ANNUAL REPORT

2015 / 2016

THE LINES COMPANY LIMITED

And Subsidiaries

Our

Vision

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

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Chairman and CEO's Annual Review

Good progress has been made during the 2015/16 year on the courageous, decisive, strategic path of pricing and network renewal. This was chosen to take TLC forward with reliability, hazard control and quality performance levels aligned to customers' expectations and best industry practice.

Safety First

Safety is the number one underlying driver of all of TLC's business decisions and actions. During the year $9.3m was spent on network renewals. The key trigger for this expenditure is both staff and public safety enhancement. At the staff level our safety indicators are aligned to or better than the industry benchmarks.

Financial

The key financial achievements are an after tax profit of $7.4m and a lower debt level than anticipated i.e. $50.3m as opposed to $57.8m. Costs were higher than estimated at the EBITDA and EBIT lines with the major driver for these being greater than estimated regulatory costs, and adjustments that came with amalgamating the JDE electrical wiring contracting operation into TLC. Goodwill relating to the JDE business has been written off.

Customers

Sending customers a bill has by default driven a culture shift through the organisation with respect to customer engagement and service. During the year our staff answered 58,118 calls from customers, and maintained an office in Turangi established for the purpose of providing customer advice and information on the Turangi upgrades. We facilitated 118 customer clinics, 4 customer newsletters, 1 pricing information sheet and 6 public meetings throughout the network footprint. Staff have also been continuously active answering queries on social media and have been involved in regular local radio sound bites and print media articles.

Energy advice is being positively received by many customers. TLC remains a member of the EGCC scheme and the six deadlocked complaints as at the end of March 2016 were largely about load control.

EGCC offers a mediation and conciliation service and we have benefitted from this service over the year. While TLC would sooner use the resources this activity consumes to take the learning from its pathway forward faster, we understand that the decision to have a close relationship with our customers inevitably means resources need to be allocated for those customers who are keen to fight their cause.

The ultimate goal for TLC is to be a business that delivers benefits to our communities and we were involved in a number of community projects during the year including paper for primary school newsletters, security cameras in Taumarunui and a three year programme of sponsorship into high schools for sport and leadership.

Regulatory

The Electricity Authority (EA) produced a consultation paper as part of their *Distribution Pricing Review* work stream entitled '*Implications of evolving technologies for pricing of distribution services*'. In summary, this paper and a number of the submissions effectively support TLC's service based approach to

pricing. Having this recognised by the regulator as the way forward for the future was a significant milestone. Some of the submissions on the paper also made some pertinent comments including: ***TLC is well ahead of most New Zealand (as well as overseas) distributors in developing demand/capacity pricing. We note that the development and implementation of them is ongoing – aided by AMI[(1)] roll out… Accordingly we suggest that the time and effort required in developing more service based pricing structures should not be underestimated.***

The Commerce Commission's Default Price Path was designed for energy based pricing and TLC has revisited compliance after a request was received to confirm its position. This work established TLC's compliance position and as such its pricing is indicated as being under headroom limits.

Meter Deployment

To support the strategic path, TLC needs a metering stock that is capable of measuring precisely the quantities that feed into charges to our customers. During the year, approximately 6,400 meters were installed On Network with a total of 14,300 new meters installed as at year-end. These meters include firmware which facilitates the provision of actual controlled period demand measurement. Continuation of this rate of installation means that we are on target to complete the majority of the meter upgrade towards the end of the 2016/17 year.

The Off Network business experienced growth in the industrial markets and secured a number of entry retailers. This growth countered the effect of removal of some legacy meters in areas where the large retailers are deploying advanced meters.

Pricing Development

The deployment of 14,300 advanced meters across the network has given access to significantly more data about our customers' usage patterns. This data is vital to the next stages of our pricing development and some work has been completed but significantly more will be started on developing future more customer friendly options over the next few months.

Growth

A significant amount of land was converted into dairying adjacent to Mangakino and Whakamaru at the beginning of the year. TLC was able to compete and gain this development as a new customer. To facilitate the connection a line has been built across the Waikato River close to the Mighty River Power Whakamaru hydro dam.

There has been some growth in new connections with about 100 new connections completed.

There are negative growth risks over which TLC has little control such as the loss of a major industrial customer through plant closure. The Company is continuously monitoring and engaging with these customers.

During the year there has been an increase in demand mostly driven by increased sand mining at the Taharoa iron sands plant in the order of 5MVA.

Reliability

The network performance either met or was better than both Commerce Commission and customer reliability targets in terms of SAIDI (average time without supply) and SAIFI (number of times the supply was de energised). The index CAIDI (time to restore supply) was also maintained at levels aligned with previous years. This is a good result given that the network experienced a single unit zone substation failure and repeated outages caused by plantation trees.

Generation

The generation schemes produced the highest annual output since they have been operating. This achievement was a combination of a

reasonably wet season and improved availability.

The EA have recently released a consultation paper (*Review of distributed generation pricing principles*) which proposes the removal of Avoided Cost of Transmission (ACOT) payments to generators and the removal of the preferential treatment for distributed generators in terms of network charges. These changes will have a future impact on the returns of TLC's generation investment.

Electrical Contracting

The electrical contracting operation had a mixed year, with the folding of JDE into the TLC contracting adding a negative bias to financial results. We have maintained the work of the Taharoa iron sands mine and still service a number of industrial customers.

The contracting team completed almost all of the capital renewal work as well as new customer developments.

IT System Upgrades

A key enabler for TLC as it migrates along its strategic pathway is to have advanced IT asset management, accounting, metering data management and customer information systems (the latter includes the billing system). During the year the base network hardware has been upgraded towards a goal of full backup systems. The accounting upgrade was completed and the upgrade of the metering data management and customer information systems was initiated. Once this platform is in place then the organisation can offer its customers many more pricing options on top of the metering deployment and data that is now becoming available.

Facilities

TLC's current head office facilities in King Street, Te Kuiti are no longer fit for purpose. There are many factors influencing this including a low 20% of New Building Standard (NBS) rating which is below earthquake prone level (34%NBS). Considerable effort was put into reviewing upgrade options and unfortunately to bring the present structure up to modern standards is problematic. A site was purchased in 2014 opposite TLC's depot in Waitete Road (initially for disaster recovery) and plans for a new head office on this site have been completed. The project is currently at the tender stage.

People

TLC is an organisation that is graced with some very experienced and skilled staff. The skills learned in the hands on, customer facing rural environment, are in demand nationally and internationally. Strategically TLC has recognised that leadership in an organisation is key to continuing fast paced change. This is particularly the case as our people transform from strong tradespeople or administrators into management positions. During the year a tailored leadership program has been designed and the rollout of the program has commenced.

On the coal face many have worked tirelessly in often trying conditions. We thank them for their dedication to the organisation.

Governance

During the year WESCT appointed two new Directors to the Board: Mark Darrow and Richard Krogh. Both have significant governance and business experience and have contributed significantly to the review of the organisation's strategic direction. The Trust is placing emphasis on ensuring the board focuses on the organisation's strategic positioning to maintain company value and produce adequate returns.

Looking to the Future

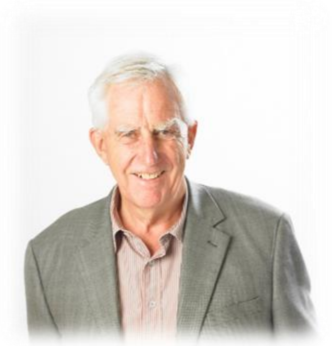
TLC is looking to continue on its strategic pathway, adjusting elements of this to be more community focused, and growing whilst not forgetting the basics. Disruptive technologies will come, however the importance of

the basics of maintaining, renewing and growing about 4500km of network cannot be overlooked.

As part of committing to its strategic path, TLC implemented a number of core strategies and these have all produced learnings. The focus for the next five years will be on business basics, future technologies, the customer value proposition, people, company value and regulatory issues. The resources of the network, contracting, metering and generation businesses will be enhanced in parallel.

There are a number of strategic options that are currently being assessed to advance TLC's strategic and value position. We are hopeful many of these will be progressed during the year to ultimately enhance the shareholder's return on investment.

(1) Submission by PwC page 13 on Electricity Authorities Discussion paper: Implications of evolving technologies for pricing of distribution services. (AMI – Advanced Metering Installation)



Malcolm Don
Chairman, Board of Directors

CEO Comment

At the August AGM Malcolm Don the current Chairman is retiring from the board and Mark Darrow will take up the chair. Malcolm has been on the board since 1994 and Chairman since September 2005.

He has contributed significantly to the organisation over the last 22 years and we thank him for his efforts.

Brent Norriss
Chief Executive Officer

Corporate Governance

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

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

The Lines Company Limited (the "Company") came into existence on 26 March 1993 and is wholly owned by the Waitomo Energy Services Customer Trust. The Company 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 and the Electricity Industry Reform Act 1998. Compliance with the Commerce Act 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 the Company 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 re-appointment.

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 the Company's compliance with legal and regulatory requirements, financial statements, treasury policy and preparation of the annual report, and liaises with the OAG on 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 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 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

The Company 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.

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 the Company's affairs. The Company maintains an interest register to record particulars of transactions or matters involving Directors.

Five year Trend Statement

Financial performance

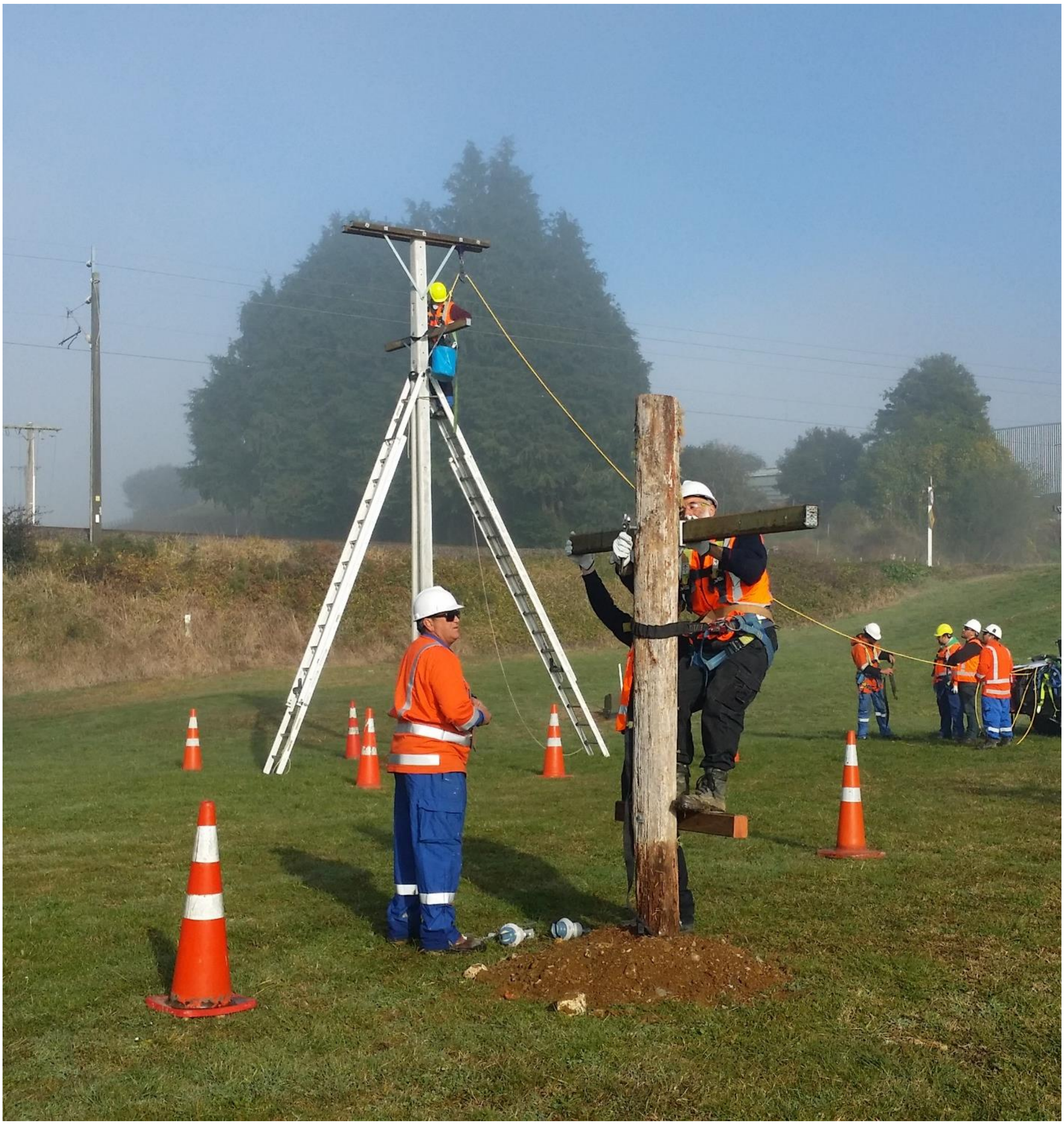
	2016 $'000	2015 $'000	2014 $'000	2013 $'000	2012 $'000
Revenue	**50,148**	49,086	48,555	45,373	42,207
EBITDA	24,811	24,636	23,434	22,249	22,333
EBIT	13,383	13,466	12,646	11,613	12,568
Profit before tax	10,725	10,543	9,568	8,244	9,352
Profit after tax	7,427	7,342	7,315	5,840	6,733
Operating cash flow before tax	22,342	21,302	22,633	19,536	17,368
Dividends paid	5,000	5,000	4,950	4,932	3,560
Total assets	250,789	245,253	249,776	234,358	233,190
Shareholder funds	140,299	138,894	145,565	141,281	140,489
Shareholder equity	137,299	135,894	142,565	138,281	137,489
Debt to assets ratio	26.0%	25.1%	25.3%	22.2%	21.8%
Capital ratio	54.7%	55.4%	57.1%	59.3%	59.0%
Return on average equity	5.4%	5.3%	5.2%	4.2%	4.9%
Earnings per share net of tax (cents)	63	62	56	44	51

Operating performance

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

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

2015 / 2016 Financial Report



2015/16 Financial Report

Independent Auditors' Report

To the Shareholders of The Lines Company Limited Group's Financial Statements and Performance Information for the year ended 31 March 2016

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, consisting of The Lines Company Limited and its subsidiaries and other controlled entities, on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 17 to 45 and on page 49, that comprise the balance sheet as at 31 March 2016, 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 performance information of the Group on page 16.

In our opinion,

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 31 March 2016; 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 performance information 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 2016.

Our audit was completed on 22 June 2016. 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 performance information are free from material misstatement.

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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 the performance information. 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 in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information 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.

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 appropriateness of the performance information within the Group's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

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 the preparation and fair presentation of financial statements in accordance with generally accepted accounting practice in New Zealand and generally accepted accounting practice, and for the preparation and fair presentation of performance information for the Group.

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

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information 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 the performance information, whether in printed or electronic form.

pwc

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

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, consultancy on Cyber Risk Assessment and Security Planning 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.

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 2016 was as follows: (All dollar amounts are in $'000)

	Actual	Target
1. Return on average assets	3.9%	4.6%
2. Return on equity		
Average equity (including subordinated debentures)	139,596	137,155
Return on Equity	5.4%	6.2%
3. Borrowings (excluding subordinated debentures)	50,300	57,848
4. Equity (including subordinated debentures) to assets ratio	56%	> 40%
5. Dividends	5,000	5,000
6. Reliability		
The performance target relating to SAID 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 2016 shows that TLC has not breached the reliability limits.	Achieved	
7. Regulated revenues		
To have a Notional Revenue to Allowable Notional Revenue ratio as set out in the Default Price Path Annual Compliance statement.	Achieved	>80%
8. Funding of Community Projects		
To expend $60,000 in supporting community projects	82	60

Financial Statements

2016 Financial statements

The financial statements for the year ended 31 March 2016 are signed on behalf of the board of directors by:

	08 June 2016
Angus Malcolm Don **Chairman**	Date
	08 June 2016
Mark Charles Darrow **Director**	Date

And for and on behalf of management by:

	08 June 2016
Brent Norriss **CEO**	Date
	08 June 2016
Kevin Barnes **CFO**	Date

Statement of Comprehensive Income

for the year ended 31 March 2016

	Note	2016 $'000	2015 $'000
Revenue	1	50,148	49,086
Total revenue		50,148	49,086
Operating expenses	2	(24,477)	(23,670)
Depreciation and amortisation	8&9	(11,428)	(11,170)
Interest costs (net)	3	(2,658)	(2,923)
Impairment of goodwill	9.1	(860)	(780)
Total expenses		(39,423)	(38,543)
Profit before tax		10,725	10,543
Income tax expense	4	(3,298)	(3,201)
Profit for the year		7,427	7,342
Profit for the year is attributable to:			
Equity holders of the parent		7,444	7,339
Non-controlling interest		(17)	3
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of network asset, land and buildings		-	8,176
Income tax relating to revalued assets		-	(2,289)
Other comprehensive income for the year		-	5,887
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge reserve	12.2	(1,421)	(1,943)
Income tax relating to cash flow hedges		398	544
Other comprehensive income for the year, net of tax		(1,023)	(1,399)
Total comprehensive income for the year		6,404	11,830
Total comprehensive income is attributable to:			
Equity holders of the parent		6,421	11,827
Non-controlling interest		(17)	3

Balance Sheet

as at 31 March 2016

	Note	2016 $'000	2015 $'000
Current assets			
Cash and cash equivalents		447	837
Trade and other receivables	6	3,663	3,369
Inventories	7	1,688	1,550
Current tax asset	13	-	152
		5,798	5,908
Non-current assets			
Property, plant and equipment	8	241,744	235,642
Goodwill	9.1	-	860
Intangible assets	9	1,714	1,664
Deferred tax asset	14	1,435	1,083
Other financial assets		98	96
		244,991	239,345
Total assets		250,789	245,253
Current liabilities			
Trade and other payables	16	5,548	5,624
Convertible notes issued by subsidiary	15	250	250
Other financial liabilities	19.1	3,631	2,210
Current tax liability	13	1,320	-
Provision for staff entitlements	17	1,311	1,414
		12,060	9,498
Non-current liabilities			
Bank borrowings	15	49,100	47,950
Convertible notes issued by subsidiary	15	950	1,000
Subordinated debentures	15	3,000	3,000
Deferred tax liability	14	48,380	47,910
		101,430	99,860
Total liabilities		113,490	109,358
Net assets		137,299	135,895
Equity			
Share capital	12.1	8,013	8,013
Retained earnings		49,906	47,462
Cash flow hedge reserves	12.2	(2,614)	(1,591)
Revaluation reserves	12.3	81,117	81,117
Equity attributable to parent company		136,422	135,001
Non-controlling interest		877	894
Total equity		137,299	135,895

Statement of Changes in Equity

for the year ended 31 March 2016

	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 2014		8,013	58,629	(192)	75,230	141,680	885	142,565
Profit for the year		-	7,339	-	-	7,339	3	7,342
Other comprehensive income								
Interest rate swaps		-	-	(1,399)	-	(1,399)	-	(1,399)
Revaluation of land and buildings		-	-	-	(204)	(204)	-	(204)
Revaluation of network assets		-	-	-	6,091	6,091	-	6,091
Prior year adjustment		-	(6)	-	-	(6)	6	-
Total other comprehensive income		-	(6)	(1,399)	5,887	4,482	6	4,488
Transactions with owners								
Amalgamation adjustment	12.1	-	(13,500)	-	-	(13,500)	-	(13,500)
Dividends	10	-	(5,000)	-	-	(5,000)	-	(5,000)
Total transactions with owners		-	(18,500)	-	-	(18,500)	-	(18,500)
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	137,298
Attributable to Equity Holders of the Company		8,013	49,906	(2,614)	81,117	136,422		136,422

Cash Flow Statement

for the year ended 31 March 2016

	Note	2016 $'000	2015 $'000
Operating activities			
Cash generated from operations		25,209	24,498
Interest received	3	6	53
Interest paid		(2,873)	(3,249)
Income taxes paid	13	(1,316)	(2,130)
Net cash from operating activities		21,026	19,172
Investing activities			
Purchases of property, plant and equipment		(17,124)	(12,579)
Purchases of intangible assets		(479)	(375)
Proceeds on disposal of property, plant and equipment		87	98
Net cash used in investing activities		(17,516)	(12,856)
Financing activities			
Dividends paid	10	(5,000)	(5,000)
Convertible notes in subsidiary sold to non-controlling interest		(50)	-
Bank borrowings advanced/(repaid)		1,150	(4,000)
Net cash used in financing activities		(3,900)	(9,000)
Net (decrease)/increase in cash and cash equivalents		(390)	(2,684)
Cash and cash equivalents at the beginning of the year		837	3,521
Cash and cash equivalents at end of the year		447	837

Cash Flow Statement Reconciliation
For the year ended 31 March 2016

Reconciliation of profit before tax to net cash from operating activities

	Note	2016 $'000	2015 $'000
Profit before tax		10,725	10,543
Adjustments for non-cash items:			
Depreciation and amortisation	8&9	11,428	11,170
Gain on sale of assets		-	(84)
Impairment of goodwill	9.1	860	780
Asset Write-off		156	-
Interest capitalised	3	(215)	(178)
Movement in provision for doubtful debt	6	147	(180)
Stock adjustment		-	(47)
		23,101	22,004
Changes in net assets and liabilities			
Trade and other receivables		(441)	(302)
Construction contracts		-	98
Inventories		(138)	(132)
Trade and other payables		170	-
Current provision for staff entitlements		(350)	(358)
Non-current provision for staff entitlements		-	(8)
		(759)	(702)
Net cash from operating activities before tax		22,342	21,302
Income Tax paid		(1,316)	(2,130)
Net cash from operating activities		21,026	19,172

Notes to the Financial Statements

General Information

The Group consists of The Lines Company (‘the Company”) 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 8 June 2016.

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

Significant accounting policies, estimates and judgements

The Lines Company’s management is 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:

Note 1	**Revenue recognition**	Page **24**
Note 8	Valuation of network distribution system	Page **29**
Note 8	Generation property, plant and equipment	Page **29**
Note 9.1	Goodwill	Page **33**
Note 16 & 17	Provisions	Page **39 & 40**
Note 19.2	Financial instruments	Page **42**

Notes to the Financial Statements

For the year ended 31 March 2016

1. Revenue

	2016 $'000	2015 $'000
Continuing operations		
Network	39,516	38,008
Meters and relays	3,732	3,669
Contracting	5,028	5,291
Generation	1,849	2,097
Corporate services	26	21
Revenue	50,148	49,086

Policies

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

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

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 customer's accounts, where further charges are applied or refunds given. These adjustments are not significant compared with total network revenue.

2. Operating Expenses

	2016 $,000	2015 $,000
Transmission charges	7,013	7,053
Total staff cost recognised as expense	10,083	9,217
Cost of inventories recognised as expense	2,309	1,857
Professional fees	1,594	1,623
Property expenses	650	797
Directors fees and expenses	227	209
Loss/(gain) on disposal of PPE and software intangibles	(74)	(84)
Other indirect expenses	2,675	2,998
Total	24,477	23,670

Fees paid to auditors	2016 $,000	2015 $,000
Financial statement audit fees	172	162
Regulatory audit fees	52	55
OAG fees	16	15
Regulatory advice	76	25
Cyber risk assessment	26	-
	342	257

3. Interest costs (net)

	2016 $,000	2015 $,000
Interest on bank borrowings	2,625	2,916
Capitalised interest	(215)	(178)
Interest on convertible notes issued by subsidiary	83	85
Interest on subordinated debentures	176	172
Other interest expense, principally IRD Use of Money	(5)	(19)
Interest income	(6)	(53)
Total	2,658	2,923

The weighted average interest rate on bank borrowings, including interest rate swap derivatives, is 5.37% (2015: 5.83%).

Refer 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

Reconciliation of income tax expense	**2016 $'000**	**2015 $'000**
Profit before income tax	10,725	10,543
Expenses that are non-deductible	394	183
Impairment of goodwill	860	780
Taxable profit	11,979	11,506
Income tax expense at 28%	3,354	3,222
Effect if prior period tax adjustment	(56)	(21)
Income tax expense	3,298	3,201
Effective tax rate (being total tax expense divided by Profit before tax)	31%	30%
Current tax expense	2,826	1,961
Deferred tax expense	472	1,240
Income tax expense	3,298	3,201
Attributable to:		
Continuing activities	3,298	3,201

Amounts recognised directly in other comprehensive income

Aggregate current and deferred tax arising in the reporting period and not recognised in 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	(398)	1,745
Total tax expense for the year recognised in other comprehensive income	(398)	1,745

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 imputation credits available for subsequent reporting periods as at 31 March 2016 is $4.58m (2015 – $4.3m).

5. Operational profit

	2016 $'000	2015 $'000
Earnings before interest, tax, depreciation and amortisation (EBITDA)		
Network	24,553	23,759
Meters and relays	2,876	3,068
Contracting	523	1,251
Generation	1,164	1,107
Corporate services	(4,305)	(4,549)
	24,811	24,636
Depreciation and amortisation	11,428	11,170
Earnings before interest and tax (EBIT)	13,383	13,466

6. Trade and other receivables

	2016 $'000	2015 $'000
Trade Receivables		
Trade receivables	3,386	3,181
Less provision for doubtful debts	(707)	(560)
Balance at 31 March	2,679	2,621
Other Receivables		
Sundry debtors	369	203
Prepayments	615	545
Balance at 31 March	984	748
Receivables balance at 31 March	3,663	3,369
Ageing Of Trade Receivables		
Current to 90 days	2,383	2,697
Greater than 90 days	1,003	484
	3,386	3,181

Provision for doubtful debts

	2016 $'000	2015 $'000
Opening balance	560	740
Movement in provision	202	(16)
Receivables written off during the year as uncollectable	(55)	(164)
	707	560

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 The Lines Company 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 debtors perceived ability to pay.

7. Inventories

	2016 $'000	2015 $'000
Contracting stores	943	847
Network stores	29	29
Transformers	320	298
Private lines	296	215
Meters and relays	99	161
Generation	1	-
	1,688	1,550

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 & Relays $'000	Plant & Vehicles $'000	Generation $'000	Total $'000
Gross carrying amount							
At 31 March 2014	1,271	2,062	206,047	17,869	8,330	21,656	257,235
Additions	194	13	9,764	3,089	670	9	13,739
Disposals	-	-	-	-	(403)	-	(403)
Reclassification	-	75	-	-	-	(225)	(150)
Revaluation	(103)	(379)	-	-	-	-	(482)
Capital works in progress	-	-	(859)	(106)	-	195	(770)
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 March 2016	1,356	1,912	225,018	26,567	8,760	21,706	285,319
Accumulated depreciation and impairment							
At 31 March 2014	-	132	13,605	10,514	5,361	2,100	31,712
Depreciation charge	-	77	7,168	2,017	972	620	10,854
Revaluation	-	(198)	(8,460)	-	-	-	(8,658)
Disposals	-	-	-	-	(381)	-	(381)
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

Carrying amount (Net book value)

	Land	Buildings	Network Distribution System	Meters & Relays	Plant & Vehicles	Generation	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 March 2014	1,271	1,930	192,442	7,355	2,969	19,556	225,523
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

Carrying amount (Cost model)

	Land	Buildings	Network Distribution System	Meters & Relays	Plant & Vehicles	Generation	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 March 2015	719	2,121	111,492	8,321	2,645	18,915	144,213
At 31 March 2016	719	1,938	115,056	11,952	2,691	18,512	150,868

The table 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 $2.542m 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 the Company 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 & Relays	4 – 15 years
Plant & 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 2016 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 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. The directors consider that no reasonably possible change in any of the assumptions below would cause the carrying value of generation assets to exceed their recoverable amounts.

Group generation assessment

Assumptions - Group	Low	High	Total Impairment base value in use $25.6m Negative value impact ($'000)	 Positive value impact ($'000)
Price path - Energy Link	Energy Link - 25th percentile	Energy Link - 75th percentile	$4,870	$3,660
Generation volume	-10.0%	10.0%	$2,940	$2,950
Operational costs	+20.0%	-20.0%	$2,230	$2,240
Discount rate - 7.19%	7.69%	6.69%	$2,330	$2,830

9. Intangible assets

	Software	Land Easements	Resource Consents & Rights	Total
	$'000	$'000	$'000	$'000
Cost				
Total cost at 31 March 2014	2,861	154	557	3,572
Additions	375	-	-	375
Reclassification	-	150	-	150
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

Accumulated amortisation and impairment

	Software	Land Easements	Resource Consents & Rights	Total
Total at 31 March 2014	2,117	-	-	2,117
Amortisation charge for the year	316	-	-	316
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

Carrying amount (Net book value)

	Software	Land Easements	Resource Consents & Rights	Total
At March 2014	744	154	557	1,455
At March 2015	803	304	557	1,664
At March 2016	853	304	557	1,714

9.1 Goodwill

	2016	2015
	$'000	$'000
Gross carrying amount	860	1,640
Impairment of goodwill	(860)	(780)
Net carrying value	-	860

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

Goodwill relates to the purchase of John Deere Electrical Limited, where John Deere Electrical Limited company as a whole is the cash generating unit for the goodwill impairment assessment.

During February 2016 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.

10. Dividends

	2016 $'000	2015 $'000
Dividends paid	5,000	5,000

Dividends of $5.0m (2015: $5.0m), being $0.42 per share (2015: $0.42), were paid to shareholders during the year.

11. Investments

11.1 Investment in subsidiaries

Name	Principal activity	Ownership Interest 2016 %	2015 %
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	100
John Deere Electrical Limited	Electricity contracting business operating in Te Kuiti	-	100
Speedys Road Hydro Limited	Hydro generation scheme	75	75
Matawai Hydro Limited	Hydro generation scheme	100	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

John Deere Electrical Limited was amalgamated in to The Lines Company as at 29th February 2016.

Balance dates

All subsidiaries have a balance date of 31 March.

Geography

All subsidiaries are incorporated in New Zealand.

12. Equity and reserves

12.1. Share capital

Dividends

The Lines Company final dividend for the year 31 March 2015 of 23.2 cents per share was paid on 27 November 2015.

The interim dividend of 19 cents per share was paid on 25th September 2015.

Shares

The total number of authorised and issued shares is 11,846,808 (2015 – 11,846,808).

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

During the financial year 2015 WESTCO and The Lines Company Limited were amalgamated. Contemporaneously with the amalgamation the 1,316,312 shares, held by WESTCO, were cancelled.

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, $1.023m (2015 – $1.399m) was transferred to the cash flow hedge reserve to interest cost.

12.3. Revaluation reserve

	Network Distribution System $'000	Land & buildings $'000	Total $'000
Total at 31 March 2014	74,613	617	75,230
Revaluation increases / (decreases)	8,460	(284)	8,176
Deferred tax on revaluation	(2,369)	80	(2,289)
Total at 31 March 2015	80,704	413	81,117
Revaluation increases / (decreases)	-	-	-
Deferred tax on revaluation	-	-	-
Total at 31 March 2016	**80,704**	**413**	**81,117**

13. Current tax liability/ (asset)

	2016 $'000	2015 $'000
Opening balance	(152)	390
Tax payments and tax credits received	(1,316)	(2,130)
Prior year adjustments	6	(21)
Prior year transfer from current to deferred tax	(44)	(352)
Current tax expense for the year	2,826	1,961
Closing balance	1,320	(152)

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 & equipment $'000	Cash flow hedges $'000	Provisions $'000	Total $'000
At 31 March 2014	44,084	(75)	(519)	43,490
Charged to income	1,185	-	55	1,240
Charged to other comprehensive income	2,289	(544)	-	1,745
Prior year transfer current to deferred tax	352	-	-	352
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

	2016 $'000	2015 $'000
Non-current - deferred tax asset	(1,435)	(1,083)
Non-current - deferred tax liability	48,380	47,910
Net deferred tax liability	46,945	46,827

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

	2016 $'000	2015 $'000
Bank borrowings	49,100	47,950
Convertible notes issued by subsidiary	1,200	1,250
Subordinated debentures:		
Waitomo Energy Services Customer Trust	1,000	1,000
North King Country Development Trust	2,000	2,000
	53,300	52,200
Disclosed in the financial statements as:		
Current borrowings	250	250
Non-current borrowings	53,050	51,950
	53,300	52,200

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 total bank lending facilities of $75.4m. The facility expires in May 2017 prior to which the directors anticipate renewing the facilities on similar terms and conditions.

The term lending facilities are for three years, expiring 31 May 2017. The working capital portion of this facility is $3m and is subject to annual renewal and expire on 31 December 2016.

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 $3.75m of convertible notes to TLC 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 (6.79%).The convertible notes issued to TLC are eliminated on consolidation in the group financial statements.

On 30 September 2015, $200,000 of the convertible notes were repaid reducing the balance to $3.6m to TLC and $1.2m 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 and who are entitled to act in what they reasonably consider to be in the best interests of SRHL. At 31 March 2016, there were four separate tranches of convertible notes of $1,000,000 each with maturity dates of 30 September 2016, 30 September 2017, 30 September 2018, 30 September 2019. A fifth tranche of $800,000 has a maturity date of

30 September 2020. 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 (2015: 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 (2015: 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

	2016 $'000	2015 $'000
Trade creditors	2,866	2,816
Interest accruals	328	330
Other accruals	2,354	2,478
	5,548	5,624

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

	2016 $'000	2015 $'000
Opening balance	1,414	1,781
Accrued	1,358	1,012
Utilised	(1,461)	(1,379)
	1,311	1,414

Policies

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service 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 $1.5m including $1.4m of meter purchases on order but not yet received, and $0.1m relating to software purchases. (2015: Nil)

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

	2016 $'000	2015 $'000
Mark to market fair value of interest rate swaps at balance date (liability) were	(3,631)	(2,210)

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 derivatives 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.

	2016 $'000	2015 $'000
Impact on profit or loss		
-1% change in interest rates	(145)	(136)
+1% change in interest rates	145	136
Impact on balance sheet		
-1% change in interest rates	(1,074)	(1,305)
+1% change in interest rates	1,074	1,221

The Group's sensitivity to interest rates has increased 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 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.

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 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Group 2016	**Year**				
Derivative financial liabilities	2016	-	(3,631)	-	(3,631)
Group 2015	**Year**				
Derivative financial liabilities	2015	-	(2,210)	-	(2,210)

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

19.2b Financial instruments by category

2016	**Loans and receivables** **$'000**	**Financial liabilities at amortised cost** **$'000**	**Derivatives designated as cash flow hedges** **$'000**	**Total** **$'000**
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
2015				
Cash and bank balances	837	-	-	837
Trade and other receivables	2,824	-	-	2,824
Total financial assets	3,661	-	-	3,661
Trade and other payables	-	5,624	-	5,624
Borrowings	-	52,200	-	52,200
Other financial liabilities	-	-	2,210	2,210
Total financial liabilities	-	57,824	2,210	60,034

Policies

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate 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 2016, the group's strategy, which was unchanged from 2015, was to maintain an equity/assets ratio of not less than 40%.

The ratio at March 2016 and 2015 were as follows:

	2016 $'000	2015 $'000
Average equity (including subordinated debentures)	139,597	142,230
Total assets at year end	250,789	245,253
Equity to Assets Ratio	55.7%	58.0%

Policies

The Group manages it 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 2015 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	5,573	-	-	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
Non-interest bearing	5,709	-	-	5,709
Variable interest rate instruments	448	2,409	51,454	54,311
At 31 March 2015	6,157	2,409	51,454	60,020

The table includes both interest and principal cash flows.

Variable rate instruments includes the impact of derivatives.

There are $3.0m 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

	2016 $'000	2015 $'000
Transactions with Waitomo Energy Services Customer Trust		
Dividends Paid	5,000	5,000
Interest paid on subordinated debentures	72	72
Transactions with key management personnel		
Salary and other short-term employee benefits	1,060	1,015
Directors' fees and expenses	227	209

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 2016 balance date which require recognition or disclosure.

Statutory Information

1. Directors' Remuneration

Directors' remuneration of $208,378 (2015 - $191,945) distributed as follows:

	Appointment Date	Retirement Date	2016	2015
A Malcolm Don (Chair)	24 Nov 1994		64,715	62,830
John Rae	24 Mar 2014		34,479	33,475
Peter Till	01 Aug 2011		34,479	33,475
Simon Young	03 Jun 2010		34,479	33,475
Mark Darrow	01 Sep 2015		20,113	-
E Richard Krogh	01 Sep 2015		20,113	-
Alex Ball	24 Mar 2014	30 Sep 2014	-	17,532
Arthur P Muldoon	01 Sep 2005	31 Jul 2014	-	11,158
			208,378	**191,945**

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	Clearwater Hydro Limited	Matawai Hydro Limited	Speedys Road Hydro Limited
A Malcolm Don	X	X	X	X	X
John Rae	X	X	X		
Peter Till	X			X	X
Simon Young	X			X	
Mark Darrow	X				
E Richard Krogh	X				
T Brent Norriss		X	X		
Marcus Paterson					X

3. Directors' Disclosures of Interest

Changes From 1 April 2015 - To 31 March 2016

A M Don	Director of Mangakahu Hydro Limited (Amalgamated 29 Feb 2016) Director of John Deere Electrical Limited (Amalgamated 29 Feb 2016)
J McF Rae	Chairman of Tepu Limited (Ceased 1 Apr 2015) Member of EC Credit Advisory Board (from 1 April 2015) Director of Cavalier Corporation Limited (Appointed 10 July 2015) Director of Mangakahu Hydro Limited (Amalgamated 29 Feb 2016) Director of John Deere Electrical Limited (Amalgamated 29 Feb 2016)
P J Till	Chief Executive, Ruapehu District Council (Ceased Nov 2015) Director of Manawatu-Wanganui LASS Limited (Ceased Nov 2015) Chair Visit Ruapehu (Regional Tourism Organisation) (Commenced Sep 2015) Chair Hobson Gardens Body Corporate (Since 2008 – not previously noted)
M C Darrow	Appointed as Director of The Lines Company Limited 01 Sep 2015 Director Primary Industry Training Organisation Incorporated Director Motor Trade Association and Subsidiaries Director Dekra NZ Limited and Subsidiaries Director Balle Bros Group Limited and Subsidiaries Director Balle Bros Farms Limited and Subsidiaries Mr Chips Holdings Limited and Subsidiaries Independent Chairman, Courier Solutions Limited Chair, Advisory Board, Armstrong Motor Group Chairman, Shareholder, Signum Holdings Indep. Trustee, Chair, Audit and Risk Committee, Macular Degeneration New Zealand Director, MCD Capital Limited Director, Tudor Park Farm Ltd Trustee, Tudor Park Trustees Limited Chairman, Shareholder, Toloda Properties Limited Director, Codar Holdings Limited
E R Krogh	Appointed as Director of The Lines Company Limited 01 Sep 2015 Director of PKW Farms GP Limited Director of Top Energy Limited and Subsidiaries Director of Port Taranaki Limited Director of Energia Limited

Potential Conflicts of Interest

E R Krogh	Director of Top Energy Limited
P J Till	Chair Visit Ruapehu (Regional Tourism Organisation)

4. Employee Remuneration

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

	2016	**2015**
$400,000 - $410,000	1	**-**
$380,000 - $390,000	-	1
$240,000 - $250,000	2	1
$200,000 - $210,000	-	1
$170,000 - $180,000	1	-
$160,000 - $170,000	2	-
$150,000 - $160,000	-	2
$140,000 - $150,000	1	1
$130,000 - $140,000	5	5
$120,000 - $130,000	3	3
$110,000 - $120,000	4	4
$100,000 - $110,000	10	5
	29	**23**

This figure includes 1 person who left the Company during the year (2015 – 7).

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 2016 have not been applied in preparing the financial statements:

- **NZ IFRS 15 *Revenue from Contracts with customers***

This standard was issued in May 2014, and will replace all existing guidance for revenue recognition, including NZ IAS 11 *Construction contracts* and NZ IAS 18 *Revenue.* The effective date is annual periods beginning or after 1 January 2018. 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***

This standard was issued in January 2016 and replaces the guidance in NZ IAS 17 Leases. NZ IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases (generally, those with a term of 12 months or less) and leases of low-value assets (such as leases of tablets and personal computers, small items of office furniture and telephones but not, for example, leases of cars). The effective date is annual periods beginning or after 1 January 2019. The group will apply this standard from its effective date and has yet to assess its full impact.

Glossary of terms

EBITDA	Earnings before interest, tax, depreciation and amortisation.
EBIT	Earnings before interest and tax.
Special discount	Total discount paid or committed as per note.
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	A M Don M C Darrow E R Krogh J M Rae P J Till S V Young
Registered Office	The Lines Company Limited King Street Te Kuiti New Zealand
Auditor	PricewaterhouseCoopers has been appointed to perform the audit on behalf of the Auditor-General
Solicitors	Russell McVeagh Forgeson Law
Postal Address	PO Box 281 Te Kuiti New Zealand
Telephone	07 878 0600
Fax	07 878 7024
Web Page	www.thelinescompany.co.nz