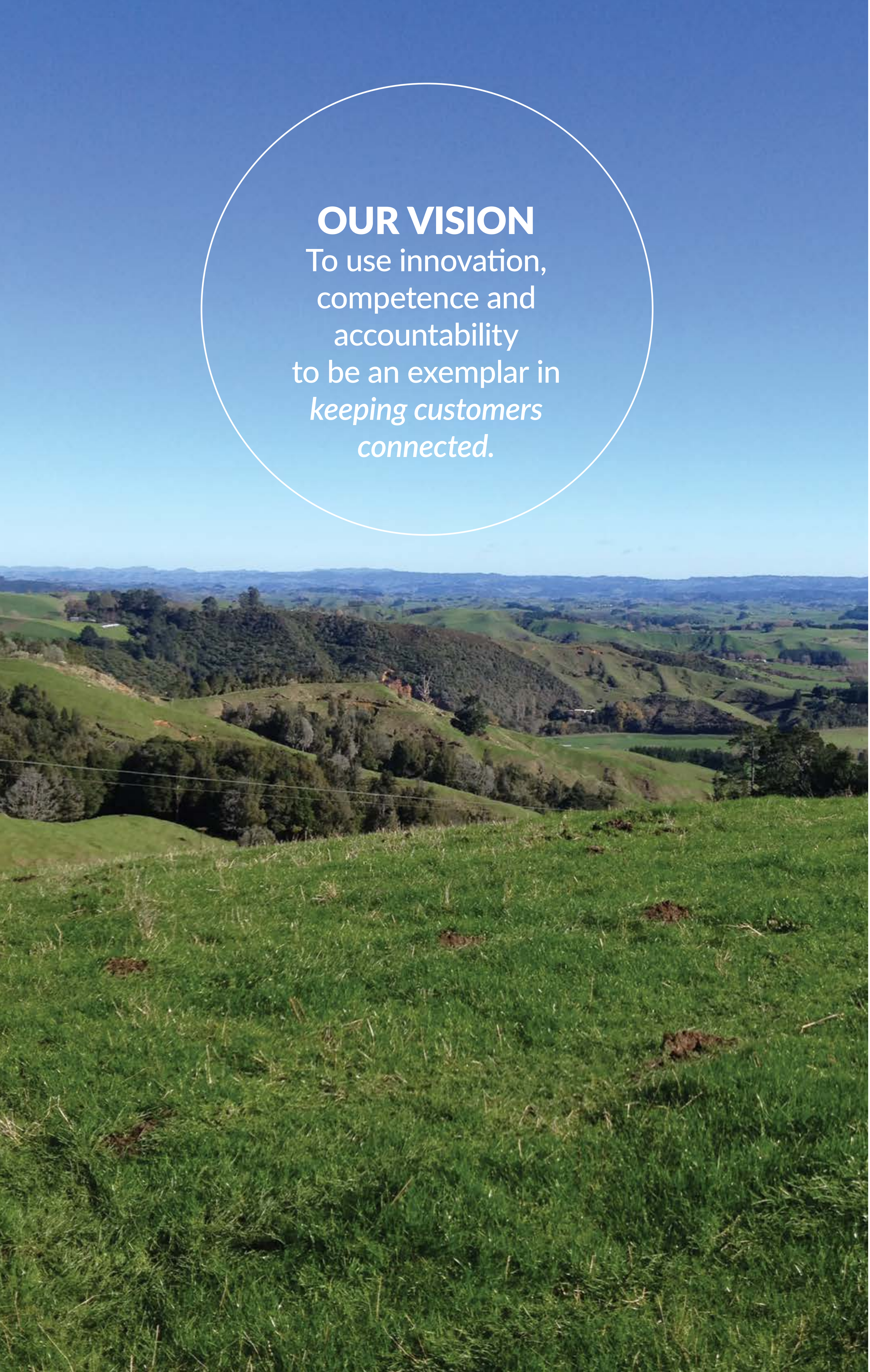
ANNUAL REPORT
2016/2017
The Lines Company Limited
and Subsidiaries



OUR VISION

To use innovation,
competence and
accountability
to be an exemplar in
*keeping customers
connected.*

CONTENTS

CHAIRMAN AND CEO'S ANNUAL REVIEW

We are proud to report on some of the major achievements during the 2016/2017 financial year, centred around the safe and reliable delivery of electricity to our customers within the King Country area.

PERFORMANCE IN A CHALLENGING ENVIRONMENT

Our focus on safety, both of our staff and the public, continues with no notifiable incidents during the year – in addition, we have retained our tertiary ACC accreditation, the highest level available, which recognises the health and safety practices that we have in place. The Lines Company recognises that the pursuit of a 'Zero Harm' workplace is a journey – therefore we will continually improve our safety culture and performance well into the future.

The operational performance of TLC was positive for the year, with good delivery against key targets. We generated a NPAT of $8.6 m for the financial year without a material increase in revenue, $5.3 m of which was returned to our shareholder, the Waitomo Energy Services Customer Trust.

The reliability of our network was impacted by a number of severe weather events between May and July 2016 along with a change in our work practices where maintenance is no longer conducted while the assets are 'live' – these two factors resulted in TLC missing one of our two network reliability targets. TLC incurred 252 SAIDI minutes (the duration of outages) compared to a target of 234 minutes. Our SAIFI (the frequency of outages) however was 3.38 interruptions per customer compared to a target of 3.47.

Toward the end of 2016, the Board called for a Service Based Pricing review – a project to develop a pricing methodology that is simple, transparent, equitable and easily understood by all.

Our positive operational performance is in no small part due to the dedication and commitment of the TLC team. We would like to specifically acknowledge those staff members who worked tirelessly to safely restore power after a series of adverse weather events earlier in the year.

Our contracting business focused on delivering an increased capital works programme throughout the year, in particularl the delivery of our line renewal programme, where $6.4 m of asset renewal and replacement work was completed during the year along with $3.5 m of capital development projects.

Our wholly owned subsidiary, Financial Corporation Limited, continued to roll out 'smart' meters on our network with 100 % of all customers visited and 19,900 meters, or 84 % of all ICPs, installed by the end of April 2017. The 'smart' meters will enable TLC to provide timely information to customers about their energy usage, allow for the remote reading of meters, improve the way in which we manage our network and enable new pricing structures to be implemented.

During the period, FCL secured a 36 % shareholding in Embrium Holdings Ltd, an innovative technology firm that is providing data acquisition and management solutions to the metering industry. Through the new relationship with Embrium, FCL will be providing new services on both TLC and third party networks in the near future.

TLC's three hydro power stations delivered a high output during the financial year – a result of high rainfall and plant reliability – and consequently generation was 27 % higher than target.

STRENGTHENING OUR CUSTOMER ORIENTATION

Toward the end of 2016, the Board called for a Service Based Pricing review – a project to develop a pricing methodology that is simple, transparent, equitable and easily understood by all.

By the end of the financial year we had completed the first phase of the review which involved extensive consultation with community groups and leaders, key businesses, TLC staff, local and central government entities. Two reports were generated in parallel, one by Roger Sutton and a second by PwC, which recommended changes to TLC's current pricing structure. The Service Based Pricing review recommended that TLC adopt a new methodology based around the 'time-of-use' approach.

LEADERSHIP CHANGES

The financial year saw the appointment of both a new Chairman and Chief Executive. Malcolm Don retired as Chairman in August 2016 after having been on the TLC

Linesmen out in the field on our network.

Board for 19 years, the last 11 as the Chair. Brent Norriss resigned as Chief Executive after almost 15 years with TLC – firstly in the role of Engineering Manager for over 10 years, before being appointed as CEO in April 2013. Sincere thanks to both Malcolm and Brent are extended by the organisation.

THE YEAR AHEAD

As we move into the new financial year we will build on the results of 2017. We will focus on further improving the reliability and safety of our network through an expanded capital renewal program and investment in core business processes and systems. Positive engagement with customers and the community is key and will be underpinned through the delivery of the Service Based Pricing project. We will continue to grow both the value in TLC, and the way in which TLC adds value to the King Country area, through supporting regional business growth and that of our key subsidiaries. Our focus remains on creating an intergenerational asset that will continue to deliver value to both our shareholder and beneficiaries, and the communities that we serve.

Mark Darrow
Chairman Board of Directors

Sean Horgan
Chief Executive

CORPORATE GOVERNANCE

The Lines Company's board and management are committed to ensuring that the company strives for best practice governance principles.

This section provides an overview of TLC's main corporate governance policies, practices and processes which have been adopted by and are followed by TLC's board.

The Lines Company Limited (TLC) came into existence on 26 March 1993 and is wholly owned by the Waitomo Energy Services Customer Trust. TLC is principally engaged in the construction, maintenance and operation of an electricity distribution network.

The activities of the company are regulated under the terms of the Electricity Act 1992, the Electricity Industry Reform Act 1998 and the Commerce Act 1986. Compliance with the Commerce Act 1986 and the Electricity Industry Reform Act 1998 is administered by the Commerce Commission.

BOARD OF DIRECTORS

The directors and chair are appointed by the shareholder. All directors are non-executive and are independent. The board is responsible for setting and monitoring the strategic plans and goals of the company. It delegates the day to day management of the company to the chief executive. 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 board's strategic objectives, goals and performance targets, as agreed with the shareholder. The board operates in accordance with the Constitution of TLC, adopted on 1 April 1999. The Board receives monthly reports from management and meets at least eight times during each financial year. The Constitution specifies that there shall be no less than four and no more than seven directors at any one time, and that at every annual general meeting one third of the directors shall retire from office and be eligible for reappointment.

The board has three operating committees. The Remuneration Committee makes recommendations to the board on the remuneration packages including base salary, fringe benefits, incentive schemes, superannuation and entitlements of the CEO and senior executive officers. The Audit Committee reviews the effectiveness and efficiency of internal controls and information systems, oversees TLC's compliance with legal and regulatory requirements, financial statements, treasury policy and preparation of the annual report, and liaises with the Office of the Auditor General on the appointment of external auditors. The Ethics Committee oversees any ethical concerns including possible breaches in legal obligation of Company policy.

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 systems of internal controls. The board monitors the operational and financial aspects of TLC's activities and considers the recommendations and advice of external auditors and other external advisors on the operational and financial risks that face TLC.

HEALTH AND SAFETY

A key focus is to operate in a manner where no harm occurs to our staff, contractors or public while complying with the Health and Safety at Work Act 2015. The Board exercise due diligence through the regular review of health and safety reports and maintain an oversight of key health and safety policies, procedures and processes. Directors schedule workplace visits and support management in promoting a positive health and safety culture.

TREASURY MANAGEMENT

Exposure to treasury related financial risks is managed in accordance with TLC'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 this policy the Board is responsible for approving all treasury and interest rate strategies and any subsequent changes to these strategies.

INDEMNIFICATION AND INSURANCE OF DIRECTORS

TLC has insured all its directors, both present and past, 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.

Changing the pole on an 11kV line.

INFORMATION USED BY DIRECTORS

Information relating to items to be discussed by the directors at a meeting is provided to directors prior to that meeting. Directors must not use information received in their capacity as a director, which would not otherwise be available to them, without the prior consent of the Board.

INTERESTS REGISTER

Directors must identify any potential conflicts of interest they may have in dealing with TLC's affairs. TLC maintains an interest register to record particulars of transactions or matters involving directors.

FIVE YEAR TREND STATEMENT

FINANCIAL PERFORMANCE

	2017 $'000	2016 $'000	2015 $'000	2014 $'000	2013 $'000
Revenue	50,298	50,148	49,139	48,555	45,373
EBITDA	25,877	24,811	24,636	23,434	22,249
EBIT	14,900	13,383	13,466	12,646	11,613
Profit before tax	12,093	10,725	10,543	9,568	8,244
Profit after tax	8,619	7,427	7,342	7,315	5,840
Operating cash flow before tax	24,211	22,342	21,302	22,633	19,356
Dividends paid	5,300	5,000	5,000	4,950	4,932
Total assets	257,884	250,789	245,253	249,776	234,358
Shareholder funds	144,336	140,299	138,895	145,565	141,281
Shareholder equity	141,336	137,299	135,895	142,565	138,281
Debt to assets ratio	26.0 %	26.0 %	25.1 %	25.3 %	22.2 %
Capital ratio	54.8 %	54.7 %	55.4 %	57.1 %	59.3 %
Return on average equity	6.2 %	5.4 %	5.3 %	5.2 %	4.2 %
Earnings per share net of tax (cents)	73	63	62	56	44

OPERATING PERFORMANCE

	2017	2016	2015	2014
Outage minutes per customer				
Planned	65	33	38	42
Unplanned	187	159	148	181
Total	**252**	**192**	**185**	**223**
Outage per customer				
Planned	0.43	0.20	0.21	0.23
Unplanned	2.96	3.19	2.86	2.97
Total	**3.39**	**3.39**	**3.07**	**3.20**

During 2016 the regulatory rules defining how this is measured were redefined. The prior years have been recalculated on the same basis to provide a consistent comparator.

2016/17 FINANCIAL REPORT

DIRECTORY OF NOTES TO THE FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report

To the Shareholders of The Lines Company Limited and Group's Financial Statements and Performance Information for the year ended 31 March 2017

The Auditor-General is the auditor of The Lines Company Limited Group (the Group). The Auditor-General has appointed me, Matthew White, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements and the performance information of the Group on his behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 13 to 40 and on page 44, that comprise the balance sheet as at 31 March 2017, the statement of comprehensive income, statement of changes in equity and cash flow statement 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 Group on page 12.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 31 March 2017; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards.

  - the statement of service performance of the Group presents fairly, in all material respects, the Group's achievements measured against the performance targets adopted for the year ended 31 March 2017.

Our audit was completed on 23 June 2017. 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 relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent Auditors' Report

The Lines Company Limited and Group's Financial Statements and Performance Information for the year ended 31 March 2017

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand and New Zealand Equivalents to International Financial Reporting Standards.

The Board of Directors is also responsible on behalf of the Group for preparing performance information that is fairly presented.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Energy Companies Act 1992.

Responsibilities of the Auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of shareholders taken on the basis of these financial statements and performance information.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

Independent Auditors' Report

The Lines Company Limited and Group's Financial Statements and Performance Information for the year ended 31 March 2017

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements and performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Independent Auditors' Report

The Lines Company Limited and Group's Financial Statements and Performance Information for the year ended 31 March 2017

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 6, on pages 41 to 43 and on 45 to 46 but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have carried out engagements in the areas of Default Price-Quality Path Compliance audit, Information Disclosure audit and other 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 Group or any of its subsidiaries.

Matthew White
PricewaterhouseCoopers
On behalf of the Auditor-General
Hamilton, New Zealand

STATEMENT OF SERVICE PERFORMANCE

Performance against targets set in the Statement of Corporate Intent for the year ended 31 March 2017 was as follows (all dollar amounts are in $'000):

	Actual	Target
1. Return on average assets	4.2 %	4.7 %
2. Return on average equity		
Average equity (including subordinated debentures) $	142,317	143,013
Return on equity	6.2 %	6.5 %
The return on equity achieved has been has been negatively impacted by the investment in Embrium and minor asset impairments.		
3. Borrowings (excluding subordinated debentures) $	53,389	61,891
4. Equity (including subordinated debentures) to assets ratio	56 %	> 40 %
5. Dividends $	5,300	5,300
6. Reliability		
The performance target relating to SAIDI and SAIFI reliability was for TLC to not breach the reliability limits as set out in the Default Price Quality Path. The audited Default Price Quality Path Annual Compliance Statement for the year to 31 March 2017 shows TLC has exceeded the SAIDI compliance limit for the 2017 Assessment period.	SAIDI 252 SAIFI 3.38	234 3.47
SAIDI performance was affected by the extreme weather experienced during the period April to July 2016. In the same period, the SCADA system had intermittent communication failures. The poor weather also resulted in an increase in outages caused by trees, with a large proportion of these faults related to forestry plantations. To mitigate the effects of the bad weather field staff were redeployed from capital works to maintenance and specialist SCADA technicians were used to address the SCADA issues.		
SAIDI was also affected by increased planned outages, as forecast in AMP disclosures. This was exaggerated by an industry-wide avoidance of live line work.		
7. Regulated revenues		
To have a Notional Revenue to Allowable Notional Revenue ratio as set out in the Default Price Path Annual Compliance statement.	88.5 %	>80 %
8. Funding of Community Projects		
To expend $60,000 in supporting community projects.	72	60
9. Safety		
Notifiable injuries that resulted in serious harm.	0	0
Lost time hours / worked hours.	456 per 200,000	
Development of health and safety culture.	Achieved ACC Tertiary Status	
The focus of TLC is to continually improve our safety culture and performance. Part of this has been shown by the retention of ACC Tertiary Status, the highest level available. The lost time hours / worked hours measure is an industry standard measure that will enable us to compare our performance to others.		

The 33kV "A" line heads towards Taharoa.

FINANCIAL STATEMENTS 2017

The financial statements for the year ended 31 March 2017 are signed on behalf of the board of directors by:

22 June 2017

Mark Darrow — Date

Chairman

22 June 2017

John Rae — Date

Director

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 $'000	2016 $'000
Revenue	1	50,298	50,148
Total revenue		50,298	50,148
Operating expenses	2	(24,218)	(24,477)
Depreciation and amortisation	8 and 9	(10,669)	(11,428)
Interest costs (net)	3	(2,807)	(2,658)
Impairment of assets		(308)	-
Impairment of goodwill	9.1	-	(860)
Total expenses		(38,002)	(39,423)
Share of net loss of associate accounted for using the equity method	11.2	(203)	-
Profit before tax		12,093	10,725
Income tax expense	4	(3,474)	(3,298)
Profit for the year		8,619	7,427
Profit for the year is attributable to:			
Equity holders of the parent		8,647	7,444
Non-controlling interest		(28)	(17)
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge reserve	12.2	997	(1,421)
Income tax relating to cash flow hedges		(279)	398
Other comprehensive income for the year, net of tax		718	(1,023)
Total comprehensive income for the year		9,337	6,404
Total comprehensive income is attributable to:			
Equity holders of the parent		9,365	6,421
Non-controlling interest		(28)	(17)

BALANCE SHEET

AS AT 31 MARCH 2017

	Note	2017 $'000	2016 $'000
Current assets			
Cash and cash equivalents		667	447
Trade and other receivables	6	2,961	3,663
Inventories	7	1,767	1,688
		5,395	5,798
Non-current assets			
Property, plant and equipment	8	246,182	241,744
Goodwill	9.1	-	-
Intangible assets	9	1,941	1,714
Investments in equity accounted Associate	11.2	3,079	-
Deferred tax asset	14	1,187	1,435
Other financial assets		100	98
		252,489	244,991
Total assets		257,884	250,789
Current liabilities			
Trade and other payables	16	5,875	5,548
Convertible notes issued by subsidiary	15	250	250
Other financial liabilities	19.1	2,634	3,631
Current tax liability	13	675	1,320
Provision for staff entitlements	17	1,474	1,311
		10,908	12,060
Non-current liabilities			
Bank borrowings	15	52,239	49,100
Convertible notes issued by subsidiary	15	900	950
Subordinated debentures	15	3,000	3,000
Deferred tax liability	14	49,501	48,380
		105,640	101,430
Total liabilities		116,548	113,490
Net assets		141,336	137,299
Equity			
Share capital	12.1	8,013	8,013
Retained earnings		53,253	49,906
Cash flow hedge reserves	12.2	(1,896)	(2,614)
Revaluation reserves	12.3	81,117	81,117
Equity attributable to parent company		140,487	136,422
Non-controlling interest		849	877
Total equity		141,336	137,299

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2017

	Note	Share Capital $'000	Retained Earnings $'000	Cashflow Hedge Reserves $'000	Revaluation Reserves $'000	Total Attributable to Owners of Parent $'000	Non-controlling Interest $'000	Total Equity $'000
Balance as at 31 March 2015		8,013	47,462	(1,591)	81,117	135,001	894	135,895
Profit for the year		-	7,444	-	-	7,444	(17)	7,427
Other comprehensive income								
Interest rate swaps		-	-	(1,023)	-	(1,023)	-	(1,023)
Total other comprehensive income		-	7,444	(1,023)	-	6,421	(17)	6,404
Transactions with owners								
Dividends	10	-	(5,000)	-	-	(5,000)	-	(5,000)
Total transactions with owners		-	2,444	(1,023)	-	1,421	(17)	1,404
Balance as at 31 March 2016		8,013	49,906	(2,614)	81,117	136,422	877	137,299
Profit for the year		-	8,647	-	-	8,647	(28)	8,619
Other comprehensive income								
Interest rate swaps		-	-	718	-	718	-	718
Total other comprehensive income		-	-	718	-	718	-	718
Transactions with owners								
Dividends	10	-	(5,300)	-	-	(5,300)	-	(5,300)
Total transactions with owners		-	(5,300)	-	-	(5,300)	-	(5,300)
Balance as at 31 March 2017		8,013	53,253	(1,896)	81,117	140,487	849	141,336
Attributable to equity holders of the company		8,013	53,253	(1,896)	81,117	140,487		140,487

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 $'000	2016 $'000
Operating activities			
Cash generated from operations		27,162	25,209
Interest received	3	-	6
Interest paid		(2,951)	(2,873)
Income taxes paid	13	(3,023)	(1,316)
Net cash from operating activities		21,188	21,026
Investing activities			
Purchases of property, plant and equipment		(14,729)	(17,124)
Purchases of intangible assets		(861)	(479)
Proceeds on disposal of property, plant and equipment		115	87
Purchase of equity accounted associate		(3,282)	-
Net cash used in investing activities		(18,757)	(17,516)
Financing activities			
Dividends paid	10	(5,300)	(5,000)
Convertible notes in subsidiary sold to non-controlling interest		(50)	(50)
Bank borrowings advanced		3,139	1,150
Net cash used in financing activities		(2,211)	(3,900)
Net (decrease)/increase in cash and cash equivalents		220	(390)
Cash and cash equivalents at the beginning of the year		447	837
Cash and cash equivalents at end of the year		667	447

CASH FLOW STATEMENT RECONCILIATION

FOR THE YEAR ENDED 31 MARCH 2017

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

	Note	2017 $'000	2016 $'000
Profit before tax		12,093	10,725
Adjustments for non-cash items:			
Depreciation and amortisation	8 and 9	10,669	11,428
Gain on sale of assets			-
Impairment	9.1	308	860
Asset write-off		(5)	156
Interest capitalised	3	(170)	(215)
Movement in provision for doubtful debt	6	(80)	147
Share of surpluses/(losses) retained by equity accounted associate		203	-
		23,018	23,101
Changes in net assets and liabilities			
Trade and other receivables		782	(441)
Construction contracts		-	-
Inventories		(79)	(138)
Trade and other payables		327	170
Current provision for staff entitlements		163	(350)
		1,193	(759)
Net cash from operating activities before tax		24,211	22,342
Income tax paid		(3,023)	(1,316)
Net cash from operating activities		21,188	21,026

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION

The Group consists of The Lines Company (TLC) and its subsidiaries (together "the Group"). The Group's principal activities are the conveyance of electricity through its distribution network, supply of metering and relay equipment, electrical contracting and electricity generation.

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.

In accordance with the requirements of the Companies Act 1993, where a reporting entity prepares consolidated financial statements, parent company disclosures are not required.

The financial statements were authorised for issue by the directors on 22 June 2017.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The consolidated financial statements of the group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP).

The Group is a for-profit entity for the purposes of complying with NZ GAAP. The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

They are prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments measured at fair value.

The presentation currency is the New Zealand Dollar ($). All financial information has been rounded to the nearest thousand, unless otherwise stated.

SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The board and management are required to make judgements, estimates and apply assumptions that affect the amounts reported in the financial statements. They are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. 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 and in the future periods.

Judgements and estimates which are material to the financial report are found in the following notes:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

1. REVENUE

	2017 $'000	2016 $'000
Continuing operations		
Network	40,811	39,515
Meters and relays	4,009	3,731
Contracting	3,329	5,027
Generation	2,147	1,849
Corporate services	3	26
Revenue	50,298	50,148

Policies

Revenue is measured at the fair value of the consideration received or receivable.

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

External contracting revenue is recognised when the work is completed except for significant projects where the percentage of completion method is used on a case-by-case basis.

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

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

Key judgements

Management must apply judgement where:

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 adjustments are not material when compared with total network revenue. External contracting projects are considered significant when the project value is greater than $500,000.

2. OPERATING EXPENSES

	2017 $,000	2016 $,000
Transmission charges	7,423	7,013
Total staff cost recognised as expense	10,277	10,083
Cost of inventories recognised as expense	1,270	1,258
Professional fees	1,784	1,594
Property expenses	697	650
Directors' fees and expenses	270	227
Loss/(gain) on disposal of PPE and software intangibles	(88)	(74)
Other indirect expenses	2,584	3,726
Total	24,218	24,477

Fees paid to auditors		
Financial statement audit fees	159	172
Regulatory audit fees	72	52
OAG fees	16	16
Regulatory advice	80	76
Cyber risk assessment	-	26
Total	327	342

3. INTEREST COSTS (NET)

	2017 $,000	2016 $,000
Interest on bank borrowings	2,709	2,625
Capitalised interest	(170)	(215)
Interest on convertible notes issued by subsidiary	79	83
Interest on subordinated debentures	174	176
Other interest expense, principally IRD Use of Money	15	(5)
Interest income	-	(6)
Total	2,807	2,658

The weighted average interest rate on bank borrowings, including interest rate swap derivatives, is 4.89 % (2016: 5.37 %).

Refer to note 15 for information on interest rates charged in respect of convertible notes issued by subsidiary and subordinated debentures.

Policies

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.

4. INCOME TAX EXPENSE

	2017 $'000	2016 $'000
Reconciliation of income tax expense		
Profit before income tax	12,093	10,725
Expenses that are non-deductible	292	394
Impairment of assets	308	-
Impairment of goodwill	-	860
Taxable profit	12,693	11,979
Income tax expense at 28 %	3,554	3,354
Effect of prior period tax adjustment	(80)	(56)
Income tax expense	3,474	3,298
Effective tax rate (being total tax expense divided by profit before tax)	29 %	31 %
Current tax expense	2,384	2,826
Deferred tax expense	1,090	472
Income tax expense	3,474	3,298
Attributable to:		
Continuing activities	3,474	3,298

Amounts recognised directly in other comprehensive income

Aggregate current and deferred tax arising in the reporting period and not recognised in the net profit and 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	(279)	398
Total tax expense for the year recognised in other comprehensive income	(279)	398

Policies

Income tax expense comprises current and deferred tax and is calculated using tax rates enacted or substantively enacted at balance sheet date.

Current and deferred tax is recognised in profit and loss unless the tax relates to items in other comprehensive income, in which case the tax is recognised as an adjustment in other comprehensive income against the item to which it relates.

Imputation credits

The value of imputation credits available for subsequent reporting periods as at 31 March 2017 is $4.27 m (2016 – $4.58 m).

5. OPERATIONAL PROFIT

	2017 $'000	2016 $'000
Earnings before interest, tax, depreciation and amortisation (EBITDA)		
Network	25,110	24,553
Meters and relays	2,836	2,876
Contracting	1,513	523
Generation	1,517	1,164
Corporate services	(5,099)	(4,305)
	25,877	24,811
Depreciation and amortisation	10,669	11,428
Impairment	308	-
Earnings before interest and tax (EBIT)	14,900	13,383

6. TRADE AND OTHER RECEIVABLES

	2017 $'000	2016 $'000
Trade receivables		
Trade receivables	3,129	3,386
Less provision for doubtful debts	(627)	(707)
Balance at 31 March	**2,502**	**2,679**
Other receivables		
Sundry debtors	96	369
Prepayments	363	615
Balance at 31 March	459	984
Receivables balance at 31 March	**2,961**	**3,663**
Ageing Of trade receivables		
Current to 90 days	2,344	2,383
Greater than 90 days	785	1,003
	3,129	3,386

Provision for doubtful debts

	2017 $'000	2016 $'000
Opening balance	707	560
Movement in provision	47	202
Receivables written off during the year as uncollectable	(127)	(55)
	627	707

Policies

No interest is charged on trade receivables for most customers.

Receivables are initially recognised at fair value and subsequently at amortised cost less impairment.

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.

Judgements

A provision for impairment is recognised when there is evidence that TLC will be unable to collect the debt. Factors involved in gathering this evidence include ageing of the debt, any disputes with debtors, ability to locate the debtor and debtor's perceived ability to pay.

7. INVENTORIES

	2017 $'000	2016 $'000
Contracting stores	886	943
Network stores	15	29
Transformers	387	320
Private lines	424	296
Meters and relays	54	99
Generation	1	1
	1,767	1,688

Policies

Inventories are stated at the lower of cost and net realisable value.

Cost includes the cost of direct materials and other charges, e.g. freight 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.

8. PROPERTY, PLANT AND EQUIPMENT

	Land $'000	Buildings $'000	Network Distribution System $'000	Meters and Relays $'000	Plant and Vehicles $'000	Generation $'000	Total $'000
Gross carrying amount							
At 31 March 2015	**1,362**	**1,771**	**214,952**	**20,852**	**8,597**	**21,635**	**269,169**
Additions	-	4	9,876	5,715	1,088	341	17,024
Disposals	-	-	(149)	-	(925)	(110)	(1,184)
Capital works in progress	(6)	137	339	-	-	(160)	310
At 31 March 2016	**1,356**	**1,912**	**225,018**	**26,567**	**8,760**	**21,706**	**285,319**
Additions	-	15	9,377	3,822	884	64	14,162
Disposals	-	-	-	-	(458)	(44)	(502)
Reclassification	-	-	-	-	-	(28)	(28)
Capital works in progress	-	329	567	(134)	-	3	765
At March 2017	**1,356**	**2,256**	**234,962**	**30,256**	**9,185**	**21,701**	**299,716**
Accumulated depreciation and impairment							
At 31 March 2015	**-**	**11**	**12,313**	**12,531**	**5,952**	**2,720**	**33,527**
Depreciation charge	-	36	7,336	2,084	962	581	10,999
Disposals	-	-	-	-	(845)	(107)	(951)
At 31 March 2016	**-**	**47**	**19,649**	**14,615**	**6,069**	**3,194**	**43,575**
Depreciation charge	-	36	7,502	1,110	974	585	10,207
Impairment	-	139	-	-	-	-	139
Disposals	-	-	-	-	(378)	(8)	(386)
At 31 March 2017	**-**	**222**	**27,151**	**15,725**	**6,666**	**3,771**	**53,534**

Carrying amount (net book value)

	Land $'000	Buildings $'000	Network distribution system $'000	Meters and relays $'000	Plant and vehicles $'000	Generation $'000	Total $'000
At 31 March 2015	1,362	1,760	202,639	8,321	2,645	18,915	235,642
At 31 March 2016	1,356	1,865	205,369	11,952	2,691	18,512	241,744
At 31 March 2017	1,356	2,034	207,811	14,530	2,519	17,930	246,182

Carrying amount (cost model)

	Land $'000	Buildings $'000	Network distribution system $'000	Meters and relays $'000	Plant and vehicles $'000	Generation $'000	Total $'000
At 31 March 2016	719	1,938	115,056	11,952	2,691	18,512	150,868
At 31 March 2017	719	1,917	116,931	14,530	2,519	17,930	154,546

The table above represents the carrying amounts that would have arisen had all PPE been carried under the cost model.

Land and buildings

The land and buildings of the Group, comprising the vacant land and depots at Waitete Road, Te Kuiti; Te Peka Street, Taumarunui; Old Station Road, Ohakune; the residential dwellings at Te Peka Street, Taumarunui; and head office at King Street East, Te Kuiti were revalued to $2.542 m at 31 March 2015.

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. Cost summation, market rate and income approaches were used for the valuation.

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

Policies

Property, plant and equipment assets other than land and buildings and network distribution system are initially measured at cost, and subsequently stated at cost less depreciation and any impairment losses.

Land and buildings and network distribution assets are held at their fair value. Fair values are determined based on valuations adjusted for subsequent purchase costs, disposals, depreciation and impairment.

Expenditure is capitalised if the asset is technically and commercially feasible, future economic benefits are probable and TLC intends to use or sell the asset.

Capitalisation occurs immediately once an asset is acquired or installed.

Depreciation begins once an asset is ready for use.

Depreciation of PPE, other than land, is calculated on a straight line basis and expensed over the life of the asset.

Estimated useful asset lives are as follows:

Buildings	40 – 100 years
Distribution system	5 – 60 years
Meters and relays	4 – 15 years
Plant and vehicles	1 – 10 years
Generation	10 – 75 years

Gain or loss on disposal is recognised in profit and loss.

Judgements

Network distribution system

The Group estimates the fair value of the distribution network through independent valuers using the discounted cash flow method.

Network distribution system assets, excluding meters and relays, were revalued to $201.747 million at 31 March 2015. 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 discount rates and CPI inflation rates. The carrying value of the network assets was reviewed at 31 March 2017 to confirm it is materially consistent with fair value, and no adjustments were required.

Assumptions	Valuation assumptions adopted	Low	High	Valuation impact $000's
Demand/load growth	0.4 %	- 0.4 %	0.4 %	(3,155) +3,219
Discount rate	6.5 %	- 0.5 %	0.5 %	+7,158 (7,158)
CPI inflation	2.0 %	- 0.5 %	0.5 %	(6,779) 7,003

The valuer has assumed the terminal value is equal to forecast Regulatory Asset Base (RAB) based on information disclosures, as it is believed that the terminal value would approximate the RAB value in a steady state regulatory environment. Previous valuations have used the Gordon growth method for calculating the terminal value.

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).

Generation property

The carrying value of the Group's generation property is assessed for impairment annually.

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.

During the year the Electricity Authority (EA) provided guidance that Avoided Cost of Transmission (ACOT) revenue was not expected to continue in the current form past April 2019. This has reduced the base impairment value of the generation property compared to the prior year.

The directors consider that no reasonably possible change in any of the assumptions in the table below would cause the carrying value of generation assets to exceed their recoverable amounts.

For the Mangapehi plant, the resource consent to use water is due to expire in June 2018. This consent is expected to be renewed.

Group generation assessment

Assumptions – Group	Low	High	Total impairment base value in use $20.29 m Negative value impact ($'000)	 Positive value impact ($'000)
Price path – Energy Link	Energy Link – 25th percentile	Energy Link – 75th percentile	3,420	3,420
Generation volume	-10.0 %	10.0 %	2,710	2,720
Operational costs	+20.0 %	-20.0 %	2,080	2,080
Discount rate – 7.19 %	7.69 %	6.69 %	1,790	2,050

9. INTANGIBLE ASSETS

	Software $'000	Land easements $'000	Resource consents and rights $'000	Total $'000
Cost				
Total cost at 31 March 2015	3,236	304	557	4,097
Additions	479	-	-	479
Total cost at 31 March 2016	3,715	304	557	4,576
Additions	555	113	175	842
Reclassification	18	-	-	18
Total cost at 31 March 2017	4,288	417	732	5,437
Accumulated amortisation and impairment				
Total at 31 March 2015	2,433	-	-	2,433
Amortisation charge for the year	429	-	-	429
Total at 31 March 2016	2,862	-	-	2,862
Amortisation charge for the year	461	-	169	630
Disposal	4	-	-	4
Total at 31 March 2017	3,327	-	169	3,496
Carrying amount (net book value)				
At March 2015	803	304	557	1,664
At March 2016	853	304	557	1,714
At March 2017	962	417	563	1,941

9.1 Goodwill

	2017 $'000	2016 $'000
Gross carrying amount	-	860
Impairment of goodwill	-	(860)
Net carrying value	-	-

Policies	The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. Goodwill is measured at cost less any accumulated impairment losses.
Impairment	Goodwill is tested annually for impairment against the recoverable amount of the cash-generating units to which it has been allocated.
Judgement	Prior year goodwill related to the purchase of John Deere Electrical Limited, where John Deere Electrical Limited as a whole was the cash generating unit for the goodwill impairment assessment. During the prior year John Deere Electrical Limited was amalgamated in to The Lines Company Limited and the goodwill was written off in March 2016.

9.2 Other intangible assets

Policies	Other intangible assets are initially measured at cost and subsequently stated at cost less any accumulated amortisation and accumulated impairment losses. Software is amortised on a straight line basis over its estimated useful life of 1 – 7 years. Land easements have an indefinite life due to the right existing in perpetuity and are therefore not amortised and are required to be assessed for impairment annually. Resource consents include the rights to construct small hydro schemes. These consents are classified as having an indefinite life due to the recognition of monitoring and renewal costs as operating expenses and are therefore tested for impairment annually.

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10. DIVIDENDS

	2017 $'000	2016 $'000
Dividends paid	5,300	5,000

Dividends of $5.3 m (2016: $5.0 m), being $0.4474 per share (2016: $0.42), were paid to shareholders during the year.

11. INVESTMENTS

11.1 Investment in subsidiaries

Name	Principal activity	Ownership interest 2017 %	Ownership interest 2016 %
Financial Corporation Limited	Meter and relay assets	100	100
Clearwater Hydro Limited	Developer and promoter of small hydro-electricity schemes throughout the North Island	-	100
Speedys Road Hydro Limited	Hydro generation scheme	75	75
Matawai Hydro Limited	Hydro generation scheme	-	100

Policies

Subsidiaries are 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.

Intra-group transactions are eliminated on consolidation.

Amalgamation

Clearwater Hydro Limited and Matawai Hydro Limited were amalgamated into The Lines Company as at 1 January 2017.

Balance dates

All subsidiaries have a balance date of 31 March.

Geography

All subsidiaries are incorporated in New Zealand.

11.2 Investment in associates

Name	Principal activity	Ownership interest 2017 %	Ownership interest 2016 %	Nature of relationship	Measurement method	Carrying amount 2017 $'000	Carrying amount 2016 $'000
Embrium Holdings Limited	Meter support technology	36	-	Associate	Equity method	3,079	-

In August 2016 Financial Corporation Limited purchased a 36 % shareholding in Embrium Holdings Limited.

The principal place of business of Embrium Holdings Limited is Wellington. Embrium Holdings Limited is a technology company and its principal activities are the development of products and services for advanced metering. It is a strategic investment for the Group and complements the services provided by Financial Corporation Limited.

The following table summarises the financial information of Embrium Holdings Limited as included in their own financial statements.

Summarised financial information of equity accounted associate

	2017 $'000	2016 $'000
Cash and cash equivalents	2,278	-
Total current assets	**312**	-
Total non current assets	**45**	-
Total assets	**2,635**	-
Total current liabilities	**162**	-
Total non current liabilities	-	-
Total liabilities	**162**	-
Net assets	**2,473**	-
Group's share of net assets	**890**	-
Goodwill acquired on acquisition of equity accounted associate	2,189	-
Carrying amount of equity accounted associate	**3,079**	-
Revenue	73	-
Depreciation and amortisation	3	-
Interest income	(50)	-
Net profit/(loss) before tax	**(629)**	-
Tax expense	65	-
Net profit/(loss) after tax	**(564)**	-
Group's share of net profit/(loss) after tax	**(203)**	-

Reconciliation to carrying amounts:

Opening net assets 16 August 2016	3,037
Profit/(loss) for the period	(564)
Other comprehensive income	-
Dividends paid	-
Closing net assets	2,473
Group's share	36 %
Group's share in closing net assets	890
Goodwill	2,189
Carrying amount	**3,079**

Policies

The equity method of accounting is used for investments over which the group has significant influence but not a controlling interest.

Under the equity method, the investment in the associate is carried at cost plus post-acquisition changes in the group's share of net assets of the associate less impairment losses. Goodwill relating to the associate is included in the carrying amount of the investment.

The group's share of the change to associate's post-acquisition profits or losses is recognised in the income statement. The post-acquisition movements are included after adjustments to align the accounting policies with those of the Group.

Judgements Through the shareholder agreement, Financial Corporation Limited is guaranteed two seats on the board of Embrium and participates in all significant financial and operating decisions. The Group has therefore determined that it has significant influence over this entity; however, with 36 % shareholding it does not have a controlling interest. The carrying value of the investment is reviewed annually for impairment. As the investment is meeting the planned achievements no impairment is judged to be required.

12. EQUITY AND RESERVES

12.1. Share capital

Dividends The Lines Company's final dividend for the year 31 March 2016 of 44.74 cents per share was paid on 31 October 2016.

Shares The total number of authorised and issued shares is 11,846,808 (2016 – 11,846,808).

The Company has one class of ordinary shares. All ordinary shares are classified as equity and have no par value.

12.2. Hedge reserves

Hedge reserves Hedge reserves comprise the cash flow hedge reserve.

The cash flow hedge reserve records the effective portion of changes in fair values of interest rate swaps that are designated cash flow hedges.

The gain or loss relating to the ineffective portion is recorded in the Statement of Comprehensive Income within net interest costs.

The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the Statement of Comprehensive Income within net interest costs.

During the year, $0.718 m (2016 – $1.023 m) was transferred from the cash flow hedge reserve to interest cost.

12.3. Revaluation reserve

	Network distribution system $'000	Land and buildings $'000	Total $'000
Total at 31 March 2015	80,704	413	81,117
Total at 31 March 2016	80,704	413	81,117
Total at 31 March 2017	**80,704**	**413**	**81,117**

13. CURRENT TAX LIABILITY/ (ASSET)

	2017 $'000	2016 $'000
Opening balance	1,320	(152)
Tax payments and tax credits received	(3,023)	(1,316)
Prior year adjustments	-	6
Prior year transfer from current to deferred tax	(6)	(44)
Current tax expense for the year	2,384	2,826
Closing balance	675	1,320

Policies

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

14. DEFERRED TAX LIABILITY

	Property, plant and equipment $'000	Cash flow hedges $'000	Provisions $'000	Total $'000
At 31 March 2015	47,910	(619)	(464)	46,827
Charged to income	426	-	46	472
Charged to other comprehensive income	-	(398)	-	(398)
Prior year transfer current to deferred tax	44	-	-	44
At 31 March 2016	48,380	(1,017)	(418)	46,945
Charged to income	1,121	-	(31)	1,090
Charged to other comprehensive income	-	279	-	279
At 31 March 2017	49,501	(738)	(449)	48,314

	2017 $'000	2016 $'000
Non-current – deferred tax asset	(1,187)	(1,435)
Non-current – deferred tax liability	49,501	48,380
Net deferred tax liability	48,314	46,945

Policies

Deferred tax is:

- Recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.
- Not recognised from the initial recognition of goodwill.
- Determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to be applied when the related deferred income tax asset is realised or the deferred income tax liability is settled.

15. BANK BORROWINGS, CONVERTIBLE NOTES AND SUBORDINATED DEBENTURES

	2017 $'000	2016 $'000
Bank borrowings	52,239	49,100
Convertible notes issued by subsidiary	1,150	1,200
Subordinated debentures:		
Waitomo Energy Services Customer Trust	1,000	1,000
North King Country Development Trust	2,000	2,000
	56,389	53,300
Disclosed in the financial statements as:		
Current borrowings	250	250
Non-current borrowings	56,139	53,050
	56,389	53,300

Policies

Borrowings are initially measured at fair value, less transaction costs and are subsequently measured at amortised cost, using the effective interest rate method.

Bank borrowings

The group has term lending facilities of $75.4 m for three years, expiring 31 May 2020. The working capital portion of this facility is $3 m and is subject to annual renewal and expires on 31 December 2017.

Security held by the bank for these loans is a Composite General Security Agreement over certain assets of the Group.

The directors estimate the fair value of the Group's bank loans approximate their book value, because they are floating rate loans.

Convertible notes

Speedys Road Hydro Limited (SRHL) had issued $3.75 m of convertible notes to TLC and $1.25 m of convertible notes to the minority shareholder. The proceeds were used to repay debt owed to TLC. The convertible notes are interest bearing (6.79 %). The convertible notes issued to TLC are eliminated on consolidation in the group financial statements.

On 30 September 2016, $200,000 of the convertible notes were repaid reducing the balance to $3.45 m to TLC and $1.15 m to the minority shareholder.

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 the best interests of SRHL. At 31 March 2017, there were three separate tranches of convertible notes of $1,000,000 each with maturity dates of 30 September 2017, 30 September 2018, and 30 September 2019. There were two separate tranches of convertible notes of $800,000 each with maturity dates of 30 September 2020, and 30 September 2021. 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 (2016: 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 (2016: 5.00 %).

The subordinated debentures are unsecured and have no specified maturity date. Repayment of the subordinated debentures is 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.

There are no specified repayment terms in relation to subordinated debentures.

16. TRADE AND OTHER PAYABLES

	2017 $'000	2016 $'000
Trade creditors	2,694	2,866
Interest accruals	355	328
Other accruals	2,826	2,354
	5,875	5,548

Policies

Trade and other payables are:

- Recognised at fair value when the Group becomes obligated to make future payments resulting from the purchases of goods and services and are subsequently measured at amortised cost using the effective interest method.
- Comprise amounts outstanding for trade purchases and on-going costs.
- Carrying amount approximates to their fair value because the amounts due will be settled within one year's time for their carrying value.

17. PROVISION FOR STAFF ENTITLEMENTS

	2017 $'000	2016 $'000
Opening balance	1,311	1,414
Accrued	1,470	1,358
Utilised	(1,307)	(1,461)
	1,474	1,311

Policies

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, trainee bonds and gratuities when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made that are expected to be settled within 12 months are measured at their amounts expected to be paid using the remuneration rate expected at the time of settlement.

Provisions made 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.

The carrying amount of the provision for staff entitlements approximates to their fair value as most of the entitlement is due to be settled within one year.

18. CONTINGENT ASSETS AND LIABILITIES

The Group has capital commitments of $1.6 m (2016: $1.5 m) including $1 m of transformers, $0.5 m of metering equipment and $0.1 m of property plant and equipment.

The Group has no contingent liabilities.

19. FINANCIAL RISK MANAGEMENT

Objectives

The Group manages financial risks by complying with the policies set by the board. The risks outlined in the policy include:

- interest rate risk,
- credit risk,
- capital risk,
- liquidity risk, and
- electricity price risk.

Any new risks are referred to the board for consideration as they become known. Each risk is monitored and reported to the board on a quarterly basis.

19.1 Interest rate risk

	2017 $'000	2016 $'000
Mark to market fair value of interest rate swaps at balance date (liability) were	(2,634)	(3,631)

Policies

The Group is exposed to interest rate risk through its borrowing activities.

Interest rate risk is managed through the use of interest rate swaps contracts.

Sensitivity

Sensitivity analysis is determined based on the exposure to interest rates for both derivative and non-derivative instruments at balance sheet date.

A 100 basis point increase or decrease is used to assess interest rate and this represents management's assessment of the reasonably possible change in interest rates.

	2017 $'000	2016 $'000
Impact on profit or loss		
-1 % change in interest rates	(77)	(145)
+1 % change in interest rates	77	145
Impact on balance sheet		
-1 % change in interest rates	(668)	(1,074)
+1 % change in interest rates	668	1,074

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

19.2 Credit risk

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.

19.2a Fair value of financial instruments

The fair value 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.

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).
- 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 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Group 2017	**Year**				
Derivative financial liabilities	2017	-	(2,634)	-	(2,634)
Group 2016	**Year**				
Derivative financial liabilities	2016	-	(3,631)	-	(3,631)

There were no transfers between Level 1, 2 and 3 during the year.

19.2b Financial instruments by category

	Loans and receivables $'000	Financial liabilities at amortised cost $'000	Derivatives designated as cash flow hedges $'000	Total $'000
2017				
Cash and bank balances	667	-	-	667
Trade and other receivables	2,598	-	-	2,598
Total financial assets	3,265	-	-	3,265
Trade and other payables	-	5,875	-	5,875
Borrowings	-	56,389	-	56,389
Other financial liabilities	-	-	2,634	2,634
Total financial liabilities	-	62,264	2,634	64,898
2016				
Cash and bank balances	447	-	-	447
Trade and other receivables	3,048	-	-	3,048
Total financial assets	3,495	-	-	3,495
Trade and other payables	-	5,548	-	5,548
Borrowings	-	53,300	-	53,300
Other financial liabilities	-	-	3,631	3,631
Total financial liabilities	-	58,848	3,631	62,479

Policies

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair values.

The Group's credit risk is primarily attributable to its trade receivables.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with AA 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.

19.3 Capital risk

During 2017 the Group's strategy which was unchanged from 2016, was to maintain an equity/assets ratio of not less than 40 %.

The ratios at March 2017 and 2016 were as follows:

	2017 $'000	2016 $'000
Average equity (including subordinated debentures)	142,317	139,597
Total assets at year end	257,884	250,789
Equity to assets ratio	55.2 %	55.7 %

Policies

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 2016 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 note 15, and equity attributable to equity holders of the parent comprising issued capital, retained earnings, and reserves as disclosed in note 12 and statement of changes in equity respectively.

19.4 Liquidity risk

Financial liability maturity analysis

	Less than 1 month $'000	1 month to 1 year $'000	1 to 5 years $'000	Total $'000
Non-interest bearing	5,101	-	-	5,101
Variable interest rate instruments	144	1,780	55,228	57,152
At 31 March 2017	5,245	1,780	55,228	62,253
Non-interest bearing	5,573	-	-	5,573
Variable interest rate instruments	161	2,010	50,490	52,661
At 31 March 2016	5,734	2,010	50,490	58,234

The table above includes both interest and principal cash flows.

Variable rate instruments includes the impact of derivatives.

There are $3.0 m of subordinated debentures (note 15) with no set maturity date. Interest payable on these is excluded from this analysis.

Policies

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

19.5 Electricity price risk

Policies

The Group is exposed to electricity price risk on its electricity generation activities.

The Group has entered in to a fixed term contract to supply electricity at agreed rates. This contract is fixed until 31 December 2017.

20. RELATED PARTY TRANSACTIONS

	2017 $'000	2016 $'000
Transactions with Waitomo Energy Services Customer Trust		
Dividends paid	5,300	5,000
Interest paid on subordinated debentures	72	72
Transactions with key management personnel		
Salary and other short-term employee benefits	1,367	1,060
Directors' fees and expenses	270	227

M. Darrow and S. Young are directors of Financial Corporation Limited and Embrium Holdings Limited. Financial Corporation Limited holds a 36 % shareholding in Embrium Holdings Limited.

21. OTHER ACCOUNTING POLICIES

21.1 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 any options to purchase the leased assets at the expiry of the lease period.

22. SUBSEQUENT EVENTS

There were no material events after the March 2017 balance date which require recognition or disclosure.

STATUTORY INFORMATION

1. DIRECTORS' REMUNERATION

Directors' remuneration for The Lines Company of $218,407 (2016 - $208,378) distributed as follows:

	Appointment Date	Retirement Date	2017	2016
Mark Darrow (Chair)	01 Sep 2015		50,228	20,113
E Richard Krogh	01 Sep 2015		35,169	20,113
John Rae	24 Mar 2014		35,169	34,479
Peter Till	01 Aug 2011		35,169	34,479
Simon Young	03 Jun 2010		35,169	34,479
A Malcolm Don	24 Nov 1994	04 Aug 2016	27,504	64,715
			218,407	**208,378**

All transactions in entities in which directors disclosed an interest have been conducted on an 'arm's length' basis in the normal course of business.

2. DIRECTORS' REGISTER

Directors' register for The Lines Company and its subsidiaries is as follows:

	The Lines Company	Financial Corporation Limited	Speedys Road Hydro Limited
Mark Darrow	✓	✓	✓
E Richard Krogh	✓	✓	
John Rae	✓	✓	
Peter Till	✓	✓	✓
Simon Young	✓	✓	
Marcus Paterson			✓

3. DIRECTORS' DISCLOSURES OF INTEREST

AS AT 31 MARCH 2017

M C Darrow

Current Directorships/Interests

Director, Primary Industry Training Organisation Incorporated

Director, Motor Trade Association Incorporated and Subsidiaries

Director, Dekra NZ Limited

Director, Balle Bros Group Limited and Subsidiaries

Chairman, Courier Solutions Limited

Chair, Advisory Board, Armstrong Motor Group

Chairman, shareholder, Signum Holdings Limited and Subsidiaries

Director, Counties Manukau Health (Ministerial Appointment Oct 2016)

Subsidiaries and Associates of The Lines Company Ltd

Director, Financial Corporation Limited (appointed 06 Sep 2016)

Director, Speedys Road Hydro Limited (appointed 29 Sep 2016)

Director, Embrium Holdings Limited (appointed 16 Aug 2016)

J Mcf Rae

Current Directorships/Interests

Director, Eastland Group Limited (and subsidiaries)

Chairman, Smart Environmental Limited

Chairman, National Infrastructure Advisory Board

Board Member, New Zealand Council for Infrastructure Development (Ceased 2016)

Managing director and shareholder, FJ Hawkes & Co. Limited

Director and shareholder, Kingyo Foods Limited – Personal Catering Interests

Director and shareholder, Gobble Limited – Personal Catering Interests

Director and Shareholder, Taku Honey Limited (Ceased 06 Apr 2016)

Director, Ngapuhi Asset Holding Company Limited and subsidiaries

Chairman, Activate Tairawhiti Limited

Director, Cavalier Corporation Limited

Director, Thos Corson Holdings Limited (Appointed Chair)

Subsidiaries of The Lines Company Ltd

Director, Financial Corporation Limited

Director, Clearwater Hydro Limited

S V Young

Current Directorships/Interests

Director, Jimmi Interests Limited

Director, Carbon One Limited

Director, The Karo Group Limited, General Partner of Karo Interests Limited Partnership

General manager, Opunake Hydro Limited

Director, Top Energy Limited and subsidiaries

Director, Utilise Limited

Director, Opunake Hydro Holdings Limited

Subsidiaries and Associates of The Lines Company Ltd

Director, Financial Corporation Limited (Appointed 06 Sep 2016)

Director, Embrium Holdings Limited (Appointed 16 Aug 2016)

P J Till

Current Directorships/Interests

Director, Totaranui Water Supply Ltd

Chair, Hobson Gardens Body Corporate

Chair, Visit Ruapehu (Regional Tourism Organisation)

Subsidiaries of The Lines Company Ltd

Director, Speedys Road Hydro Limited

Director, Financial Corporation Limited (Appointed 06 Sep 2016)

E R Krogh

Current Directorships/Interests

Director, PKW Farms GP Limited

Director, Top Energy Limited and subsidiaries

Director and deputy chair, Port Taranaki Limited

Director and deputy chair, First Gas Topco Limited and subsidiaries

Director and deputy chair, Gas Services NZ Limited

Director, Energia Limited

Director, Goodshelf Holdings (No.10) Limited (Appointed 22 Sep 2016)

Subsidiaries of The Lines Company Ltd

Director, Financial Corporation Limited (Appointed 06 Sep 2016)

4. EMPLOYEE REMUNERATION

Remuneration and other benefits for employees totalling $100,000 or more were as follows:

	2017	2016
$420,000 – $430,000	1	-
$400,000 – $410,000	-	1
$250,000 – $260,000	1	-
$240,000 – $250,000	-	2
$180,000 – $190,000	1	-
$170,000 – $180,000	-	1
$160,000 – $170,000	1	2
$140,000 – $150,000	2	1
$130,000 – $140,000	4	5
$120,000 – $130,000	2	3
$110,000 – $120,000	4	4
$100,000 – $110,000	9	10
	25	**29**

This figure includes one person who left TLC during the year (2016 – 1).

ACCOUNTING STANDARDS NOT YET ADOPTED

NEW AND AMENDED ACCOUNTING STANDARDS ADOPTED

There are no new standards, amendments and interpretations which are effective for the current period with a material impact to the Group.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards and interpretations which are considered relevant but not yet effective for the year ended 31st March 2017 have not been applied in preparing the financial statements:

NZ IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group will apply this standard from 1 April 2017 but is yet to assess NZ IFRS 15's full impact.

NZ IFRS 9 FINANCIAL INSTRUMENTS (EFFECTIVE DATE: PERIODS BEGINNING ON OR AFTER 1 JANUARY 2018)

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group intends to adopt NZ IFRS 9 on its effective date and has yet to assess its full impact.

NZ IFRS 16 LEASES (EFFECTIVE DATE: PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

Working live binding an 11kV line to an insulator.

GLOSSARY OF TERMS

EBITDA	Earnings before interest, tax, depreciation and amortisation.
EBIT	Earnings before interest and tax.
Net assets	Non-current assets plus net working capital.
Shareholder funds	Shareholder equity plus subordinated debentures.
Debt to asset ratio	(Total liabilities less deferred tax liabilities) divided by total assets.
Capital ratio	Shareholder equity divided by total assets.
Return on average equity	(Profit after tax) divided by ((opening shareholder equity plus closing shareholder equity) divided by 2).
Return on average net assets	(EBIT multiplied by the applicable tax rate) divided by ((opening net assets plus closing net assets) divided by 2).

CORPORATE DIRECTORY

THE LINES COMPANY LIMITED

Company number	578653
Directors	M C Darrow E R Krogh J M Rae P J Till S V Young
Registered Office	The Lines Company Limited King Street East Te Kuiti New Zealand
Auditor	PricewaterhouseCoopers has been appointed to perform the audit on behalf of the Auditor-General
Solicitors	Russell McVeagh Forgeson Law Harmos Horton Lusk
Postal Address	PO Box 281 Te Kuiti New Zealand
Telephone	07 878 0600
Fax	07 878 7024
Website	www.thelinescompany.co.nz

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