equity $'000
		Parent					
Balance as at 31 March 2012		8,013	-	54,495	(1,220)	75,166	136,454
Profit for the year		-	-	5,017	-	-	5,017
Other comprehensive income							
Deferred tax adjustment on prior period building revaluations	10	-	-	-	-	64	64
Interest rate swaps	28	-	-	-	(22)	-	(22)
Total other comprehensive income		-	-	-	(22)	64	42
Transactions with owners							
Dividends paid	12	-	-	(4,932)	-	-	(4,932)
Total transactions with owners		-	-	(4,932)	-	-	(4,932)
Balance as at 31 March 2013		8,013	-	54,580	(1,242)	75,230	136,581
Profit for the year		-	-	4,998	-	-	4,998
Other comprehensive income							
Interest rate swaps	28	-	-	-	1,050	-	1,050
Total other comprehensive income		-	-	-	1,050	-	1,050
Transactions with owners							
Dividends paid	12	-	-	(4,950)	-	-	(4,950)
Total transactions with owners		-	-	(4,950)	-	-	(4,950)
Balance as at 31 March 2014		8,013	-	54,628	(192)	75,230	137,679
Attributable to Equity Holders of the Company		8,013	-	54,628	(192)	75,230	137,679

Notes to the financial statements are included on pages 29 to 69

Cash Flow Statements

for the year ended 31 March 2014

		Group		Parent	
		2014	**2013**	**2014**	**2013**
	Note	$'000	$'000	$'000	$'000
Operating activities					
Cash receipts from customers		49,523	45,213	40,413	38,341
Cash paid to suppliers and employees		(23,832)	(22,019)	(20,018)	(17,928)
Net cash flow from operating receipts and payments		25,691	23,194	20,395	20,413
Interest received	7	36	4	459	4
Interest paid		(3,094)	(3,662)	(3,022)	(3,662)
Net cash from operating activities before tax		22,633	19,536	17,832	16,755
Subvention payment made to subsidiary		-	-	(191)	(299)
Income taxes paid	11	(2,512)	(3,701)	(2,512)	(3,701)
Net cash from operating activities		20,121	15,835	15,129	12,755
Investing activities					
Purchases of property, plant and equipment		(12,795)	(10,218)	(9,156)	(8,658)
Purchases of intangible assets		(311)	(194)	(311)	(182)
Proceeds on disposal of property, plant and equipment		278	306	105	280
Sale (purchase) of investment in subsidiaries		-	-	2,177	(267)
Loan to related entity	17	(13,500)	-	(13,500)	-
Gain on sale of shares & notes in subsidiary	17	206	-	-	-
Convertible notes purchased in subsidary	17	-	-	-	(5,000)
Intercompany loans from subsidiaries, net		-	-	1,577	6,357
Net cash used in investing activities		(26,122)	(10,106)	(19,108)	(7,470)
Financing activities					
Dividends paid	12	(4,950)	(4,932)	(4,950)	(4,932)
Shares in subsidiary sold to minority	17	721	-	-	-
Convertible notes in subsidiary sold to minority	17	1,250	-	-	-
Bank borrowings advanced		11,000	50	11,000	50
Net cash from (used) in financing activities		8,021	(4,882)	6,050	(4,882)
Net (decrease)/increase in cash and cash equivalents		2,020	847	2,071	403
Cash and cash equivalents at the beginning of the year		1,501	654	879	476
Cash and cash equivalents at end of the year	13	3,521	1,501	2,950	879

Notes to the financial statements are included on pages 29 to 69

Cash Flow Statements
for the year ended 31 March 2014

Reconciliation of profit before tax to net cash from operating activities before tax

		Group		Parent	
		2014	**2013**	**2014**	**2013**
	Note	$'000	$'000	$'000	$'000
Profit before tax		9,568	8,244	7,339	6,871
Adjustments for non cash items:					
Depreciation and amortisation	18&20	10,788	10,636	8,575	8,572
Gain on sale of assets		(106)	(24)	(70)	(24)
Gain on sale of investment		-	-	(206)	-
Loss on revaluation of non-current assets		-	294	-	294
Interest capitalised	8	(168)	(154)	(168)	(154)
Impairment loss recognised on trade receivables	14	358	478	357	470
Writeoff of capitalised development costs		711	316	-	-
Impairment of loan to subsidiaries	17	-	-	1,578	503
		21,151	19,790	17,405	16,532
Changes in net assets and liabilities					
Trade and other receivables		665	(565)	411	(107)
Construction contracts		36	(14)	36	(14)
Inventories		154	(102)	(117)	(101)
Trade and other payables		567	(27)	240	48
Current provision for staff entitlements		70	469	(133)	412
Non current provision for staff entitlements		(10)	(15)	(10)	(15)
		1,482	(254)	427	223
Net cash from operating activities before tax		22,633	19,536	17,832	16,755

Notes to the financial statements are included on pages 29 to 69

Notes to the financial statements
for the year ended 31 March 2014

1. Statement of compliance
The Lines Company Limited (the "Company") is a profit oriented, limited liability company incorporated in New Zealand and registered under the Companies Act 1993.

The address of its registered office is King Street, East, Te Kuiti and its principal activities are substantially carried out in the greater King Country region of New Zealand. The principal activities of the Company and its subsidiaries (the "Group") are the conveyance of electricity through its distribution network, supply of metering and relay equipment, electrical contracting and electricity generation.

The Group is a reporting entity for the purposes of the Financial Reporting Act 1993 and its consolidated financial statements comply with that Act. The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), International Financial Reporting Standards (IFRS) and other applicable financial reporting standards as appropriate for profit-oriented entities.

The financial statements were authorised for issue by the Directors on 25 June 2014.

Basis of preparation
The financial statements have been prepared on the historical cost basis, except for the revaluation of certain non-current assets and financial instruments.

Cost is based on the fair value of the consideration given in exchange for assets.

The financial statements are presented in New Zealand dollars ($NZD), which is both the Group's and Parent's functional and presentation currency. All financial information is presented in New Zealand dollars and has been rounded to the nearest thousand dollars.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by Group entities.

2. Significant Accounting Policies

a) Basis of consolidation
Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. Consistent accounting policies are employed in the preparation and presentation of the financial statements.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. The results of subsidiaries acquired or disposed of during the year are included in profit or loss from the effective date of acquisition or disposal, as appropriate. Investments in subsidiaries are recorded at cost less impairment in the Parent Company's financial statements.

b) Business combinations
The acquisition of subsidiaries is accounted for using the acquisition method. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost over acquisition value is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition the surplus is recognised immediately in profit or loss. Acquisition costs are expensed as incurred.

c) Construction contracts
When the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised in proportion to the stage of completion of the contract activity at balance date. This is measured as the proportion that contract costs for work performed to date bear to the total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is expected that total contract costs will exceed total contract revenue, the expected loss is recognised immediately in profit or loss.

d) Employee benefits
Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected at the time of settlement.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to balance date.

e) Foreign currencies
In preparing the financial statements, transactions in currencies other than the entity’s functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions.
At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks.

f) Goods and services tax
Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except for receivables and payables, which are recognised inclusive of GST.

g) Impairment of assets

At each reporting date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

h) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted at balance date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) that affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the period when the assets or liabilities giving rise to them are realised or settled. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income (for example, asset revaluations).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes the cost of direct materials and other charges, such as freight costs, that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

j) Intangible assets

Software acquired separately is reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The estimated useful lives of intangible assets used in the calculation of amortisation is 1~7 years.

The cost of such intangible assets is their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

Land easements, which grant access or allow network structures to exist over private land, have an indefinite life because the right exists in perpetuity and are therefore not amortised. Land easements are tested annually for impairment.

Resource consents include the rights to construct small hydro schemes. Resource consents for the hydro scheme principally relate to the right to take and inject water. Although these rights have a long term life due to the recognition of monitoring and renewal costs as operating expenses these rights are classified as having a finite life and are amortised over a straightline basis.

k) Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. The recoverable amount is the higher of fair value less cost to sell and value in use. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

l) Property, plant and equipment

Network distribution system

Network distribution system assets held for use are stated in the consolidated balance sheet at their fair values. Fair values are determined based on valuations adjusted for subsequent purchase costs, disposals, depreciation and impairment. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at balance date.

Any revaluation increase arising on the revaluation of network distribution system assets is credited to the network revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such assets is charged to profit or loss to the extent that it exceeds the balance, if any, held in the distribution system assets revaluation reserve relating to a previous revaluation of that asset.

Meter and relay assets

Meters and relays are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The gain or loss arising on the disposal or retirement of an item is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

Gifted assets

Property, plant and equipment gifted to the network, such as electricity reticulation of subdivisions, or cash received from customers to connect the customer to the network and to provide on-going network services, are recognised as revenue in the financial year in which the gifted asset is received.

Land and buildings

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at balance date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the land and building revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. No depreciation is charged on land.

Plant and vehicles
Plant and vehicles are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The gain or loss arising on the disposal or retirement of an item is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

Generation property, plant and equipment
Generation property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The gain or loss arising on the disposal or retirement of an item of generation plant is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

Expenditure on generation and other development activities is capitalised if the process is technically and commercially feasible, future economic benefits are probable and the Company intends to, and has sufficient resources to, complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of directly attributable overheads and interest.

Estimated useful lives
The following estimated useful lives are used in the calculation of depreciation. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period.

Distribution System	5 - 60 yrs	straight-line
Buildings	40 - 100 yrs	straight-line
Meters & Relays	4 - 15 yrs	straight-line
Plant & Vehicles	1 - 10 yrs	straight-line
Generation	10 - 50 yrs	straight-line

m) Financial assets and liabilities, derivatives and hedge accounting

Financial assets
Loans and receivables
Trade receivables, loans and other receivables are recorded at amortised cost less impairment.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet.

Impairment of financial assets
Financial assets, other than those at “fair value through profit and loss” (FVTPL), are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as “available for sale” (AFS), a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity instruments, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

Financial liabilities and equity
Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Hedge accounting
Cash flow hedges
Derivatives are initially measured at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as a "cash flow hedge" where it hedges a particular risk associated with a recognised asset or liability

The group documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objectives and strategy for understanding various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are hightly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 34. Movements on the hedging reserve in other comprehensive income are shown in note 28. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more

than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

If a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

The effective portion of changes in the fair value of derivatives that are designated and quality as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within "Finance Costs." However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred to equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in depreciation of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria or hedge accounting, any cummulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

Non-derivative financial instruments
Non-derivative financial instruments comprise of investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans to subsidiaries, loans and borrowings, and trade and other payables. Non derivative financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. Non-derivative financial instruments are recognised initially at fair value less any attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Bank loans, subordinated debentures and borrowings
Interest-bearing loans, debentures and borrowings are initially measured at fair value, less transaction costs and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group’s accounting policy for borrowing costs.

Trade payables
Trade payables and other accounts payable are recognised when the Group becomes obligated to make future payments resulting from the purchase of goods and services.

n) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably.

Provisions are measured at the Directors’ best estimate of the consideration required to settle the obligation at balance date, and are discounted to present value where the effect is material.

o) Leasing

Operating leases

Operating leases payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services, including lines charges provided in the normal course of business.

Network revenue, including lines charges, and charges for meters & relay services are recognised on a monthly basis as the services are provided to customers.

Revenue from construction contracts is recognised in accordance with the Group's accounting policy described previously on construction contracts.

Interest income is recognised as it accrues, using the effective interest method.

Gifted assets to the network, such as electricity reticulation of subdivisions, are recognised as revenue; refer to the plant, property and equipment accounting policy above. The exception to this is, if the Group has constructed the asset itself, then the asset is recognised as an addition through revenue.

Generation income is recognised when electricity generated is sold on the wholesale market.

Dividend income from subsidiaries is recognised when declared.

q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

r) Cash flow statement

Cash flows for the reporting periods are categorised into operating, investing and financing activities. Operating activities are disclosed using the direct method, whereby major classes of cash receipts from customers and cash payments to suppliers and employees are disclosed for operating activities. Cash receipts and payments are shown inclusive of GST. Investing activities include the purchase and disposal of assets, shown exclusive of GST. Financing activities include loans drawn and/or repaid and finance raised from shareholders equity holders or dividends paid to shareholders.

Cash flows from operating activities are reconciled to net profit before tax, by accounting for non-cash transactions and changes in working capital.

Notes to the financial statements for the year ended 31 March 2014

s) Adoption of new and revised Accounting Standards

Standards and Interpretations effective in the current period

A number of Standards and Interpretations became effective in the current period and were adopted in the preparation of the financial statements and accompanying notes to the accounts:

• NZ IAS 1 'Amendments Presentation of items of Comprehensive Income'

The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This has not affected the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period.

• NZ IFRS 10 'Consolidated Financial Statements'

NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 Consolidated and Separate Financial Statements, and NZ SIC 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The new standard does not have a significant impact on the financial statements.

• IFRS 12 'Disclosures of Interest in Other Entities'

NZ IFRS 12 sets out the required disclosures for entities reporting under the two new standards, NZ IFRS 10 and NZ IFRS 11, and replaces the disclosure requirements currently found in NZ IAS 28. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

• IFRS 13 'Fair Value Measurements'

NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. Application of the new standard impacts the information disclosed in the notes to the financial statements and valuation of derivatives incorporating credit risk.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

• NZ IFRS 9 'Financial Instruments'

This standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. NZ IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of IAS 39 requirements. The main change is that in cases where the fair value option is taken for financial liabilities, the part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess NZ IFRS 9's full impact and intends to adopt no later than 1 April 2015.

• NZ IFRS 15, Revenue from contracts with customers, (effective for annual periods beginning on or after 1 January 2017)

IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in IAS 18 Revenue and IAS 11 Construction contracts and is applicable to all entities with revenue. It sets out a 5 step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group has yet to assess IFRS 15's full impact. The Group will apply this standard from 1 April 2017.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the entity's accounting policies, which are described in note 2, management has made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue recognition
Part of the network charges are based on normalisation, where demand is assessed based on historical actual meter readings. Occasionally the meter reading history data is not consistent and subsequent adjustments are made to customers' accounts, where further charges are applied or refunds given. These adjustment amounts are not significant compared with total network revenue.

Valuation of land and buildings
In accordance with its accounting policy, the Group periodically revalues land and buildings. The valuations, which are performed by independent valuers, involve estimates as detailed in note 18.

Valuation of network distribution system
The Group estimates the fair value of the distribution network using independent valuers in accordance with the property, plant and equipment accounting policy. Because of the specialised nature of the network and the infrequency of network sale transactions, there is a lack of market-based evidence available to determine fair value. The valuation has therefore been determined using the discounted cash flow method. The major inputs that are used in the valuation model that require judgment include load growth and pricing, projected operational and capital expenditure profiles and discount and inflation rates as detailed in note 18. The carrying value approximates the fair value.

Financial instruments
Note 34 contains information about the assumptions and the risk factors relating to financial instruments and their valuation, including interest rate swaps, which are valued with reference to the Group's accounting policies. Accounting judgments have been made in determining the hedge designation for the different types of derivatives employed by the Group to hedge risk exposures.

Goodwill
Goodwill relates to the purchase of John Deere Electrical Limited (refer Note 19).
The basis of the impairment assessment is the value-in-use discounted cash flow analysis of the future earnings of the assets. Key assumptions at balance date include: Revenue and operating expenditure growth: 2.5%; Discount rate: 12%; Terminal growth rate: 2.5%. There are no reasonably possible changes in key assumptions that would result in an impairment of goodwill.

Provision against loans to subsidiaries
The provision against loans to subsidiaries in the Parent relates to Clearwater Hydro Limited and Scope Infrastructure Limited (refer Note 17). The loans to Clearwater Hydro Limited have been impaired and written down to a nil carrying value in the Parent accounts as these loans are not expected to be repaid by Clearwater Hydro Limited. The loans to Scope Infrastructure Limited have been written down to net asset backing to reflect the fact that Scope Infrastructure Limited sold its business operations during the year.

Provision for impairment in trade receivables

Significant judgment is required in determining the provision for receivables impairment. When evaluating whether an impairment is likely, factors including the age of the debtor balance, whether the debtor is subject to dispute, the ability to locate the debtor, and the debtors perceived ability to pay are all considered. The provision for receivables impairment is shown in Note 14.

Generation property, plant and equipment

The Group's generation property, plant and equipment is recorded at cost. Annually, the Group assesses the carrying value of the generation assets for impairment.

The basis of the impairment assessment is the value-in-use discounted cash flow analysis of the future earnings of the assets. The major inputs that are used in the value-in-use model that required judgment include the forward price path of electricity, sales volume forecasts, projected operational and capital expenditure profiles, discount rates and life assumptions for each generation station. There are no reasonably possible changes in any of the assumptions below that would cause the carrying value of generation assets to exceed their recoverable amounts.

Group

			Total Base value in use $24.4m	
Assumptions - Group	Low	High	Negative value impact ($'000)	Postive value impact ($'000)
Price path - Energy links A Average less $2/MWh	Energy links - 25th percentile less $2/MWh	Energy links - 75th percentile less $2/MWh	$3,777	$3,627
Generation volume (21,935 MWh)	-10.0%	10.0%	$2,555	$2,555
Operational costs ($619,000 pa)	20.0%	-20.0%	$1,030	$1,030
Discount rate - 7.9%	7.6%	8.2%	$1,487	$1,370
Life assumptions - Terminal value after 25 years	Nil	n/a	$7,911	$0

Parent

			Total Base value in use $5.6m	
Assumptions - Parent	Low	High	Negative value impact ($'000)	Postive value impact ($'000)
Price path - Energy links A Average less $2/MWh	Energy links - 25th percentile less $2/MWh	Energy links - 75th percentile less $2/MWh	$917	$844
Generation volume (5,508MWh)	-10.0%	10.0%	$659	$659
Operational costs ($223,000 pa)	20.0%	-20.0%	$310	$310
Discount rate - 7.9%	7.6%	8.2%	$356	$320
Life assumptions - Terminal value after 25 years	Nil	n/a	$1,926	$0

4. Revenue

An analysis of revenue is as follows:

		Group		Parent	
		2014	**2013**	**2014**	**2013**
	Note	$'000	$'000	$'000	$'000
Continuing operations					
Network		36,476	34,574	36,476	34,574
Meters and relays		3,564	3,257	602	579
Contracting		7,096	5,982	2,293	2,204
Generation		1,389	1,521	430	449
Corporate services		30	39	63	72
Revenue		48,555	45,373	39,864	37,878
Investment income	7	36	4	294	169
		48,591	45,377	40,158	38,047

5. Expenses

All expenses required to be disclosed under NZ IFRS are disclosed in the Statements of Comprehensive Income.

6. Profit from operations

	Group		Parent	
	2014	**2013**	**2014**	**2013**
	$'000	$'000	$'000	$'000
Earnings before interest, tax, depreciation and amortisation (EBITDA)				
Network	22,300	21,863	22,300	21,863
Meters and relays	3,176	2,972	420	412
Contracting	2,263	2,027	886	1,449
Less profit adjustment on internal capital works	(94)	(402)	(94)	(402)
Generation	(245)	(7)	(1,176)	(558)
Corporate services	(3,966)	(4,204)	(3,674)	(4,118)
	23,434	22,249	18,662	18,646
Depreciation and amortisation	10,788	10,636	8,575	8,572
Earnings before interest and tax (EBIT)	12,646	11,613	10,087	10,074

Notes to the financial statements
for the year ended 31 March 2014

7. Investment income

	Group 2014 $'000	Group 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Interest on bank deposits	36	4	36	4
Interest on convertible notes issued by subsidiary	-	-	258	165
	36	4	294	169

8. Finance costs

	Group 2014 $'000	Group 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Interest on bank borrowings	3,034	3,151	3,034	3,151
Interest on convertible notes issued by subsidiary	71	-	-	-
Interest on subordinated debentures	174	174	174	174
Other interest expense, principally IRD UoM	3	202	3	202
	3,283	3,527	3,211	3,527
Interest capitalised	(168)	(154)	(168)	(154)
	3,114	3,373	3,042	3,373

The weighted average interest rate on bank borrowings, including interest rate swap derivatives, is 7.58% (2013: 7.70%)

Refer note 23 for information on interest rates charged in respect of convertible notes issued by subsidiary and subordinated debentures.

9. Income tax expense

Company tax is calculated at 28% of the estimated assessable profit for the year.

	Group		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Profit before tax	9,568	8,244	7,339	6,871
Expenses that are non deductible	50	10	50	-
Impairment of loan to subsidiaries	-	-	1,578	503
Taxable profit	9,618	8,254	8,967	7,374
Income tax expense at 28%	2,694	2,312	2,511	2,065
Subvention payment made to subsidiary	-	-	(191)	(298)
Effect of prior period tax adjustments	(441)	92	21	87
Income tax expense	2,253	2,404	2,341	1,854
Effective tax rate (being total tax expense divided by Profit before tax)	24%	29%	32%	27%
Current tax expense	2,362	3,904	2,172	3,367
Deferred tax expense	(109)	(1,500)	169	(1,513)
Income tax expense	2,253	2,404	2,341	1,854
Attributable to:				
Continuing activities	2,253	2,404	2,341	1,854

Amounts recognised directly in other comprehensive income

Aggregate current and deferred tax arising in the reporting period and not recognised in the profit or loss component of the statements of comprehensive income but directly debited and credited to other comprehensive income.

Deferred tax - debited (credited) directly to other comprehensive income	408	(72)	408	(72)
Total tax expense for the year recognised in other comprehensive income	408	(72)	408	(72)

Imputation credit memorandum account

Imputation credits available for subsequent reporting periods based on a tax rate of 28%.

Imputation credits balance	4,123	3,889	3,769	2,022

10. Deferred tax liability

Group

	Property, plant & equipment $'000	Cash flow hedges $'000	Provisions $'000	Other $'000	Total $'000
At 31 March 2012	45,552	(475)	(252)	-	44,825
Charged to income	(1,212)	-	(288)	-	(1,500)
Charged to retained earnings	-	-	(62)	-	(62)
Charged to other comprehensive income	(64)	(8)		-	(72)
At 31 March 2013	44,276	(483)	(602)	-	43,191
Charged to income	(192)	-	83	-	(109)
Charged to other comprehensive income	-	408	-	-	408
At 31 March 2014	44,084	(75)	(519)	-	43,490

Parent

	Property, plant & equipment $'000	Cash flow hedges $'000	Provisions $'000	Other $'000	Total $'000
At 31 March 2012	44,568	(475)	(373)	-	43,720
Charged to income	(1,320)	-	(193)	-	(1,513)
Charged to other comprehensive income	(64)	(8)	-	-	(72)
At 31 March 2013	43,184	(483)	(566)	-	42,135
Charged to income	69	-	100	-	169
Charged to other comprehensive income	-	408	-	-	408
At 31 March 2014	43,253	(75)	(466)	-	42,712

	Group		Parent	
	2014 $'000	**2013** $'000	**2014** $'000	**2013** $'000
Current - deferred tax asset	(594)	(1,085)	(541)	(1,049)
Non current - deferred tax liability	44,084	44,276	43,253	43,184
	43,490	43,191	42,712	42,135

11. Current tax liability

	Group		Parent	
	2014 $'000	**2013** $'000	**2014** $'000	**2013** $'000
Opening balance	483	280	86	110
Tax payments and tax credits received	(2,512)	(3,701)	(2,512)	(3,701)
Tax losses transferred from subsidiaries	-	-	290	310
Charged to retained earnings	57	-	-	-
Current tax expense for the year	2,362	3,904	2,172	3,367
	390	483	36	86

12. Dividends

Amounts recognised as distributions to shareholders in the year.

	Group		Parent	
	2014 $'000	**2013** $'000	**2014** $'000	**2013** $'000
Dividends paid	4,950	4,932	4,950	4,932

Dividends of $4.950m (2013: $4.932m), being $0.38 per share, were paid to shareholders during the year.

13. Cash and cash equivalents

	Group		Parent	
	2014 $'000	**2013** $'000	**2014** $'000	**2013** $'000
Cash and cash equivalents	3,521	1,501	2,950	879

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets equates to their fair value.

14. Trade and other receivables

	Group		Parent	
	2014 $'000	**2013** $'000	**2014** $'000	**2013** $'000
Trade receivables	2,380	3,405	1,167	1,912
Less impairment loss recognised on trade receivables	(740)	(908)	(732)	(900)
Sundry debtors	18	224	17	248
Prepayments	275	235	275	235
	1,933	2,956	727	1,495

No interest is charged on trade receivables for most customers. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

The carrying amount of trade and other receivables approximates their fair value because all amounts are due within one month and there are no amounts where settlement thereof is greater than one year.

Ageing of trade receivables	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Current to 90 days	2,635	3,335	1,508	1,903
Greater than 90 days	879	1,364	793	1,301
Credit balance accounts	(1,134)	(1,294)	(1,134)	(1,292)
	2,380	3,405	1,167	1,912

Impairment loss recognised on trade receivables & included in the Statements of Comprehensive Income	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Opening Balance	908	452	900	442
Impairment loss recognised on trade receivables	358	478	357	470
Receivables written off during the year as uncollectable	(526)	(22)	(525)	(12)
	740	908	732	900

15. Construction contracts

Contracts in progress at balance date:

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Construction costs incurred plus recognised profits less recognised losses to date	351	264	351	264
Less: Progress billings	(253)	(130)	(253)	(130)
	98	134	98	134

No retentions were held by customers for construction work in progress at year-end. (2013: $ Nil)
All amounts included in trade and other receivables and arising from construction contracts are due for settlement within the following 12 months.

16. Inventories

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Contracting stores	957	923	817	806
Network stores	24	24	24	24
Transformers	276	350	276	331
Meters and relays	161	275	161	-
Generation (strategic spares)	-	323	-	-
	1,418	1,895	1,278	1,161

Inventory impairment provisions reversed in the year are nil (2013: $102,000). In 2014, Generation spares were reclassifed to fixed assets.

17. Other financial assets

	Group 2014 $'000	Group 2013 $'000
Investments carried at amortised cost		
Loan to related entity	13,500	-
Other investments	94	94
	13,594	94

The Company advanced $13.5 million to WESCTCO Limited, a wholly owned subsidiary of the Company's controlling shareholder Waitomo Energy Services Customer Trust. The funds advanced were used by WESCTCO Limited to acquire the shares in the Company previously held by King Country Energy Power Trust (refer note 27). The loan is secured by a Specific Security Deed over the shares held in the Company.

	Parent 2014 $'000	Parent 2013 $'000
Loans carried at amortised cost, less impairment		
Loans to subsidiaries	1,029	3,004
Loan to related entity	13,500	-
Investments carried at cost		
Convertible notes in Speedys Road Hydro Limited	3,750	5,000
Other investments	94	94
	18,373	8,098

In September 2012, the company received shares and convertible notes in its subsidiary Speedys Road Hydro Limited (SRHL) as part of a capital restructure of SRHL. Subsequent to the capital restructure of SRHL, the minority owner in SRHL exercised its option to purchase from TLC up to 25% of outstanding shares and convertible notes in SRHL. In May 2013, the transaction settled at a price of $2.2m for the shares and convertible notes resulting in a gain after tax in the 2013/14 year of $148,000 which has been taken directly to retained earnings in the Group accounts.

	Parent 2014 $'000	Parent 2013 $'000
Loans to subsidiaries		
Clearwater Hydro Limited	2,631	2,656
Less impairment loss recognised on loans to Clearwater Hydro Limited	(2,631)	(1,282)
Scope Infrastructure Limited	413	549
Less impairment loss recognised on loans to Scope Infrastructure Limited	(229)	-
Matawai Hydro Limited	845	1,081
	1,029	3,004

No interest is charged on intercompany loans and the loans have no predetermined settlement date.

18. Property, plant and equipment

	Group						
	Land (At Valuation) $'000	**Buildings** (At Valuation) $'000	**Network Distribution System** (At Valuation) $'000	**Meters & Relays** (At Cost) $'000	**Plant & Vehicles** (At Cost) $'000	**Generation** (At Cost) $'000	**Total** $'000
Gross carrying amount							
At 31 March 2012	1,271	2,311	189,845	14,304	8,886	21,441	238,058
Additions	-	29	5,974	887	593	267	7,750
Disposals & asset writeoffs	-	-	-	(610)	(1,928)	-	(2,538)
Revaluation	-	(321)	-	-	-	-	(321)
Capital works in progress	-	-	2,238	-	-	65	2,303
At 31 March 2013	1,271	2,019	198,057	14,581	7,551	21,773	245,252
Additions	-	43	6,343	1,865	1,440	540	10,231
Disposals & asset writeoffs	-	-	-	-	(661)	(713)	(1,374)
Capital works in progress	-	-	1,647	1,350	-	56	3,053
At 31 March 2014	1,271	2,062	206,047	17,869	8,330	21,656	257,235
Accumulated depreciation and impairment							
At 31 March 2012	-	5	-	7,158	5,713	961	13,837
Depreciation charge	-	80	6,716	1,914	857	523	10,090
Eliminated on revaluation		(26)	-	-	-	-	(26)
Eliminated on disposals	-	-	-	(610)	(1,652)	-	(2,262)
At 31 March 2013	-	59	6,716	8,462	4,918	1,484	21,639
Depreciation charge	-	73	6,889	1,979	934	616	10,491
Eliminated on disposals	-	-	-	-	(491)	-	(491)
At 31 March 2014	-	132	13,605	10,514	5,361	2,100	31,712
Carrying amount (Net book value)							
At 31 March 2012	1,271	2,306	189,845	7,146	3,173	20,480	224,221
At 31 March 2013	1,271	1,960	191,341	6,119	2,633	20,289	223,613
At 31 March 2014	1,271	1,930	192,442	7,355	2,969	19,556	225,523

In March 2014, the fixed assets and inventory held by Scope Infrastructure Limited were sold and the business ceased trading. The value of assets sold and proceeds received was $0.2m.

The opening March 2012 gross carrying values of land and generation PP&E have been decreased and increased respectively by $931k to relassify certain generation assets which have previously been disclosed as land.

The carrying amounts of property, plant and equipment had they been recognised under the cost model are as follows:

	Group						
	Land (At Valuation) $'000	**Buildings** (At Valuation) $'000	**Network Distribution System** (At Valuation) $'000	**Meters & Relays** (At Cost) $'000	**Plant & Vehicles** (At Cost) $'000	**Generation** (At Cost) $'000	**Total** $'000
At 31 March 2013	532	2,059	97,991	5,158	2,633	20,289	128,662
At 31 March 2014	532	2,033	103,375	7,165	2,969	19,556	135,630

Land and buildings
The land and buildings of the Group and Parent, comprising the depots at Waitete Road Te Kuiti, Te Peka Street Taumarunui, Old Station Road Ohakune, and the residential dwellings at Te Peka Street Taumarunui were revalued to $2.309m at 31 March 2012. The head office at King Street East Te Kuiti was revalued to $450,000 at 31 March 2013 to reflect market value changes of earthquake susceptible buildings. These valuations were prepared by Doyle Valuations Ltd (A.N.Z.I.V, S.N.Z.P.I.), an independent valuer with local experience. These valuations were carried out in accordance with API and PINZ Professional Practice and International Valuation Standards. Summation and income approaches were used for the valuation.

Network distribution system
Network distribution system assets, excluding meters and relays, were revalued to $189.845 million at 31 March 2012. As the fair value of the assets was not able to be reliably determined using market based evidence, the valuation was prepared using discounted cash flow methodology. The valuation was independently prepared by Deloitte and the key assumptions used are shown in the table below. In all cases an element of judgment is required. The valuation is based on revenue and cost assumptions applied against a combination of WACC and CPI inflation rates.

Assumptions	Valuation assumptions adopted	Low	High	Valuation impact
Demand/load growth	1.2%	-0.5%	0.5%	- $20,585,000 + $21,409,000
WACC	7.5%	-0.5%	0.5%	+ $20,176,000 - $16,938,000
10 year forward capital expenditure	$120m	-10.0%	10.0%	- $12,249,000 + $12.249,000
CPI inflation	2.4%	-0.5%	0.5%	- $8,775,000 + $9,201,000

The fair valuation measurements above are considered to be Level 3 as they are derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

Property, plant and equipment

	Parent						
	Land (At Valuation) $'000	Buildings (At Valuation) $'000	Network Distribution System (At Valuation) $'000	Meters & Relays (At Cost) $'000	Plant & Vehicles (At Cost) $'000	Generation (At Cost) $'000	Total $'000
Gross carrying amount							
At 31 March 2012	1,020	2,265	189,845	2,002	8,062	4,584	207,778
Additions	-	29	5,974	23	496	47	6,569
Disposals & asset writeoffs	-	-	-	(203)	(1,890)	-	(2,093)
Revaluation	-	(320)	-	-	-	-	(320)
Capital works in progress	-	-	2,238	-	-	-	2,238
At 31 March 2013	1,020	1,974	198,057	1,822	6,668	4,631	214,172
Additions	-	43	6,343	28	1,206	6	7,626
Disposals & asset writeoffs	-	-	-	73	(278)	-	(205)
Capital works in progress	-	-	1,647	-	-	47	1,694
At 31 March 2014	1,020	2,017	206,047	1,923	7,596	4,684	223,287
Accumulated depreciation and impairment							
At 31 March 2012	-	4	-	710	5,273	261	6,248
Depreciation charge	-	79	6,716	461	739	92	8,087
Eliminated on revaluation	-	(26)	-	-	-	-	(26)
Eliminated on disposals	-	-	-	(203)	(1,640)	-	(1,843)
At 31 March 2013	-	57	6,716	968	4,372	353	12,466
Depreciation charge	-	72	6,889	466	820	92	8,339
Eliminated on disposals	-	-	-	73	(244)	-	(171)
At 31 March 2014	-	129	13,605	1,507	4,948	445	20,634
Carrying amount (Net book value)							
At 31 March 2012	1,020	2,261	189,845	1,292	2,789	4,323	201,530
At 31 March 2013	1,020	1,917	191,341	854	2,296	4,278	201,706
At 31 March 2014	1,020	1,888	192,442	416	2,648	4,239	202,653

The carrying amounts of property, plant and equipment had they been recognised under the cost model are as follows:

At 31 March 2013	281	2,015	97,991	587	2,296	4,278	107,448
At 31 March 2014	281	1,990	103,375	502	2,648	4,239	113,035

The opening March 2012 gross carrying values of land and generation PP&E have been decreased and increased respectively by $931k to relassify certain generation assets which have previously been disclosed as land.

19. Goodwill

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Gross carrying amount				
At 31 March	1,640	1,640	-	-
Carrying amount (Net book value)				
At 31 March	1,640	1,640	-	-

Annual test for impairment

During the year, the Group assessed the recoverable amount of goodwill, and determined that goodwill was not impaired. Goodwill is attributable to the investment in John Deere Electrical Limited (refer note 3).

Notes to the financial statements
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20. Intangible assets

	Group			
	Software $'000	Land Easements $'000	Resource Consents & Rights $'000	Total $'000
Cost				
Total cost at 31 March 2012	2,788	154	695	3,637
Additions	184	-	12	196
Transfers	(423)	-	-	(423)
Total cost at 31 March 2013	2,549	154	707	3,410
Additions	312	-	-	312
Disposals	-	-	(150)	(150)
Total cost at 31 March 2014	2,861	154	557	3,572
Accumulated amortisation and impairment				
Total at 31 March 2012	1,794	-	50	1,844
Amortisation charge for the year	496	-	50	546
Eliminated on disposal	(420)	-	-	(420)
Total at 31 March 2013	1,870	-	100	1,970
Amortisation charge for the year	247	-	50	297
Eliminated on disposal	-	-	(150)	(150)
Total at 31 March 2014	2,117	-	-	2,117
Carrying amount (Net book value)				
At 31 March 2012	994	154	645	1,793
At 31 March 2013	679	154	607	1,440
At 31 March 2014	744	154	557	1,455

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	Parent			
	Software $'000	Land easements $'000	Resource consents and rights $'000	Total $'000
<u>Cost</u>				
Total cost at 31 March 2012	2,757	154	-	2,911
Additions	184	-	-	184
Disposals	(423)	-	-	(423)
Total cost at 31 March 2013	2,518	154	-	2,672
Additions	312	-	-	312
Disposals	-	-	-	-
Total cost at 31 March 2014	2,830	154	-	2,984
<u>Accumulated amortisation and impairment</u>				
Total at 31 March 2012	1,790	-	-	1,790
Amortisation charge for the year	485	-	-	485
Eliminated on disposal	(420)		-	(420)
Total at 31 March 2013	1,855	-	-	1,855
Amortisation charge for the year	236	-	-	236
Eliminated on disposal	-	-	-	-
Total at 31 March 2014	2,091	-	-	2,091
<u>Carrying amount (Net book value)</u>				
At 31 March 2012	967	154	-	1,121
At 31 March 2013	663	154	-	817
At 31 March 2014	739	154	-	893

21. Investments in subsidiaries

Name	Principal Activity	Ownership Interest 2014 %	Ownership Interest 2013 %	2014 $'000	2013 $'000
Financial Corporation Limited	Meter and relay assets	100	100	7,200	7,200
Clearwater Hydro Limited	Developer and promoter of small hydro-electricity schemes throughout the North Island	100	100	-	-
Scope Infrastructure Limited	Transformer oil refining services operating in Hamilton	100	100	-	-
John Deere Electrical Limited	Electricity contracting business operating in Te Kuiti	100	100	1,846	1,846
Speedys Road Hydro Limited	Hydro generation scheme	75	94.57	3,254	3,784
Matawai Hydro Limited	Hydro generation scheme	100	100	6,250	6,250
				18,550	19,080

The subsidiaries have been consolidated with intercompany transactions eliminated. All subsidiaries have a reporting date of 31 March and are incorporated and operate in New Zealand.

As disclosed in note 17, the Company sold down its ownerhip interest in Speedys Road Hydro Limited to 75% following the exercise of an option to purchase shares by the minority interest.

In March 2014, Scope Infrastructure Limited ceased trading following the sale of its fixed assets and inventory.

Impairment
There has been no impairment of the investment in subsidiaries recognised in the 2013/14 financial year. (2013: $ Nil)

22. Trade and other payables

	Group 2014 $'000	Group 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Trade creditors and accruals	3,276	2,432	2,352	1,909
Audit fee accruals	149	127	96	76
Interest accruals	424	236	424	236
Other accruals	641	1,128	561	975
	4,490	3,923	3,433	3,196

Trade and other payables principally comprise amounts outstanding for trade purchases and on-going costs.

The carrying amount of trade and other payables approximates their fair value because all amounts are due within one month and there are no amounts where settlement thereof is greater than one year.

23. Bank Borrowings, convertible notes and subordinated debentures

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Non-Current				
Bank borrowings	51,950	39,450	51,950	39,450
Convertible notes issued by subsidiary	1,250	-	-	-
Subordinated debentures:				
Waitomo Energy Services Customer Trust	1,000	1,000	1,000	1,000
North King Country Development Trust	2,000	2,000	2,000	2,000
	56,200	42,450	54,950	42,450
Disclosed in the financial statements as:				
Current borrowings	-	1,500	-	1,500
Non-current borrowings	56,200	42,450	54,950	42,450
	56,200	43,950	54,950	43,950

Bank Borrowings
The Group has total bank lending facilities with Westpac of $75 million. The term lending facilities are for four years, expiring 31 March 2018. The working capital facilities (borrowings 2013 - $1.5m) are subject to annual renewal and expire on 31 March 2015. Bank loans are at floating rates and expose the Group to cash flow interest rate risk. The Group complies with its banking covenant and no default or event of review has occurred.

The fair value of the Group's bank borrowings reflect their carrying value, because they are floating rate loans.

Security held by the bank for these loans is a Composite General Security Agreement over the assets of the Group, with the exception of those assets owned by Speedys Road Hydro Limited, which is not a member of the charging group.

Convertible Notes issued by Subsidiary
Speedys Road Hydro Limited (SRHL) has issued $3.75m of convertible notes to TLC (refer note 17) and $1.25m of convertible notes to the minority shareholder. The proceeds were used to repay debt owed to TLC. The convertible notes are interest bearing (6.6%). The convertible notes issued to TLC are eliminated on consolidation in the group financial statements.

The holder may either elect to convert the notes to shares, redeem the notes for cash or extend the maturity date of the notes. The election notice is subject to agreement by the SRHL board of directors who are entitled to act in what they reasonably consider to be in the best interests of SRHL. At 31 March 2014, there were five separate tranches of convertible notes of $1,000,000 each with maturity dates of 30 September 2014, 30 September 2015, 30 September 2016, 30 September 2017, 30 September 2018. SRHL reserves the right to defer interest payments in perpetuity while it does not have sufficient cash to make the payment.

The fair value of the convertible notes are not considered to be materially different from its principal value as the terms of the notes are such that comparable market instruments would not differ materially in value.

Subordinated debentures
The subordinated debentures are stated at their fair values. The Waitomo Energy Services Customer Trust (WESCT) loan has a principal value of $1,000,000 and had fixed interest of 7.42% per annum (2013: 7.42%). The North King Country Development Trust (NKCDT) loan has a principal value of $2,000,000 and had fixed interest of 5.00% per annum (2013: 5.00%). The subordinated debentures are unsecured and have no specified maturity date. Repayment of the subordinated debentures are not permitted until full repayment of all other borrowings of the Company.

The interest rate payable on the WESCT debenture is reset yearly, by negotiation, having regard to interest paid by other entities who have issued similar debt securities. The fair value of the WESCT debenture is not considered to be materially different from its principal value as the applicable interest rate approximates that of similar debt securities.

The fair value of the NKCDT debenture is not considered to be materially different from its principal value as the terms of the debenture are such that comparable instruments would not differ materially in value.

24. Other financial liabilities

		Group		Parent	
		2014	2013	2014	2013
	Note	$'000	$'000	$'000	$'000
Derivatives designated and effective as hedging instruments carried at fair value					
Interest rate swaps	34	266	1,724	266	1,724
Loans from subsidiaries					
John Deere Electrical Limited		-	-	1,349	531
Financial Corporation Limited		-	-	3,746	3,659
Speedys Road Hydro Limited		-	-	-	14
Loans from subsidiaries		-	-	5,095	4,204
		266	1,724	5,361	5,928

No interest is charged on intercompany loans and the loans have no predetermined settlement date.

25. Obligations under finance leases

Nil

26. Provision for staff entitlements

	Group		Parent	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Opening balance	1,721	1,267	1,494	1,097
Accrued	1,673	1,410	1,237	1,174
Utilised	(1,613)	(956)	(1,380)	(777)
	1,781	1,721	1,351	1,494

	Group 2014 $'000	Group 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Classified as:				
Current	1,773	1,703	1,343	1,476
Non-current	8	18	8	18
	1,781	1,721	1,351	1,494

The provision for employee entitlements includes accrued wages, bonuses, holiday pay, long service leave, sick leave, trainee bonds and gratuities. Where settlement is greater than one year, the item is discounted using the Group's weighted average cost of capital. The carrying amount of the provision for staff entitlements approximates its fair value as most of the entitlement is due to be settled within one year.

27. Share capital

	Group 2014 $'000	Group 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Issued and fully paid capital				
Represented by 13,163,120 ordinary shares	8,013	8,013	8,013	8,013
Number of Shares Held By:				
Waitomo Energy Services Customer Trust	11,846,808	11,846,808	11,846,808	11,846,808
WESCTCO Limited	1,316,312	-	1,316,312	-
King Country Electric Power Trust	-	1,316,312	-	1,316,312
	13,163,120	13,163,120	13,163,120	13,163,120

The Company has one class of ordinary shares, which have no par value. During the year, 1,316,312 shares held by King Country Electric Power Trust were purchased by WESCTCO Limited, a related entity of the Company, for $13.5 million.

28. Cashflow hedge reserves

The cashflow hedge reserve represents hedging gains (losses) recognised on the effective portion of cash flow hedges.

	Group 2014 $'000	Group 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Opening balance	(1,242)	(1,220)	(1,242)	(1,220)
Gain/(loss) recognised on cash flow hedges:				
Interest rate swaps	1,458	(30)	1,458	(30)
Income tax related to gain/loss recognised in equity	(408)	8	(408)	8
	(192)	(1,242)	(192)	(1,242)

29. Revaluation reserves

	Group and Parent		
	Network Distribution System $'000	**Land & Buildings** $'000	**Total** $'000
Total at 31 March 2012	74,613	553	75,166
Deferred tax adjustment on prior period buildings revaluations	-	64	64
Total at 31 March 2013	74,613	617	75,230
Movements during the year	-	-	-
Total at 31 March 2014	74,613	617	75,230

30. Contingent assets and liabilities

The group has no contingent assets or liabilities requiring disclosure.
Capital expenditure contracted for at year end but not yet incurred is as follows:

	Group	
	2014 $'000	**2013** $'000
Metering equipment	761	-

Performance bonds of $0.2m (2013 - $0.1m) have been provided to contracting customers in the normal course of business.

31. Operating lease arrangements

The Group is party to a number of operating leases for access to land for some communication sites and substations. The lease amounts paid are immaterial to the Group's overall operating costs. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

32. Events after balance date

There were no events after the March 2014 balance date which require disclosure.

In September 2012, the company received shares and convertible notes in its subsidiary Speedys Road Hydro Limited (SRHL) as part of a capital restructure of SRHL. Subsequent to the capital restructure of SRHL, the minority owner in SHRL exercised its option to purchase from TLC up to 25% of outstanding shares and convertible notes in SHRL. As at 31 March 2013, the option exercise price was under dispute. Subsequent to 31 March 2013, the exercise price dispute was resolved and the transaction settled at a price of $2.2m for the shares and convertible notes.

33. Related party transactions

Trading transactions
The Group traded with no related parties that are not members of the Group.

The amounts outstanding on intercompany loans are unsecured. No guarantees have been given or received. Intercompany balances are stated in Notes 17 and 24.

Financial Corporation Limited
Trading transactions within the Group consist of collection of meter and relay income on behalf of Financial Corporation Limited, management fees payable, holding of meter and relay inventories and the installation of metering assets.

The following transactions occurred between The Lines Company Limited and Financial Corporation Limited (FCL) and have been eliminated in the Group consolidated accounts.

	2014 $'000	**2013** $'000
Management and acquisition fees received from FCL	301	286
Warehousing fee received from FCL	10	10
Installation charges for meter and relay assets from FCL	109	126

Notes to the financial statements for the year ended 31 March 2014

Clearwater Hydro Limited

The Lines Company Limited established Clearwater Hydro Limited as a wholly owned subsidiary to develop and manage small hydro generation schemes. Shares were exchanged for cash, which was subsequently used to purchase resource consents and rights and know how for small schemes.

The loan to Clearwater Hydro Limited has been impaired in the Parent Company to recognise operating costs and feasibility study costs that have already been recognised in the financial statements of Clearwater Hydro Limited.

The following transactions occurred between The Lines Company Limited and Clearwater Hydro Limited (CWH) and have been eliminated in the Group consolidated accounts.

	2014 $'000	2013 $'000
Project management and engineering fees paid to CWH	57	33
Hydro management charge paid to CWH	17	15
Provision for impairment on intercompany loan	1,349	503

Matawai Hydro Limited

The Lines Company Limited established Matawai Hydro Limited as a wholly owned subsidiary that owns a small hydro generation scheme. The scheme was constructed using The Lines Company cash resources, which was then exchanged for shares.

There were no transactions between The Lines Company Limited and Matawai Hydro Limited (Matawai) for the year.

Speedys Road Hydro Limited

The Lines Company Limited established Speedys Road Hydro Limited (SRHL) as a majority owned subsidiary that owns a small hydro generation scheme. The scheme was constructed using The Lines Company cash resources, which was then exchanged for shares.

The following transactions occurred between The Lines Company Limited and SRHL and have been eliminated in the Group consolidated accounts.

	2014 $'000	2013 $'000
Job revenue received from SRHL	2	-
Interest earned by TLC on Convertible Notes during the year	258	165
Interest owed to TLC on Convertible Notes at year end	-	165
Lines charges	3	3

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Scope Infrastructure Limited

Scope Infrastructure Limited (Scope) was established as a wholly owned subsidiary to conduct electrical lines contracting work. Scope sold its oil refurbishment operations in March 2014 and has ceased trading.

The following transactions occurred between The Lines Company Limited and Scope Infrastructure Limited (Scope) and have been eliminated in the Group consolidated accounts.

	2014 $'000	2013 $'000
Oil purchases made by TLC from Scope	19	56
Provision for impairment on intercompany loan	229	-

John Deere Electrical Limited

John Deere Electrical Limited was purchased as a wholly owned subsidiary to provide electrician services. Operations of the subsidiary are based in Te Kuiti.

The following transactions occurred between The Lines Company Limited and John Deere Electrical Limited and have been eliminated in the group consolidated accounts.

	2014 $'000	2013 $'000
Consulting and administration fees received from JDE	33	33
Job revenue received from JDE	41	13
Lines charges	2	1
Purchases made by TLC from JDE	12	100

Remuneration of key management personnel

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Short-term employee benefits	1,271	2,133	989	1,990
Post-employment benefits	29	14	25	12
Directors' Fees & Expenses	200	248	200	248
	1,500	2,395	1,214	2,250

The remuneration of individual directors and key management personnel is determined by the Board and the Remuneration Committee having regard to the performance of the individuals and market trends. The total remuneration of directors is determined by the shareholders.

Waitomo Energy Services Customer Trust

Interest and dividend payments are made to the Group's controlling entity, Waitomo Energy Services Customer Trust.

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Interest paid on subordinated debentures	74	74	74	74
Dividends paid	4,455	4,439	4,455	4,439

King Country Electric Power Trust

The following transactions occurred during the year.

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Dividends paid	495	493	495	493

In January 2014, King Country Electric Power Trust sold its shares in the Company (refer Note 27).

WESCTCO Limited

The following transactions occurred during the year.

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Loan to acquire shares in The Lines Company Ltd	13,500	-	13,500	-

In January 2014, WESCTCO Limited acquired shares in the Company (refer Note 27).

34. Financial instruments

Interest rate swaps

	Note	Group 2014 $'000	Group 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Mark to market fair value of interest rate swaps balance date (liability) were :	24	(266)	(1,724)	(266)	(1,724)

The following interest swap contracts were in place at balance date:

	Notional Amount	Reset	Fixed Rate	Expiry Date
Receive floating - Pay fixed interest swap	$5,000,000	Quarterly	5.17%	1-May-14
Receive floating - Pay fixed interest swap	$4,000,000	Quarterly	4.74%	29-Jan-18
Receive floating - Pay fixed interest swap	$2,500,000	Quarterly	4.41%	8-Aug-17
Receive floating - Pay fixed interest swap	$2,500,000	Quarterly	4.59%	8-Aug-18
Receive floating - Pay fixed interest swap	$5,000,000	Quarterly	4.49%	29-Nov-16
Receive floating - Pay fixed interest swap	$5,000,000	Quarterly	4.16%	2-Oct-15
Receive floating - Pay fixed interest swap	$5,000,000	Quarterly	4.89%	2-May-16
Receive floating - Pay fixed interest swap	$5,000,000	Quarterly	4.67%	2-May-15
Receive floating - Pay fixed interest swap	$2,500,000	Quarterly	5.14%	1-Nov-18
Receive floating - Pay fixed interest swap	$5,000,000	Quarterly	4.98%	1-Jan-19
Receive floating - Pay fixed interest swap	$5,000,000	Quarterly	4.96%	1-May-19

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts.

Under interest rate swap contracts the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market rates of equivalent instruments at balance date and are disclosed above.

All of the interest rate swaps are designated and are effective as cash flow hedges and changes in their fair value are recognised as other comprehensive income.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2013 and is based on risk management strategies and treasury management policies set and monitored by the Board.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 23 and 24, and equity attributable to equity holders of the parent, comprising issued capital, retained earnings and reserves as disclosed in notes 27, 28, 29 and the Statement of Changes in Equity repectively.

During 2014, the Group strategy, which was unchanged from 2013, was to maintain an equity to assets ratio of not less than 40%. The ratios at March 2014 and 2013 were as follows

	Group	
	2014	**2013**
	$'000	$'000
Average equity (including subordinated debentures)	143,423	140,885
Total assets at year end	249,776	234,358
Equity to Assets Ratio	57.4%	60.1%

Financial risk management objectives
The Group manages financial risks relating to its operations by complying with the policies set by the Board. New risks are referred to the Board for consideration as they become known. Risks include market risk (including foreign currency exchange risk, fair value interest rate risk, cash flow and interest rate risk), credit risk and liquidity risk.

The Group's policy on the use of financial derivatives and non-derivative financial instruments is disclosed in note 2. The Board receives regular reports on treasury strategy and compliance with the treasury policy. These reports are from management and external treasury advisors.

a) Market risk
The Group's activities expose it primarily to the financial risks of changes in interest rates, and to a lesser extent also changes in foreign currency rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency exchange risk, including:

- forward foreign exchange contracts to hedge the foreign currency exchange rate risk arising on the purchase of equipment and steel from overseas;
- interest rate swaps, caps and collars to mitigate the risk of rising interest rates.

There has been no change during the year to the manner in which the Group manages and measures market risk.

Foreign currency
It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments.

The Group had no forward foreign exchange contracts as at 31 March 2014. (2013: $ Nil)

Interest rate risk management
The Group is exposed to interest rate risk as the Company borrows funds at floating interest rates to fund the activities of the Group. The risk is managed through the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and the treasury policy.

Exposure to interest rate risk has increased as a result of the a higher level of debt. The Company's and Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Further information on derivative financial instruments, including interest rate swaps, and their accounting treatment is provided in note 24.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease is used to assess interest rate risk and this represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, both the Group's and Company's:

- Profit for the year ended 31 March 2014 would decrease/increase by $80,500 (2013: decrease/ increase by $45,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings; and
- Other equity reserves would increase by $702,000 if rates were higher and decrease by $735,000 if rates were lower (2013: increase by $663,000 if rates were higher and decrease by $690,000 if rates were lower) at balance date.

The Group's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate debt instruments.

b) Credit risk management

The Group's principal financial assets are cash and cash equivalents, trade and other receivables and related party loans, which represent the Group's maximum exposure to credit risk in relation to financial assets. Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the Balance Sheet are net of allowances for doubtful receivables, estimated by management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2(m) to the consolidated financial statements.

c) Electricity price risk

The Group is exposed to electricity price risk on its electricity generation activities. To manage its price risks the Group utilises electricity price derivatives, where the Group sells and buys electricity forward at a fixed price. Electricity price derivatives are in place to economically hedge changes in the price of electricity over the period to 31 December 2014. Because there is no minimum volume specified in the contracts, the derivatives have no fair value.

Notes to the financial statements
for the year ended 31 March 2014

Categories of financial instruments

	Note	Group: Loans and receivables $'000	Group: Financial liabilities at amortised cost $'000	Group: Derivatives designated as cash flow hedges $'000	Group: Total $'000
Cash and bank balances	13	3,521	-	-	3,521
Trade and other receivables	14	1,658	-	-	1,658
Other financial assets	17	13,500	-	-	13,500
Total financial assets		18,679	-	-	18,679
Total non-financial assets					231,097
Total assets at 31 March 2014					249,776
Trade and other payables	22	-	4,490	-	4,490
Borrowings	23	-	56,200	-	56,200
Other financial liabilities	24	-	-	266	266
Total financial liabilities		-	60,690	266	60,956
Total non-financial liabilities					46,254
Total liabilities at 31 March 2014					107,211
Cash and bank balances	13	1,501	-	-	1,501
Trade and other receivables	14	2,721	-	-	2,721
Other financial assets		-	-	-	-
Total financial assets		4,222	-	-	4,222
Total non-financial assets					230,042
Total assets at 31 March 2013					234,264
Trade and other payables	22	-	3,453	-	3,453
Borrowings	23	-	42,450	-	42,450
Other financial liabilities	24	-	-	1,724	1,724
Total financial liabilities		-	45,903	1,724	47,627
Total non-financial liabilities					48,450
Total liabilities at 31 March 2013					96,077

Notes to the financial statements
for the year ended 31 March 2014

Categories of financial instruments

	Note	Parent			
		Loans and receivables $'000	Financial liabilities at amortised cost $'000	Derivatives designated as cash flow hedges $'000	Total $'000
Cash and bank balances	13	2,950	-	-	2,950
Trade and other receivables	14	452	-	-	452
Other financial assets	17	18,279	-	-	18,279
Total financial assets		21,681	-	-	21,681
Total non-financial assets					224,382
Total assets at 31 March 2014					246,063
Trade and other payables	22	-	3,433	-	3,433
Borrowings	23	-	54,950	-	54,950
Other financial liabilities	24	-	5,095	266	5,361
Total financial liabilities		-	63,478	266	63,744
Total non-financial liabilities					44,640
Total liabilities at 31 March 2014					108,384
Cash and bank balances	13	879	-	-	879
Trade and other receivables	14	1,260	-	-	1,260
Other financial assets	17	8,004	-	-	8,004
Total financial assets		10,143	-	-	10,143
Total non-financial assets					205,102
Total assets at 31 March 2013					234,419
Trade and other payables	22	-	2,708	-	2,708
Borrowings	23	-	42,450	-	42,450
Other financial liabilities	24	-	4,204	1,724	5,928
Total financial liabilities		-	49,362	1,724	51,086
Total non-financial liabilities					46,752
Total liabilities at 31 March 2013					97,838

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve derived from quoted interest rates for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to total recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

		Level 1	Level 2	Level 3	Total
		$'000	$'000	$'000	$'000
Group & Parent 2014	**Year**				
Investments carried at cost	2014	-	-	13,594	13,594
Derivative financial liabilities	2014	-	(266)	-	(266)
Group & Parent 2013	**Year**				
Investments carried at cost	2013	-	-	94	100
Derivative financial liabilities	2013	-	(1,724)	-	(1,724)

There were no transfers between Level 1 and 2 during the year.

d) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 23 is information on undrawn bank loan facilities that the Group has at its disposal to further reduce liquidity risk.

Liquidity and interest risk tables

The following tables detail the Company's and Group's remaining contractual maturities for their non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Notes to the financial statements
for the year ended 31 March 2014

Financial liability maturity analysis

	Group				
	Less than 1 month $'000	1 month to 1 year $'000	1 to 5 years $'000	5+ years $'000	Total $'000
Non-interest bearing	4,193	2,107	(28)	-	6,272
Variable interest rate instruments	214	2,693	63,330	267	66,504
Fixed interest rate instruments	15	160	697	3,174	4,046
At 31 March 2014	4,422	4,960	63,999	3,441	76,822
Non-interest bearing	3,480	1,932	18	-	5,430
Variable interest rate instruments	172	1,894	49,214	-	51,280
Fixed interest rate instruments	15	160	697	3,248	4,119
At 31 March 2013	3,667	3,985	49,929	3,248	60,829

	Parent				
	Less than 1 month $'000	1 month to 1 year $'000	1 to 5 years $'000	5+ years $'000	Total $'000
Non-interest bearing	3,205	1,607	(28)	-	4,784
Variable interest rate instruments	214	2,693	63,330	267	66,504
Fixed interest rate instruments	15	160	697	3,174	4,046
At 31 March 2014	3,434	4,460	63,999	3,441	75,334
Non-interest bearing	2,805	1,651	18	-	4,474
Variable interest rate instruments	172	1,894	49,214	-	51,280
Fixed interest rate instruments	15	160	697	3,248	4,119
At 31 March 2013	2,992	3,704	49,929	3,248	59,873

Glossary of Terms

EBITDA	Earnings before interest, tax, depreciation and amortisation.
EBIT	Earnings before interest and tax.
Net assets	Total assets less current liabilities.
Shareholder funds	Shareholder equity plus subordinated debentures.
Debt to asset ratio	(Total liabilities less deferred tax liabilities) divided by (total assets less deferred tax assets)
Capital ratio	(Shareholder funds excluding minority interests) divided by (total assets less deferred tax assets)
Return on average equity	(Profit for the year) divided by ((opening shareholder funds plus closing shareholder funds) divided by 2)
Return on average net assets	(EBIT multiplied by the appliable tax rate) divided by ((opening net assets plus closing net assets) divided by 2)

Corporate Directory

The Lines Company Limited

Company number	578653
Directors	A G Ball A M Don A P Muldoon J McF Rae P J Till S V Young
Registered Office	The Lines Company Limited King Street Te Kuiti New Zealand
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Solicitors	Russell McVeagh Forgeson Law
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