thelines company

annual report

2013

Contents

Results in Brief

Financial performance

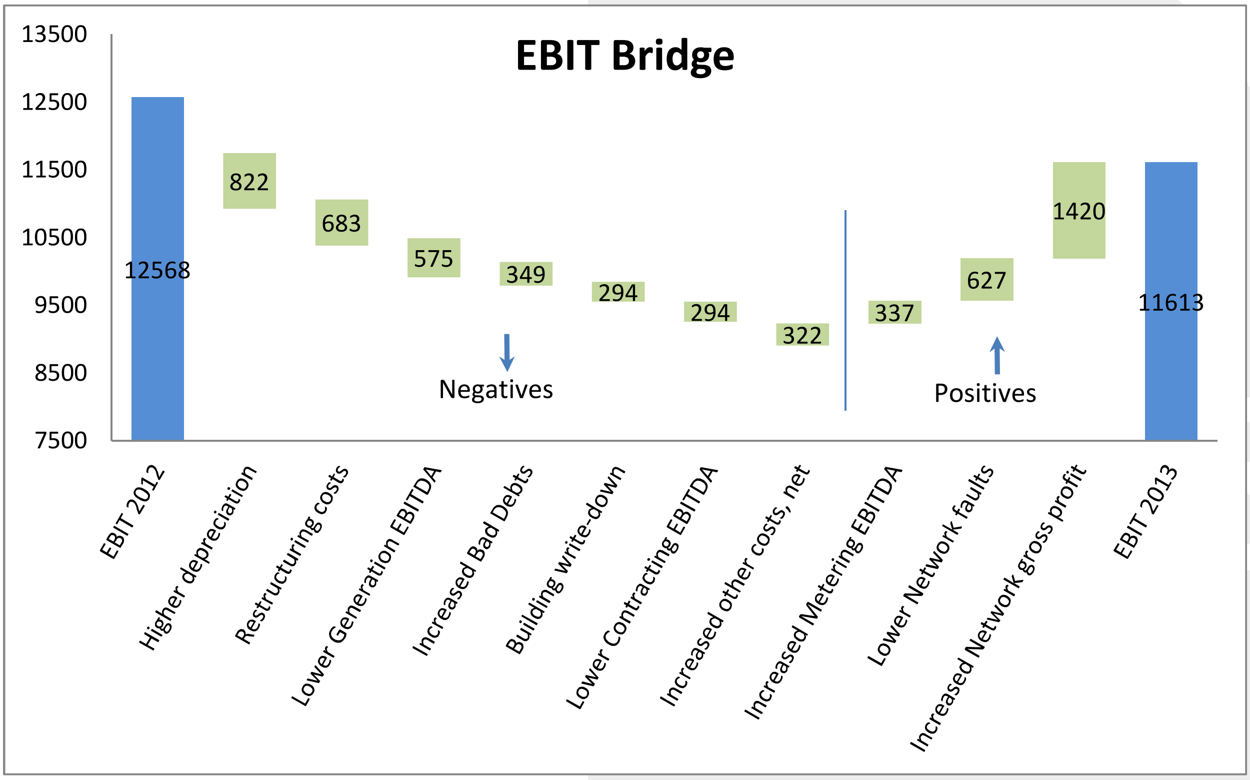
	2013 $'000	2012 $'000	2011 $'000	2010 $'000	2009 $'000	2008 $'000
Revenue	45,770	42,211	43,543	40,523	37,540	32,689
EBITDA	22,249	22,333	22,712	18,956	15,504	17,730
EBIT	11,613	12,568	14,100	10,617	8,508	11,600
Profit before tax	8,244	9,352	11,004	8,396	5,741	9,311
Profit after tax	5,840	6,733	7,744	6,060	4,031	7,037
Operating cash flow before tax	19,220	17,368	19,349	16,554	11,187	13,063
Dividends paid	4,932	3,560	3,250	3,000	4,033	8095
Total assets	233,273	233,190	181,438	177,442	174,044	136,084
Shareholder funds	141,281	140,489	101,970	96,074	92,888	77,425
Shareholder equity	138,281	137,489	98,970	93,074	89,888	74,425
Debt to assets ratio	22.2%	21.8%	28.2%	29.9%	31.3%	28.9%
Capital ratio	59.3%	59.0%	54.5%	52.5%	51.6%	54.7%
Return on average equity	4.2%	4.9%	7.8%	6.5%	4.9%	9.5%
Earnings per share net of tax (cents)	44	51	59	46	31	53

Operating performance

	2013	2012	2011	2010	2009	2008
Outage minutes per customer						
Planned	83	72	75	91	58	81
Unplanned	117	253	232	207	237	167
Total	200	325	307	298	295	248
Outage per customer						
Planned	0.54	0.51	0.81	0.56	0.81	0.34
Unplanned	1.79	3.48	2.51	2.11	3.87	2.58
Total	2.33	3.99	3.32	2.67	4.68	2.92

Report from the Chair and Chief Executive

The 2012/13 year was a positive year in The Lines Company's development as the company continued to build the foundations to create long term benefits for its shareholders, customers and staff. The dividend paid to shareholders was $4.932m, an increase of 40% on 2012 and reflects the wider improved trading conditions both locally and globally. The changes in EBIT in 2012/13 can be viewed as follows:



Normalised earnings before interest and taxes in 2012/2013 ($12.6m) were similar to the 2011/2012 year when adjusted for one off restructuring charges and a building write down due to a valuation adjustment because of building strength. Growth in Network earnings driven by increased revenues and reduced fault maintenance was offset by lower returns from the Contracting and Generation businesses which were negatively impacted by:

- Contracting - reduced services to the Network and an increase in bad and doubtful debts
- Generation - a drought year effect on the river hydro output and the write off of feasibility costs related to generation projects which are unlikely to proceed to development.

Earnings forecast in the 2013/14 Statement of Corporate Intent indicate strong earnings growth, and to date trading results are in line with these projections.

Network

The Lines Company's principle source of earnings is its electricity distribution network covering the wider King Country region and its related resources and activities. In 2012/2013, the business environment factors that have contributed positively to sustainable growth include:

- the second season of operation at the Miraka Milk Plant which has been the catalyst for increased dairy farm activity in the Whakamaru area including approximately 2MVA of irrigation development

- the commissioning of a new ship by NZ Steel to carry a greater amount of iron sand from Taharoa to export markets

- most of the other industries associated with the primary products processing in the region holding onto markets or finding new ones. Others have achieved better plant utilisation and related effectiveness upgrades to ensure long term viability of these enterprises as well as expansion being considered.

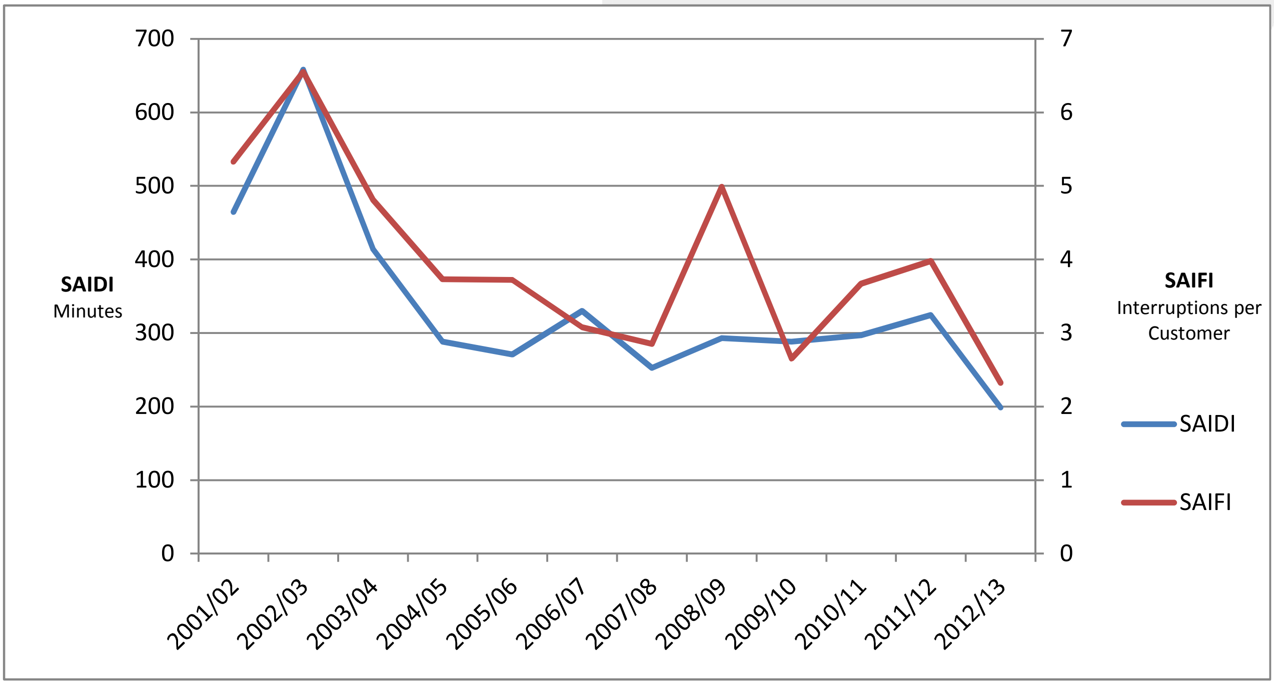
- a number of new innovative enterprises having been established in tourism including cycle and walking tracks and “buggy rides” on a disused section of railway. These activities will both supplement and add to the predominantly winter time use of the huge areas of world class conservation land in the region.

From a TLC perspective these factors have resulted in the demand on TLC’s network being such that our revenue has a firm base to ensure funds are available for renewal and maintenance.

The distribution of electrical energy by its inherent nature requires an awareness of hazards and the majority of the network expenditure is either directly or indirectly associated with reducing this risk. In 2012/13, $7.9m was spent on renewal and reinvestment. This expenditure was responsible for improving the standard of about 6% of the overhead line network plus various items of related equipment such as switchgear, zone substations and distribution transformer sites.

Continual improvement development also took place with the Safety Management System and other policies and processes. The target of less than 2.5 hours on average per person annually has been achieved over the last three years. The statistics show a general decline in overall Lost Time Injury hours claimed from the 2012/2013 year. TLC has a strong focus on renewal and reinvestment and the 2013/14 year will see continued spending to improve network reliability and hazard control.

During the 2012/13 year the weather was (comparatively) kinder and there were no extended periods of windspeeds greater than about 50 km/hr. The absence of strong windy periods meant that the high level indices that measure TLC’s network reliability performance were excellent and well under the allowable targets mandated under Commerce Commission price/quality requirements. In terms of the financial results there was a reduced amount of maintenance expenditure due to a reduced need to fix the network after faults. These lower maintenance costs contributed positively to an improvement in the Network financial result in 2012/13, although at a cost to contracting which we set out in detail later in this report.



The Company is also committed to invest in the development of its systems to improve operational efficiency and effectiveness. The most significant improvements made over the period were to the asset reporting system for outage and valuation calculations

Customer Service

The 2012/13 year also saw increased emphasis on Customer Service throughout the organisation. The hard work has led to an improved customer perception of the Company. The initiatives undertaken included:

- customer meetings
- lobby focus group
- systems and relationships established with local income and budgeting advice agencies
- electrical auditing of customers' installations
- electrician training
- development of systems with rental agency business within regions
- relationship building with retailers
- relationship building with the Electricity Authority, Commerce Commission and the Electricity and Gas Complaints Authority

These initiatives have been successful and the key customer survey indices have improved significantly.

Generation

In 2012/2013, the summer drought significantly impacted output from the hydro generation schemes. Further, feasibility costs associated with generation development projects deemed unlikely to proceed in the current climate were written off as per the Company's accounting policy. The combined effects of the drought and project development costs write-offs resulted in generation reporting a EBIT loss in 2012/13 as detailed later in this report. In 2012/13, TLC reduced its ownership to 75% in the Speedys Road hydro scheme with the funds received on settlement subsequent to year end to be applied against debt. Generation is forecast to return to profitability in the 2013/14 year.

Metering

The final testing programme showed the need to upgrade the new load meter software. The supplier cooperated well, the upgrades have now been completed and rollout is expected to commence in the 2013 calendar year. The off-network metering business of Financial Corporation Limited has secured more hard to displace current transformer metering assets in response to changes in the wider metering business landscape.

Contracting

The Lines Company Contracting continues to become a more effective and efficient operation in spite of, in particular, pressure from higher Australian wage rates for our trained staff. Restructuring has led to continuing improvements in culture.

The stronger contracting foundation ensured that most of the renewal, maintenance and development projects The Lines Company had to complete were undertaken by the internal crews with a reduced level of external support. The number of projects was similar to other years, the difference was that more work was done by the local people meaning that more wealth stayed in the region, and the intellectual knowledge and confidence of the organisation improved.

The Lines Company participates in annual safety culture surveys and it was pleasing to see an improvement overall in the performance indicators. An output of the work includes plans to further improve these indices.

John Deere Electrical has secured a significant contract at the Taharoa Iron Sand extraction site which will support strong earnings growth in 2013/14. The Company is committed to having as many as possible local trainee linesmen plus a number of graduate engineers, and other related occupations within the Company to develop its required skills.

Outlook

The year also saw a number of management changes including the retirement of CEO John Anderson towards the end of the financial year. After an extensive search the Board was pleased to appoint our Engineering Manager Brent Norriss to the position and the knowledge transfer with this and the other changes in positions and personnel is proceeding smoothly.

TLC remains committed to and focussed on a sustainable network with particular regard for the living, business and natural environment throughout the King Country.

The outlook for 2013/14 is for TLC to improve its earnings as increased contributions from all business activities are expected. Key initiatives for 2013/14 include:

- phased rollout of new meters
- further development of IT infrastructure to deliver regulatory requirements and support business practices

- staff training and development.
- organisational transformation to promote process improvement and best practice
- business review and expenditure management
- further Customer Service improvements

We wish to thank our staff, customers and suppliers and shareholders for the support they have given the organisation over the 2012/13 year. A special note of thanks to departed CEO John Anderson for all his leadership, strategic thinking and commitment to TLC over a 27 year career with the Company.

Malcolm Don
Chair

Brent Norriss
CEO

Business unit analysis

Business units

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

Principal activities are as follows:

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

Business unit information about these businesses follows on pages 8-11.

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

Continuing operations

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

A. Network

	Group		Parent	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Income	34,469	32,284	34,469	32,287
Less transmission charges	5,995	5,230	5,995	5,230
Gross profit	28,474	27,054	28,474	27,057
Expenditure				
Revenue collection (internal)	648	648	648	648
System costs (external)	1,296	381	1,296	380
System costs (internal)	2,002	3,709	2,002	3,709
Customer liaison	1,008	980	1,008	980
Asset management	1,468	1,303	1,468	1,303
Insurance	104	94	104	94
Bad debts and impairment of accounts receivable	158	135	158	135
Depreciation and amortisation	7,033	6,408	7,033	6,408
Total expenditure	13,717	13,658	13,717	13,657
Earnings before interest and tax	14,757	13,396	14,757	13,400

Business unit analysis

B. Revenue collection

	Group 2013 $'000	Group 2012 $'000	Parent 2013 $'000	Parent 2012 $'000
Income				
External	498	493	498	493
Internal	648	648	648	648
	1,146	1,141	1,146	1,141
Expenditure				
Administration costs	1,073	1,195	1,073	1,195
Depreciation and amortisation	114	73	114	73
Total expenditure	1,187	1,268	1,187	1,268
Earnings before interest and tax	(41)	(127)	(41)	(127)

Customers have been billed directly for network charges since 1 October 2005. This operating division was created to carry out the billing and revenue collection function for the network.

The internal income is received from the Network division and is based on historical charges paid by the network to energy retailers to carry out its revenue collection function.

C. Meters and relays

	Group 2013 $'000	Group 2012 $'000	Parent 2013 $'000	Parent 2012 $'000
Income	3,257	2,986	579	542
Expenditure				
Administration costs	285	351	167	218
Depreciation and amortisation	1,959	1,816	496	481
Total expenditure	2,244	2,167	663	699
Earnings before interest and tax	1,013	819	(84)	(157)

Business unit analysis

D. Contracting

	Group		Parent	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Income				
External revenue				
Construction contract revenue	2,196	1,967	1,800	1,591
Service contract revenue	3,786	2,725	404	125
Internal revenue				
Contracting service provided to Network	1,553	2,537	1,235	2,174
Revenue from internal capital works	6,619	6,579	6,619	6,579
	14,154	13,808	10,058	10,469
Expenditure				
Costs including labour, materials and overheads	11,808	11,109	8,297	8,319
Bad debts and impairment of accounts receivable	319	-	312	-
Depreciation and amortisation	657	735	568	633
Total expenditure	12,784	11,844	9,177	8,952
Surplus before profit adjustment on internal capital works	1,370	1,964	881	1,517
Less profit adjustment on internal capital works	402	480	402	480
Earnings before interest and tax	968	1,484	479	1,037

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

E. Generation

	Group		Parent	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Income	1,521	1,715	449	863
Expenditure				
Costs including labour, materials and overheads	1,528	1,147	504	303
Iimpairment of loan to subsidiary	-	-	503	779
Depreciation and amortisation	604	560	92	87
Total expenditure	2,132	1,707	1,099	1,169
Earnings/(Deficit) before interest and tax	(611)	8	(650)	(306)

Business unit analysis

F. Corporate services

	Group 2013 $'000	Group 2012 $'000	Parent 2013 $'000	Parent 2012 $'000
Income	39	37	72	70
Expenditure				
Finance	787	746	787	746
Auditor remuneration - audit fees	148	186	92	139
Auditor remuneration - other fees	55	55	52	55
Building maintenance	91	119	91	119
Corporate expenses	1,642	890	1,648	890
Directors Fees and expenses	248	229	248	229
Information technology	156	176	156	176
Public relations	520	169	520	169
Project investigations	342	257	342	257
Regulatory	254	-	254	-
Depreciation and amortisation	269	222	269	222
Total expenditure	4,512	3,049	4,459	3,002
Deficit before interest and tax	(4,473)	(3,012)	(4,387)	(2,932)

Included in 2013 Corporate services costs are certain regulatory and public relations costs amounting to $0.5m that in 2012 were treated as Network division costs. Further, 2013 costs include a $0.3m writedown of the TLC Head Office building in Te Kuiti and $0.7m of restructuring costs.

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

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Independent Auditor's Report

To the readers of The Lines Company Limited and Group's financial statements and statement of service performance for the year ended 31 March 2013

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

We have audited:

- the financial statements of the Company and Group on pages 22 to 69, that comprise the balance sheets as at 31 March 2013, the statements of comprehensive income, statements of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and

- the statement of service performance of the company and group on pages 20 to 21.

Opinion

Financial statements and the statement of service performance

In our opinion,

(i) the financial statements of the Company and Group on pages 22 to 69:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards and
- give a true and fair view of the Company's and Group's:
    - financial position as at 31 March 2013; and
    - financial performance and cash flows for the year ended on that date;

(ii) the statement of service performance of the Company and Group on pages 20 to 21:

- complies with generally accepted accounting practice in New Zealand; and
- gives a true and fair view of the Company's and Group's achievements measured against the performance targets adopted for the year ended 31 March 2013.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the Company and Group as far as appears from an examination of those records.

Our audit was completed on 28 June 2013. This is the date at which our opinion is expressed.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
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The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

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

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

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

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

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Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:

(i) comply with generally accepted accounting practice in New Zealand;

(iii) give a true and fair view of the Company's and Group's financial position, financial performance and cash flows; and

(iv) give a true and fair view of the Company's and Group's service performance achievements.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and statement of service performance, whether in printed or electronic form.

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

Responsibilities of the Auditor

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

Independence

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

In addition to the audit we have carried out assignments in the areas of Default Price-Quality Path Compliance and Information Disclosure, 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.

PricewaterhouseCoopers

Pip Cameron
On behalf of the Auditor-General
Auckland, New Zealand

PricewaterhouseCoopers

Corporate Governance Statement

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

Overview

Principal Activities

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

Ownership

The Lines Company Limited (the "Company") is wholly owned by the two consumer trusts that represent customers connected to the electricity network of the Company, namely the Waitomo Energy Services Customer Trust (90%) and the King Country Electric Power Trust (10%).

Regulatory Framework

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

Authority of the Board

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

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

Board Composition and Performance

Directors are elected by the shareholders, and the Chair is appointed by the shareholders. Currently all directors are non executive members and are independent.

The Constitution of the Company contains the following mandate:

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

The primary responsibilities of the Board include:

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

Governance statement

Risk Management

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

Treasury Management

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

Board Meetings

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

Board Committees

The Board has three operating committees.

Remuneration Committee

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

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

Audit Committee

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

The Audit Committee reviews:

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

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

Ethics Committee

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

Governance statement

Rotation and appointment of directors

At the 2012 Annual Meeting, Messrs Earl Rattray and Simon Young were re-elected as Directors. In accordance with the Company Constitution, at each annual meeting of the company one-third (or the number nearest to one-third) of the directors must retire from office. A retiring director is eligible for re-election. At the 2013 Annual Meeting, Messrs Malcolm Don and John Lindsay retire and are eligible for re-election.

Remuneration of directors

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

	2013	2012
Peter M R Browne (retired 25 July 2011)	-	10,667
A Malcolm Don (Chair)	61,000	60,000
John C Lindsay	32,500	32,000
Arthur P Muldoon	32,500	32,000
Earl Rattray	32,500	32,000
Peter Till (appointed 1 August 2011)	32,500	21,333
Simon Young	32,500	32,000
	223,500	220,000

Entries recorded in the interest register

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

The following changes were registered in the interest register for 2013

Earl Rattray
- Chairman of NZRL UC Zone (resigned)
- Director of Tokoroa Organics Limited (resigned)
- External advisor to the Reserve Bank of New Zealand (ceased)

Simon Young
- Director of Windflow Technology Limited (resigned)
- Director of Opunake Hydro Limited (resigned)
- General Manager of Opunake Hydro Limited

Directors' Loans

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

Use of information by Directors

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

Governance statement

Auditors

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

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

Directors' indemnity and insurance

The Company has insured all its Directors and Staff against liabilities to other parties that may arise from their positions as Directors or Staff. This insurance does not cover liabilities arising from criminal actions.

Directors' and Officers' interests

The following interests may lead to conflict of interest:

A Malcolm Don (Chair)	- Director of Counties Power Limited
John C Lindsay	- Chairman of Holcim (New Zealand) Limited - Director of McDonalds Lime Limited
Earl Rattray	- Trustee of Piotti Trust - Inframax Construction Limited
Peter Till	- Chief Executive, Ruapehu District Council
Simon Young	- Director of Jimmi Interests Limited - General Manager of Opunake Hydro Limited

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

Ethical conduct

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

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

Governance statement

Employee remuneration

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

	Number of employees	
	2013	2012
$930,000 - $940,000 *	1	-
$320,000 - $330,000	-	1
$280,000 - $290,000 *	-	1
$270,000 - $280,000 *	1	-
$240,000 - $250,000	1	1
$200,000 - $210,000	1	-
$180,000 - $190,000	1	-
$140,000 - $150,000	1	1
$130,000 - $140,000	3	2
$120,000 - $130,000	2	1
$110,000 - $120,000	2	2
$100,000 - $110,000	1	4
	14	13

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

Directors' Report

Statement of service performance

Performance against targets set in the Statement of Corporate Intent for the year ended 31 March 2013 was as follows: (All dollar amounts are in $'000)

	Actual	Target
1. Return on average net assets	3.7%	4.2%
2. Return on equity		
Average equity (including subordinated debentures)	140,885	141,900
Return on Equity	4.1%	5.2%
Revaluation of Assets	0.0%	0.0%
Gross return	4.1%	5.2%
3. Borrowings (excluding subordinated debentures)	40,950	40,600
4. Equity (including subordinated debentures) to assets ratio	60.4%	> 40%
5. Domestic price ranking in MED survey Within upper quartile in MED domestic supply price survey. To be ranked no higher than 10th out of 45 electricity lines company regions.		
Waitomo	23	> 10th
King Country	20	> 10th
6. Dividends	4,932	4,932
7. 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 2013 shows that TLC has not breached the reliability limits.		
8. Customer satisfaction Customers perceive that TLC values its customers. Measurement is growth in customer perception of at least 10% on base survey done in July 2012	11%	>10%
To have at least 90% of customers, who have been surveyed and have an opinion, believe that in general The Lines Company does a good job servicing its customers	81%	90%
Number of customer clinics - at least 12	17	> 12
9. Staff Safety and Health		
Average annual man hours lose through accident occurring during the year - less than 2.5	0.06	< 2.5

Statement of service performance

	Actual	Target
Staff turnover - < 15%	12%	< 15%
10. Development		
To have at least 3 electrical or lines trainees	5	3
To expend $60,000 in supporting community projects	$52,000	$60,000
11. Generation		
The plant is available for at least 90% of time	89%	90%

Statement of Comprehensive Income

for the year ended 31 March 2013

	Note	Group 2013 $'000	Group 2012 $'000	Parent 2013 $'000	Parent 2012 $'000
Revenue	4	45,766	42,207	38,271	35,971
Investment income	7	4	4	169	3
Total revenue from continuing operations		45,770	42,211	38,440	35,974
Transmission charges		(6,282)	(5,495)	(6,282)	(5,495)
Total staff costs recognised as expense		(10,778)	(9,732)	(9,027)	(7,887)
Cost of inventories recognised as expense		(4,399)	(3,618)	(2,544)	(2,450)
Impairment loss recognised on trade receivables		(478)	(129)	(470)	(135)
Impairment of loan to subsidiary	17	-	-	(503)	(779)
Total staff defined contribution plan expense		-	(12)	-	(12)
Depreciation and amortisation		(10,636)	(9,814)	(8,572)	(7,904)
Finance costs	8	(3,373)	(3,220)	(3,373)	(3,220)
Auditors remuneration - audit fees		(148)	(140)	(92)	(90)
Auditors remuneration - other fees		(55)	(55)	(52)	(55)
Directors fees and expenses		(248)	(229)	(248)	(229)
Gain / (loss) on sale of assets		24	68	24	71
Loss on revaluation of assets	18	(294)	-	(294)	-
Other expenses		(859)	(483)	(136)	(91)
Total expenses from continuing activities		(37,526)	(32,859)	(31,569)	(28,276)
Profit before tax		8,244	9,352	6,871	7,698
Income tax expense	9	(2,404)	(2,619)	(1,854)	(2,374)
Profit for the year		5,840	6,733	5,017	5,324
Profit for the year is attributable to:					
Equity holders of the parent		5,867	6,727	5,017	5,324
Minority interest		(27)	6	-	-
Other comprehensive income					
Interest rate hedging	28	(30)	(245)	(30)	(245)
Revaluation of network assets		-	48,880	-	48,880
Revaluation of land & buildings		-	457	-	457
Income tax relating to components of other comprehensive income	9	72	(13,746)	72	(13,746)
Other comprehensive income for the year		42	35,346	42	35,346
Total comprehensive income for the year		5,882	42,079	5,059	40,670
Total comprehensive income is attributable to:					
Equity holders of the parent		5,909	42,073	5,059	40,670
Minority interest		(27)	6	-	-

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

Statement of Comprehensive Income
for the year ended 31 March 2013

	Group 2013	Group 2012
Earnings Per Share		
From continuing operations:		
Basic (cents per share)	44.4	51.2
Diluted (cents per share)	44.4	51.2

Earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares (note 27).

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

Balance Sheet
as at 31 March 2013

	Note	Group 2013 $'000	Group 2012 $'000	Parent 2013 $'000	Parent 2012 $'000
Current assets					
Cash and cash equivalents	13	1,501	654	879	476
Trade and other receivables	14	2,956	2,869	1,495	1,858
Construction contracts	15	134	120	134	120
Inventories	16	1,895	1,793	1,161	1,056
		6,486	5,436	3,669	3,510
Non-current assets					
Property, plant and equipment	18	223,613	224,221	201,706	201,530
Goodwill	19	1,640	1,640	-	-
Intangible assets	20	1,440	1,793	817	1,121
Investment in subsidiaries	21	-	-	19,080	18,514
Other financial assets	17	94	100	8,098	9,531
		226,787	227,754	229,701	230,696
Total assets		233,273	233,190	233,370	234,206
Current liabilities					
Trade and other payables	22	3,923	3,734	3,196	3,147
Borrowings	23	1,500	-	1,500	-
Other financial liabilities	24	1,724	1,695	5,928	5,778
Current tax liability	11	483	280	86	110
Provision for staff entitlements	26	1,703	1,234	1,476	1,064
		9,333	6,943	12,186	10,099
Non-current liabilities					
Provision for staff entitlements	26	18	33	18	33
Borrowings	23	39,450	40,900	39,450	40,900
Subordinated debentures	23	3,000	3,000	3,000	3,000
Deferred tax liability	10	43,191	44,825	42,135	43,720
		85,659	88,758	84,603	87,653
Total liabilities		94,992	95,701	96,789	97,752
Net assets		138,281	137,489	136,581	136,454
Equity					
Share capital	27	8,013	8,013	8,013	8,013
Minority interest		179	206	-	-
Retained earnings		56,101	53,653	54,580	54,125
Cashflow hedge reserves	28	(1,242)	(1,220)	(1,242)	(1,220)
Revaluation reserves	29	75,230	76,837	75,230	75,536
Total equity		138,281	137,489	136,581	136,454

26 June 2013

Angus Malcolm Don, Director

Arthur Patrick Muldoon, Director

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

Statement of Changes in Equity
for the year ended 31 March 2013

	Note	Share Capital $'000	Minority Shares $'000	Retained Earnings $'000	Cashflow Hedge Reserves $'000	Revaluation Reserves $'000	Total Equity $'000
		Group					
Balance as at 31 March 2011		8,013	200	52,128	(1,015)	39,644	98,970
Profit for the year		-	6	6,727	-	-	6,733
Other comprehensive income							
Interest rate swaps		-	-	29	(205)	-	(176)
Revaluation of land and buildings	18	-	-	-	-	329	329
Revaluation of network assets		-	-	-	-	35,193	35,193
Total other comprehensive income		-	-	29	(205)	35,522	35,346
Transactions with owners							
Dividends paid	12	-	-	(3,560)	-	-	(3,560)
Total transactions with owners		-	-	(3,560)	-	-	(3,560)
Balance as at 31 March 2012		8,013	206	55,324	(1,220)	75,166	137,489
Profit for the year		-	(27)	5,867	-	-	5,840
Other comprehensive income							
Deferred tax adjustment on prior period buildings revaluations	10	-	-	-	-	64	64
Interest rate swaps		-	-	-	(22)	-	(22)
Total other comprehensive income		-	-	-	(22)	64	42
Transactions with owners							
Transaction with minority		-	-	(158)	-	-	(158)
Dividends paid	12	-	-	(4,932)	-	-	(4,932)
Total transactions with owners		-	-	(5,090)	-	-	(5,090)
Balance as at 31 March 2013		8,013	179	56,101	(1,242)	75,230	138,281
Attributable to Equity Holders of the Company		8,013	179	56,101	(1,242)	75,230	138,281

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

Statement of Changes in Equity
for the year ended 31 March 2013

	Note	Parent					
		Share Capital $'000	Minority Shares $'000	Retained Earnings $'000	Cashflow Hedge Reserves $'000	Revaluation Reserves $'000	Total Equity $'000
Balance as at 31 March 2011		8,013	-	52,702	(1,015)	39,644	99,344
Profit for the year		-	-	5,324	-	-	5,324
Other comprehensive income							
Interest rate swaps		-	-	29	(205)	-	(176)
Revaluation of land and buildings	18	-	-	-	-	329	329
Revaluation of network assets		-	-	-	-	35,193	35,193
Total other comprehensive income		-	-	29	(205)	35,522	35,346
Transactions with owners							
Dividends paid	12	-	-	(3,560)	-	-	(3,560)
Total transactions with owners		-	-	(3,560)	-	-	(3,560)
Balance as at 31 March 2012		8,013	-	54,495	(1,220)	75,166	136,454
Profit for the year		-	-	5,017	-	-	5,017
Other comprehensive income							
Deferred tax adjustment on prior period building revaluations	10	-	-	-	-	64	64
Interest rate swaps		-	-	-	(22)	-	(22)
Total other comprehensive income		-	-	-	(22)	64	42
Transactions with owners							
Dividends paid	12	-	-	(4,932)	-	-	(4,932)
Total transactions with owners		-	-	(4,932)	-	-	(4,932)
Balance as at 31 March 2013		8,013	-	54,580	(1,242)	75,230	136,581
Attributable to Equity Holders of the Company		8,013	-	54,580	(1,242)	75,230	136,581

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

Cash Flow Statement

for the year ended 31 March 2013

	Note	Group 2013 $'000	Group 2012 $'000	Parent 2013 $'000	Parent 2012 $'000
Operating activities					
Cash receipts from customers		45,213	41,044	38,176	35,169
Cash paid to suppliers and employees		(22,335)	(20,040)	(17,928)	(16,560)
Net cash flow from operating receipts and payments		22,878	21,004	20,248	18,609
Interest received	7	4	4	169	3
Interest paid		(3,662)	(3,639)	(3,662)	(3,386)
Net cash from operating activities before tax		19,220	17,369	16,755	15,226
Taxes paid	11	(3,701)	(2,155)	(3,689)	(2,155)
Net cash from operating activities		15,519	15,214	13,066	13,071
Investing activities					
Purchases of property, plant and equipment		(9,902)	(10,765)	(8,658)	(9,370)
Purchases of intangible assets		(194)	(608)	(182)	(287)
Proceeds on disposal of property, plant and equipment		306	115	280	115
Investment in subsidiaries		-	-	(267)	-
Convertible notes (advanced) / received		-	-	(5,000)	-
Intercompany Loans (advanced) / received		-	-	6,046	480
Net cash used in investing activities		(9,790)	(11,258)	(7,781)	(9,062)
Financing activities					
Dividends paid	12	(4,932)	(3,560)	(4,932)	(3,560)
Borrowings advanced / (repaid)		50	(550)	50	(550)
Net cash used in financing activities		(4,882)	(4,110)	(4,882)	(4,110)
Net (decrease)/increase in cash and cash equivalents		847	(154)	403	(101)
Cash and cash equivalents at the beginning of the year		654	808	476	577
Cash and cash equivalents at the end of the year	13	1,501	654	879	476

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

Cash Flow Statement
for the year ended 31 March 2013

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

	Note	Group 2013 $'000	Group 2012 $'000	Parent 2013 $'000	Parent 2012 $'000
Profit before tax for the year		8,244	9,352	6,871	7,698
Adjustments for non cash items:					
Depreciation and amortisation		10,636	9,764	8,572	7,904
(Gain)/loss on disposal of non-current assets		(24)	(18)	(24)	(71)
Loss on revaluation of non-current assets		294	-	294	-
Interest capitalised	8	(154)	(399)	(154)	(145)
Impairment of accounts receivable		457	-	458	-
Impairment of intercompany loan	17	-	-	503	779
		19,453	18,699	16,520	16,165
Changes in net assets and liabilities					
Trade and other receivables		(544)	(1,041)	(95)	(673)
Construction contracts		(14)	11	(14)	11
Inventories		(102)	(126)	(101)	(132)
Trade and other payables		(27)	(206)	48	(302)
Current provision for staff entitlements		469	71	412	127
Non current provision for staff entitlements		(15)	(39)	(15)	30
Net cash used in investing activities		(233)	(1,330)	235	(939)
Net cash from operating activities before tax		19,220	17,369	16,755	15,226

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

Notes to the financial statements
for the year ended 31 March 2013

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

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

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

The financial statements were authorised for issue by the Directors on 26 June 2013

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

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

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

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

2. Significant Accounting Policies

a) Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

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

b) Business combinations

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

c) Construction contracts

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

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

d) Employee benefits

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

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

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

e) Foreign currencies

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

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

f) Goods and services tax

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

g) Impairment of assets

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

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

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

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

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

h) Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

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

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

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

For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be

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

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

l) Property, plant and equipment

Network distribution system

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

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

Meter and relay assets

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

Gifted assets

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

Land and buildings

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

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

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

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

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

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

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

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

m) Financial assets and liabilities, derivatives and hedge accounting

Financial assets

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

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

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

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

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

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

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

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

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

Financial liabilities and equity

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

Hedge accounting

Cash flow hedges

Derivative financial instruments are initially measured at fair value on the contract date, and revalued to fair value at subsequent reporting dates. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in profit or loss. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the consolidated statement of comprehensive income in the same period period in which the hedged item affects profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is retained in other comprehensive income equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

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

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

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

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

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

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

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

Network revenue, including network, revenue collection and meters & relays is recognised when the billing transactions are applied to network customers' accounts.

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

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

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

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

Dividend income from subsidiaries is recognised when declared.

q) Borrowing costs

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

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

r) Cash flow statement

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

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

s) Adoption of new and revised Accounting Standards

Standards and Interpretations effective in the current period

A number of Standards and Interpretations became effective in the current period:

FRS 44 'New Zealand Additional Disclosures'

FRS 44 sets out New Zealand specific disclosures for entities that apply NZ IFRSs. These disclosures have been relocated from NZ IFRSs to clarify that these disclosures are additional to those required by IFRSs. Adoption of the new rules will not affect any of the amounts recognised in the financial statements, but may simplify some of the group's current disclosures.

The Harmonisation Amendments amends various NZ IFRSs for the purpose of harmonising with the source IFRSs and Australian Accounting Standards.

The significant amendments include:

- Deletion of the requirement for an independent valuer to conduct the valuation of investment property and property, plant and equipment;
- Inclusion of the option to account for investment property using either cost or fair value model;
- Introduction of the option to use the indirect method of reporting cash flows that is not currently in NZ IAS 7.

In addition, various disclosure requirements have been deleted.

Notes to the financial statements
for the year ended 31 March 2013

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

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

The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 April 2013.

• NZ IFRS 9 'Financial Instruments'

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

• NZ IFRS 10 'Consolidated Financial Statements'

NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 Consolidated and Separate Financial Statements, and NZ SIC 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.
The Group intends to adopt NZ IFRS 10 no later than 1 April 2013.

• IFRS 12 'Disclosures of Interest in Other Entities'

NZ IFRS 12 sets out the required disclosures for entities reporting under the two new standards, NZ IFRS 10 and NZ IFRS 11, and replaces the disclosure requirements currently found in NZ IAS 28. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.
The Group intends to adopt NZ IFRS 12 no later than 1 April 2013.

• IFRS 13 'Fair Value Measurements'

NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 March 2014.

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

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

Financial instruments
Note 35 contains information about the assumptions and the risk factors relating to financial instruments and their valuation, including interest rate swaps, which are valued with reference to the Group's accounting policies. Accounting judgments have been made in determining the hedge designation for the different types of derivatives employed by the Group to hedge risk exposures.

Goodwill
Goodwill relates to the purchase of John Deere Electrical Limited (refer Note 19). The assessment of the on-going value of the goodwill is based on current profit results plus future forecasts. Key assumptions at balance date include: Revenue and operating expenditure growth: 3%; Discount rate: 12%; Terminal growth rate: 3%. There are no reasonably possible changes in key assumptions that would result in an impairment of goodwill.

Provision against loans to subsidiaries
The provision against loans to subsidiaries in the Parent relates to Clearwater Hydro Limited (refer to Note 17). The loan from Clearwater Hydro Limited has been impaired to recognise feasibility study and operating costs that have already been recognised in the financial statements of Clearwater Hydro Limited.

Provision for receivables impairment

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

Generation property, plant and equipment

The 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

			Total Base value in use $27.9m	
Assumptions - Group	Low	High	Negative value impact ($'000)	Postive value impact ($'000)
Price path - Energy links A Average less $2/MWh	Energy links - 25th percentile less $2/MWh	Energy links - 75th percentile less $2/MWh	$3,250	$3,230
Generation volume (23,740 MWh)	-10.0%	10.0%	$3,530	$3,530
Operational costs ($405,000 pa)	20.0%	-20.0%	$1,230	$1,230
Discount rate - 8.1%	8.9%	7.3%	$5,520	$4,110
Life assumptions - Terminal value after 25 years	Nil	n/a	$9,390	$0

Parent

			Total Base value in use $5.4m	
Assumptions - Parent	Low	High	Negative value impact ($'000)	Postive value impact ($'000)
Price path - Energy links A Average less $2/MWh	Energy links - 25th percentile less $2/MWh	Energy links - 75th percentile less $2/MWh	$1,000	$1,000
Generation volume (5,508MWh)	-10.0%	10.0%	$880	$880
Operational costs ($175,000 pa)	20.0%	-20.0%	$540	$540
Discount rate - 8.1%	8.9%	7.3%	$880	$1,200
Life assumptions - Terminal value after 25 years	Nil	n/a	$3,367	$0

4. Revenue

An analysis of revenue is as follows:

		Group		Parent	
	Note	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Continuing operations					
Network		34,469	32,284	34,469	32,287
Revenue collection		498	493	498	493
Meters and relays		3,257	2,986	579	542
Contracting		5,982	4,692	2,204	1,716
Generation		1,521	1,715	449	863
Corporate services		39	37	72	70
Revenue		45,766	42,207	38,271	35,971
Investment income	7	4	4	169	3
		45,770	42,211	38,440	35,974

5. Expenses

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

6. Profit from operations

	Group		Parent	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Earnings before interest, tax, depreciation and amortisation (EBITDA)				
Network	21,790	19,804	21,790	19,808
Revenue collection	73	(54)	73	(54)
Meters & relays	2,972	2,635	412	324
Contracting	2,027	2,699	1,449	2,150
Less profit adjustment on internal capital works	(402)	(480)	(402)	(480)
Generation	(7)	568	(558)	(219)
Corporate services	(4,204)	(2,790)	(4,118)	(2,710)
	22,249	22,382	18,646	18,819
Depreciation and amortisation	10,636	9,814	8,572	7,904
Earnings before interest and tax (EBIT)	11,613	12,568	10,074	10,915

7. Investment income

	Group		Parent	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Interest on bank deposits	4	4	4	3
Interest on convertible notes	-	-	165	-
	4	4	169	3

8. Finance costs

	Group		Parent	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Interest on bank overdrafts and loans	3,151	3,445	3,151	3,191
Interest on debentures	174	174	174	174
Other interest expense, pricincipally IRD UofM	202	-	202	-
	3,527	3,619	3,527	3,365
Interest capitalised	(154)	(399)	(154)	(145)
	3,373	3,220	3,373	3,220

The weighted average capitalisation rate on funds borrowed generally is 7.35% (2012: 7.29%)

9. Income tax expense

Company tax is calculated at 28% of the estimated assessable profit for the year.
The charge for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows:

	Group		Parent	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Profit before tax	8,244	9,352	6,871	7,698
Expenses that are non deductible	10	-	504	779
Taxable profit	8,254	9,352	7,375	8,477
Income tax expense at 28%	2,312	2,619	2,065	2,374
Subvention payment made to subsidiary	-	-	(298)	-
Effect of prior period tax adjustment in current tax	92	-	87	-
Income tax expense	2,404	2,619	1,854	2,374
Effective tax rate (being total tax expense divided by Profit before tax)	29%	28%	27%	31%
Current tax expense	3,904	2,932	3,367	2,873
Deferred tax expense	(1,500)	(313)	(1,513)	(499)
Income tax expense	2,404	2,619	1,854	2,374
Attributable to:				
Continuing activities	2,404	2,619	1,854	2,374

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	(72)	13,746	(72)	13,746
Total tax expense for the year recognised in other comprehensive income	(72)	13,746	(72)	13,746

Imputation credit memorandum account

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

Imputation credits balance	3,889	1,979	2,022	351

10. Deferred tax liability

	Group				
	Property, plant & equipment $'000	Cash flow hedges $'000	Provisions $'000	Other $'000	Total $'000
At 31 March 2011	32,084	(406)	(286)	-	31,392
Charged to income	(347)	-	34	-	(313)
Charged to other comprehensive income	-	(69)	-	-	(69)
Revaluation of assets	13,815	-	-	-	13,815
At 31 March 2012	45,552	(475)	(252)	-	44,825
Charged to income	(1,212)	-	(288)	-	(1,500)
Charged to retained earnings	-	-	(62)	-	(62)
Charged to other comprehensive income	-	(8)	-	-	(8)
Deferred tax adjustment on prior period building revlautions	(64)	-	-	-	(64)
At 31 March 2013	44,276	(483)	(602)	-	43,191

	Parent				
	Property, plant & equipment $'000	Cash flow hedges $'000	Provisions $'000	Other $'000	Total $'000
At 31 March 2011	31,249	(406)	(370)	-	30,473
Charged to income	(496)	-	(3)	-	(499)
Charged to other comprehensive income	-	(69)	-	-	(69)
Revaluation of assets	13,815	-	-	-	13,815
At 31 March 2012	44,568	(475)	(373)	-	43,720
Charged to income	(1,320)	-	(193)	-	(1,513)
Charged to other comprehensive income	-	(8)	-	-	(8)
Deferred tax adjustment on prior period building revlautions	(64)	-	-	-	(64)
At 31 March 2013	43,184	(483)	(566)	-	42,135

11. Current tax liability

	Group 2013 $'000	Group 2012 $'000	Parent 2013 $'000	Parent 2012 $'000
Opening balance	280	(497)	110	(608)
Tax payments and tax credits received	(3,701)	(2,155)	(3,689)	(2,155)
Subvention payment	-	-	298	-
Current tax expense for the year	3,904	2,932	3,665	2,873
	483	280	86	110

12. Dividends

Amounts recognised as distributions to shareholders in the period:

	Group 2013 $'000	Group 2012 $'000	Parent 2013 $'000	Parent 2012 $'000
Dividends paid during the year	4,932	3,560	4,932	3,560

Dividends of $4.932m (2012: $3.56m), being $0.37 per share, were paid to shareholders during the year.

13. Cash and cash equivalents

	Group 2013 $'000	Group 2012 $'000	Parent 2013 $'000	Parent 2012 $'000
Cash and cash equivalents	1,501	654	879	476

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

14. Trade and other receivables

	Group 2013 $'000	Group 2012 $'000	Parent 2013 $'000	Parent 2012 $'000
Trade debtors	3,405	2,721	1,912	1,868
Less impairment loss recognised on receivables	(908)	(452)	(900)	(442)
Sundry debtors	224	361	248	201
Prepayments	235	239	235	231
	2,956	2,869	1,495	1,858

No interest is charged on trade receivables for most customers.

The Directors consider that 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.

Impairment loss recognised on trade receivables

	Group		Parent	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Opening Balance	452	521	442	495
Provision for receivables impairment	466	108	458	106
Receivables written off during the year as uncollectable	(9)	(168)	-	(159)
Unused amounts reversed	(1)	(9)	-	-
	908	452	900	442

The creation and release of provision for receivables impaired have been included in 'impaired loss recognised on trade receivables' in the Statement of Comprehensive Income.

15. Construction contracts

Contracts in progress at balance date:

	Group		Parent	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Construction costs incurred plus recognised profits less recognised losses to date	264	135	264	135
Less: Progress billings	(130)	(15)	(130)	(15)
	134	120	134	120

No retentions were held by customers for construction work in progress at year-end. (2012: $ Nil)
All amounts included in trade and other receivables and arising from construction contracts are due for settlement within the following 12 months.

16. Inventories

	Group		Parent	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Contracting stores	923	981	806	795
Network stores	24	23	24	23
Transformers	350	340	331	340
Meters and relays	275	166	-	-
Generation (strategic spares)	323	385	-	-
Less provision for obsolescence	-	(102)	-	(102)
	1,895	1,793	1,161	1,056

Notes to the financial statements
for the year ended 31 March 2013

17. Other financial assets

	Group	
	2013	2012
	$'000	$'000
Investments carried at amortised cost		
Other investments	94	100

	Parent	
	2013	2012
	$'000	$'000
Loans carried at amortised cost, less impairment		
Loans to subsidiaries	3,004	9,431
Investments carried at cost		
Convertible notes in Speedy's Road Hydro Limited	5,000	-
Other investments	94	100
	8,098	9,531

Subsequent to year end, the Parent reduced its holding in Speedy's Road Hydro Limited convertible notes (refer note 32)

	Parent	
	2013	2012
	$'000	$'000
Loans to subsidiaries		
Clearwater Hydro Limited	2,656	2,704
Less impairment loss recognised on loans to Clearwater Hydro Limited	(1,282)	(779)
Scope Infrastructure Limited	549	952
Matawai Hydro Limited	1,081	1,028
Speedy's Road Hydro Limited	-	5,526
	3,004	9,431

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

	Parent	
	2013	2012
	$'000	$'000
Impairment loss recognised on loans to Clearwater Hydro Limited		
Opening Balance	779	-
Impairment of loan to subsidiary	503	779
	1,282	779

Notes to the financial statements for the year ended 31 March 2013

18. Property, plant and equipment

	Group						
	Land (At Valuation) $'000	Buildings (At Valuation) $'000	Network Distribution System (At Valuation) $'000	Meters & Relays (At Cost) $'000	Plant & Vehicles (At Cost) $'000	Generation (At Cost) $'000	Total $'000
Gross carrying amount							
At 31 March 2011	1,724	2,615	173,564	13,749	8,504	19,420	219,576
Additions	250	-	6,480	490	587	747	8,554
Disposals	-	-	-	-	(205)	-	(205)
Revaluation	228	(304)	7,600	-	-	-	7,524
Capital works in progress	-	-	2,201	65	-	343	2,609
At 31 March 2012	2,202	2,311	189,845	14,304	8,886	20,510	238,058
Additions	-	29	5,974	887	593	267	7,750
Disposals	-	-	-	(610)	(1,928)	-	(2,538)
Revaluation	-	(321)	-	-	-	-	(321)
Capital works in progress	-	-	2,238	-	-	65	2,303
At 31 March 2013	2,202	2,019	198,057	14,581	7,551	20,842	245,252
Accumulated depreciation and impairment							
At 31 March 2011	-	448	35,090	5,363	4,934	491	46,326
							-
Depreciation charge	-	90	6,190	1,795	936	470	9,481
Eliminated on revaluation		(533)	(41,280)				(41,813)
Eliminated on disposals	-	-	-	-	(157)	-	(157)
At 31 March 2012	-	5	-	7,158	5,713	961	13,837
Depreciation charge	-	80	6,716	1,914	857	523	10,090
Revaluation	-	(26)	-	-	-	-	(26)
Eliminated on disposals	-	-	-	(610)	(1,652)	-	(2,262)
At 31 March 2013	-	59	6,716	8,462	4,918	1,484	21,639
Carrying amount (Net book value)							
At 31 March 2011	1,724	2,167	138,474	8,386	3,570	18,929	173,250
At 31 March 2012	2,202	2,306	189,845	7,146	3,173	19,549	224,221
At 31 March 2013	2,202	1,960	191,341	6,119	2,633	19,358	223,613

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

	Group						
	Land (At Valuation) $'000	Buildings (At Valuation) $'000	Network Distribution System (At Valuation) $'000	Meters & Relays (At Cost) $'000	Plant & Vehicles (At Cost) $'000	Generation (At Cost) $'000	Total $'000
At 31 March 2012	1,478	2,097	92,286	5,539	3,173	19,549	124,122
At 31 March 2013	1,463	2,059	97,991	5,158	2,633	19,358	128,662

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

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

Assumptions	Valuation assumptions adopted	Low	High	Valuation impact
Domestic load growth	1.2%	0.0%	2.4%	+/- $20,000,000
WACC (with CPI inflation @ 1.5%)	7.5%	6.55%	7.5%	+ $30,000,000 - $6,000,000
CPI inflation (with WACC @ 7.5%)	1.5%	1.5%	2.5%	+ $11,000,000 - $6,000,000

Meters and relays, plant, motor vehicles and generation
Meters and relays, plant, motor vehicles and generation assets have been valued at cost less accumulated depreciation.

Notes to the financial statements for the year ended 31 March 2013

Property, plant and equipment

	Parent						
	Land (At Valuation) $'000	Buildings (At Valuation) $'000	Network Distribution System (At Valuation) $'000	Meters & Relays (At Cost) $'000	Plant & Vehicles (At Cost) $'000	Generation (At Cost) $'000	Total $'000
Gross carrying amount							
At 31 March 2011	1,724	2,569	173,564	1,988	7,707	3,382	190,934
Additions	(1)	-	6,480	14	552	263	7,308
Disposals	-	-	-	-	(197)	-	(197)
Revaluation	228	(304)	7,600	-	-	-	7,524
Capital works in progress	-	-	2,201	-	-	8	2,209
At 31 March 2012	1,951	2,265	189,845	2,002	8,062	3,653	207,778
Additions	-	29	5,974	23	496	47	6,569
Disposals	-	-	-	(203)	(1,890)	-	(2,093)
Revaluation	-	(320)	-	-	-	-	(320)
Capital works in progress	-	-	2,238	-	-	-	2,238
At 31 March 2013	1,951	1,974	198,057	1,822	6,668	3,700	214,172
Accumulated depreciation and impairment							
At 31 March 2011	-	448	35,090	249	4,629	174	40,590
Depreciation charge	-	89	6,190	461	796	87	7,623
Eliminated on revaluation	-	(533)	(41,280)	-	-	-	(41,813)
Eliminated on disposals	-	-	-	-	(152)	-	(152)
At 31 March 2012	-	4	-	710	5,273	261	6,248
Depreciation charge	-	79	6,716	461	739	92	8,087
Revaluation	-	(26)	-	-	-	-	(26)
Eliminated on disposals	-	-	-	(203)	(1,640)	-	(1,843)
At 31 March 2013	-	57	6,716	968	4,372	353	12,466
Carrying amount (Net book value)							
At 31 March 2011	1,724	2,121	138,474	1,739	3,078	3,208	150,344
At 31 March 2012	1,951	2,261	189,845	1,292	2,789	3,392	201,530
At 31 March 2013	1,951	1,917	191,341	854	2,296	3,347	201,706

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

	Land	Buildings	Network Distribution System	Meters & Relays	Plant & Vehicles	Generation	Total
At 31 March 2012	1,227	2,053	92,286	676	2,789	3,392	102,423
At 31 March 2013	1,212	2,015	97,991	587	2,296	3,347	107,449

19. Goodwill

	Group		Parent	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Gross carrying amount				
At 31 March	1,640	1,640	-	-
Carrying amount (Net book value)				
At 31 March	1,640	1,640	-	-

Annual test for impairment

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

Notes to the financial statements for the year ended 31 March 2013

20. Intangible assets

	Group			
	Software $'000	Land Easements $'000	Resource Consents & Rights $'000	Total $'000
Cost				
Total cost at 31 March 2011	2,469	159	400	3,028
Additions	310	4	295	609
Transfers	9	(9)	-	-
Total cost at 31 March 2012	2,788	154	695	3,637
Additions	184	-	12	196
Disposals	(423)	-	-	(423)
Total cost at 31 March 2013	2,549	154	707	3,410
Accumulated amortisation and impairment				
Total at 31 March 2011	1,511	-	-	1,511
Amortisation charge for the year	283	-	50	333
Total at 31 March 2012	1,794	-	50	1,844
Amortisation charge for the year	496	-	50	546
Eliminated on disposal	(420)	-	-	(420)
Total at 31 March 2013	1,870	-	100	1,970
Carrying amount (Net book value)				
At 31 March 2011	958	159	400	1,517
At 31 March 2012	994	154	645	1,793
At 31 March 2013	679	154	607	1,440

	Parent			
	Software $'000	Land easements $'000	Resource consents and rights $'000	Total $'000
Cost				
Total cost at 31 March 2011	2,465	159	-	2,624
Additions	283	4	-	287
Disposals	9	(9)	-	-
Total cost at 31 March 2012	2,757	154	-	2,911
Additions	184	-	-	184
Disposals	(423)	-	-	(423)
Total cost at 31 March 2013	2,518	154	-	2,672
Accumulated amortisation and impairment				
Total at 31 March 2011	1,509	-	-	1,509
Amortisation charge for the year	281	-	-	281
Total at 31 March 2012	1,790	-	-	1,790
Amortisation charge for the year	485	-	-	485
Eliminated on disposal	(420)	-	-	(420)
Total at 31 March 2013	1,855	-	-	1,855
Carrying amount (Net book value)				
At 31 March 2011	956	159	-	1,115
At 31 March 2012	967	154	-	1,121
At 31 March 2013	663	154	-	817

21. Investments in subsidiaries

Name	Principal Activity	Ownership Interest 2013 %	2012 %	2013 $'000	2012 $'000
Financial Corporation Limited	Meter and relay assets	100	100	7,200	7,200
Clearwater Hydro Limited	Developer and promoter of small hydro-electricity schemes throughout the North Island	100	100	-	-
Scope Infrastructure Limited	Transformer oil refining services operating in Hamilton	100	100	-	-
John Deere Electrical Limited	Electricity contracting business operating in Te Kuiti	100	100	1,846	1,846
Speedy's Road Hydro Limited	Hydro generation scheme	94.57	93.75	3,784	3,218
Matawai Hydro Limited	Hydro generation scheme	100	100	6,250	6,250
				19,080	18,514

The subsidiaries have been fully consolidated with intercompany transactions eliminated. All subsidiaries have a reporting date of 31 March and are incorporated and operate in New Zealand. Subsequent to year end the Parent reduced its ownership in Speedy's Road Hydro Limited to 75% (refer note 32).

Impairment
There has been no impairment of the investment in subsidiaries recognised in the 2013 financial year. (2012: $ Nil)

22. Trade and other payables

	Group 2013 $'000	Group 2012 $'000	Parent 2013 $'000	Parent 2012 $'000
Trade creditors and accruals	2,432	2,121	1,909	1,888
Other accruals	1,491	1,613	1,287	1,259
	3,923	3,734	3,196	3,147

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

The Directors consider that the carrying amount of trade and other payables approximates to their fair value because apart from some employee benefit items the amounts due will be settled within one year's time for their carrying value.

23. Borrowings And Subordinated debentures

	Group		Parent	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Non-Current				
Bank loans	39,450	40,900	39,450	40,900
Subordinated debentures:				
Waitomo Energy Services Customer Trust	1,000	1,000	1,000	1,000
North King Country Development Trust	2,000	2,000	2,000	2,000
	42,450	43,900	42,450	43,900
Disclosed in the financial statements as:				
Current borrowings	1,500	-	1,500	-
Non-current borrowings	42,450	43,900	42,450	43,900
	43,950	43,900	43,950	43,900

Bank lending facilities

The Group has total bank lending facilities with Westpac of $62 million. The term lending facilities are for five years, expiring 31 March 2017. The working capital facilities (borrowings 2013 - $1.5m) are subject to annual renewal and expire on 31 March 2014. Bank loans are at floating rates and expose the Group to cash flow interest rate risk. The Group is within the banking covenant limits and no default of event of review has occurred.

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

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

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 (2012: 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 (2012: 5.00%).

The subordinated debentures are unsecured and the interest rates are as at balance date.

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.

24. Other financial liabilities

	Note	Group and Parent Current 2013 $'000	Group and Parent Current 2012 $'000	Group and Parent Non-current 2013 $'000	Group and Parent Non-current 2012 $'000
Derivatives designated and effective as hedging instruments carried at fair value					
Interest rate swaps	35	1,724	1,695	-	-

	Parent 2013 $'000	Parent 2012 $'000
Current		
Loans from subsidiaries	4,204	4,083
Loans from subsidiaries		
John Deere Electrical Limited	531	772
Financial Corporation Limited	3,659	3,311
Speedy's Road Hydro Limited	14	-
	4,204	4,083

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

25. Obligations under finance leases

Nil

26. Provision for staff entitlements

	Group 2013 $'000	Group 2012 $'000	Parent 2013 $'000	Parent 2012 $'000
Opening balance	1,267	1,235	1,097	940
Accrued	1,410	1,015	1,174	874
Utilised	(956)	(983)	(777)	(717)
	1,721	1,267	1,494	1,097
Classified as:				
Current	1,703	1,234	1,476	1,064
Non-current	18	33	18	33
	1,721	1,267	1,494	1,097

The provision for employee entitlements includes accrued wages, bonuses, accrued holiday pay, long service leave, sick leave, trainee bonds and gratuities. Where settlement is greater than one year, the item is discounted using the Group's weighted average cost of capital. The Directors consider that 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.

27. Share capital

	Group 2013 $'000	Group 2012 $'000	Parent 2013 $'000	Parent 2012 $'000
Issued and fully paid capital				
Represented by 13,163,120 ordinary shares	8,013	8,013	8,013	8,013
Number of Shares Held By:				
Waitomo Energy Services Customer Trust	11,846,808	11,846,808	11,846,808	11,846,808
King Country Electric Power Trust	1,316,312	1,316,312	1,316,312	1,316,312
	13,163,120	13,163,120	13,163,120	13,163,120

The Company has one class of ordinary shares, which have no par value. There were no changes to shareholding during the year.

28. Cashflow hedge reserves

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

	Group 2013 $'000	Group 2012 $'000	Parent 2013 $'000	Parent 2012 $'000
Opening balance	(1,220)	(1,015)	(1,220)	(1,015)
Gain/(loss) recognised on cash flow hedges:				
Interest rate swaps	(30)	(245)	(30)	(245)
Income tax related to gain/loss recognised in equity	8	40	8	40
	(1,242)	(1,220)	(1,242)	(1,220)

29. Revaluation reserves

	Group and Parent		
	Network Distribution System $'000	Land & Buildings $'000	Total $'000
Total at 31 March 2011	39,420	224	39,644
Write back of depreciation	41,280	533	41,813
Revaluation increases / (decreases)	7,600	(76)	7,524
Deferred tax on revaluation	(13,687)	(128)	(13,815)
Total at 31 March 2012	74,613	553	75,166
Deferred tax adjustment on prior period buildings revaluations	-	64	64
Total at 31 March 2013	74,613	617	75,230

30. Contingent assets and liabilities

Speedys Road Hydro Limited (SRHL) has filed an insurance claim to recover qualifying repairs & maintenance costs incurred in connection with rebuilding the hydro plant which was damaged in a flood. SRHL is expecting to recover not less than $100,000.

SRHL is in negotiation with the hydro plant design engineer to recover costs incurred in connection connection with rebuilding the hydro plant which was damaged in a flood. SRHL is expecting to recover not less than $80,000.

31. Operating lease arrangements

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

32. Events after balance date

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

33. Share based payments

No share based payments are made.

34. Related party transactions

Trading transactions

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

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

Financial Corporation Limited

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

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

	2013 $'000	2012 $'000
Management and acquisition fees received from FCL	286	288
Warehousing fee received from FCL	10	10
Installation of meter and relay assets by TLC	126	94

Management and acquisition fees were based on an assessment of a sustainable amount that would be fair to an external investor should one be sought.

Notes to the financial statements for the year ended 31 March 2013

Clearwater Hydro Limited

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

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

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

	2013 $'000	2012 $'000
Project management and engineering fees paid to CWH	33	43
Hydro management charge paid to CWH	15	20
Provision for impairment on intercompany loan	503	779

Matawai Hydro Limited

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

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

Speedy's Road Hydro Limited

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

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

	2013 $'000	2012 $'000
Job revenue received from SRHL	-	4
Interest received on Convertible Notes	165	-
Lines charges	3	4

Scope Infrastructure Limited

Scope Infrastructure Limited was established as a wholly owned subsidiary to conduct electrical lines contracting work. The Company now undertakes oil refurbishment with its operations being based in Hamilton.

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

	2013 $'000	2012 $'000
Oil purchases made by TLC from Scope	56	94

John Deere Electrical Limited

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

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

	2013 $'000	2012 $'000
Consulting and administration fees received from JDE	33	33
Job revenue received from JDE	13	9
Lines charges	1	1
Purchases made by TLC from JDE	100	96

Remuneration of key management personnel

	Group		Parent	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Short-term employee benefits	2,133	1,453	1,990	1,171
Post-employment benefits	14	12	12	12
Directors' Fees & Expenses	248	229	248	229
	2,395	1,694	2,250	1,412

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

Waitomo Energy Services Customer Trust

Interest and dividend payments are made to the Group's controlling entity, Waitomo Energy Services Customer Trust, (these have not and cannot be eliminated from the Group's accounts).

	Group		Parent	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Interest paid	74	74	74	74
Dividends paid	4,439	3,204	4,439	3,204

King Country Electric Power Trust

The following transactions occurred during the year.

	Group		Parent	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Dividends paid	493	356	493	356

35. Financial instruments

Interest rate swaps

		Group		Parent	
		2013	2012	2013	2012
	Note	$'000	$'000	$'000	$'000
Fair value of interest rate swaps at balance date (liability) / Asset were :	24	(1,724)	(1,695)	(1,724)	(1,695)

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

	Notional Amount	Reset	Fixed Rate	Expiry Date
Receive floating - Pay fixed interest swap	$5,000,000	Quarterly	6.53%	1-Nov-13
Receive floating - Pay fixed interest swap	$5,000,000	Quarterly	5.17%	1-May-14
Receive floating - Pay fixed interest swap	$4,000,000	Quarterly	4.74%	29-Jan-18
Receive floating - Pay fixed interest swap	$2,500,000	Quarterly	4.41%	8-Aug-17
Receive floating - Pay fixed interest swap	$2,500,000	Quarterly	4.59%	8-Aug-18
Receive floating - Pay fixed interest swap	$5,000,000	Quarterly	4.49%	29-Nov-16
Receive floating - Pay fixed interest swap	$5,000,000	Quarterly	4.16%	2-Oct-15
Receive floating - Pay fixed interest swap	$5,000,000	Quarterly	4.89%	2-May-16
Receive floating - Pay fixed interest swap	$5,000,000	Quarterly	4.67%	2-May-15

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

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

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

Capital risk management

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

The Group's overall strategy remains unchanged from 2012 and is based on risk management strategies and treasury management policies set and monitored by the Board.

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

Notes to the financial statements for the year ended 31 March 2013

Financial risk management objectives

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

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

a) Market risk

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

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

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

Foreign currency

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

The Group had no forward foreign exchange contracts as at 31 March 2013. (2012: $ Nil)

Interest rate risk management

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

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

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

Interest rate sensitivity analysis

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

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

- Profit for the year ended 31 March 2013 would decrease/increase by $176,000 (2012: decrease/ increase by $70,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings; and
- Other equity reserves would increase by $663,000 if rates were higher and decrease by $690,000 if rates were lower (2012: increase by $1,324,000 if rates were higher and decrease by $1,392,000 if rates were lower).

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

b) Credit risk management

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

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

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

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

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

c) Electricity price risk

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

Notes to the financial statements for the year ended 31 March 2013

Categories of financial instruments

	Note	Group Loans and receivables $'000	Financial liabilities at amortised cost $'000	Derivatives designated as cash flow hedges $'000	Total $'000
Cash and bank balances	13	1,501	-	-	1,501
Trade and other receivables	14	2,721	-	-	2,721
Other financial assets	17	94	-	-	94
Total financial assets		4,316	-	-	4,316
Total non-financial assets					228,957
Total assets at 31 March 2013					233,273
Trade and other payables	22	-	3,453	-	3,453
Borrowings	23	-	42,450	-	42,450
Other financial liabilities	24	-	-	1,724	1,724
Total financial liabilities		-	45,903	1,724	47,627
Total non-financial liabilities					47,365
Total liabilities at 31 March 2013					94,992
Cash and bank balances	13	654	-	-	654
Trade and other receivables	14	2,630	-	-	2,630
Other financial assets	17	100	-	-	100
Total financial assets		3,384	-	-	3,384
Total non-financial assets					229,806
Total assets at 31 March 2012					233,190
Trade and other payables	22	-	3,734	-	3,734
Borrowings	23	-	43,900	-	43,900
Other financial liabilities	24	-	-	1,695	1,695
Total financial liabilities		-	47,634	1,695	49,329
Total non-financial liabilities					46,372
Total liabilities at 31 March 2012					95,701

Categories of financial instruments

	Note	Parent			
		Loans and receivables $'000	Financial liabilities at amortised cost $'000	Derivatives designated as cash flow hedges $'000	Total $'000
Cash and bank balances	13	879	-	-	879
Trade and other receivables	14	1,260	-	-	1,260
Other financial assets	17, 21	27,178	-	-	27,178
Total financial assets		29,317	-	-	29,317
Total non-financial assets					204,053
Total assets at 31 March 2013					233,370
Trade and other payables	22	-	2,708	-	2,708
Borrowings	23	-	42,450	-	42,450
Other financial liabilities	24	-	4,204	1,724	5,928
Total financial liabilities		-	49,362	1,724	51,086
Total non-financial liabilities					45,703
Total liabilities at 31 March 2013					96,789
Cash and bank balances	13	476	-	-	476
Trade and other receivables	14	1,627	-	-	1,627
Other financial assets	17, 21	28,045	-	-	28,045
Total financial assets		30,148	-	-	30,148
Total non-financial assets					204,058
Total assets at 31 March 2012					234,206
Trade and other payables	22	-	3,147	-	3,147
Borrowings	23	-	43,900	-	43,900
Other financial liabilities	24	-	4,083	1,695	5,778
Total financial liabilities		-	51,130	1,695	52,825
Total non-financial liabilities					44,927
Total liabilities at 31 March 2012					97,752

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.

Notes to the financial statements
for the year ended 31 March 2013

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.

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 & Parent 2013	Year				
Investments carried at cost	2013	-	94	-	94
Derivative financial liabilities	2013	-	(1,724)	-	(1,724)
Group & Parent 2012	Year				
Investments carried at cost	2012	-	100	-	100
Derivative financial liabilities	2012	-	(1,695)	-	(1,695)

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

d) Liquidity risk management

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

Liquidity and interest risk tables

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

Notes to the financial statements for the year ended 31 March 2013

Financial liability maturity analysis

	Group				
	Less than 1 month $'000	1 month to 1 year $'000	1 to 5 years $'000	5+ years $'000	Total $'000
Non-interest bearing	3,480	1,932	18	-	5,430
Variable interest rate instruments	172	1,894	49,214	-	51,280
Fixed interest rate instruments	15	160	697	3,248	4,119
At 31 March 2013	3,667	3,985	49,929	3,248	60,829
Non-interest bearing	3,464	1,504	33	-	5,001
Variable interest rate instruments	194	2,131	50,199	1,077	53,601
Fixed interest rate instruments	8	92	400	2,100	2,600
At 31 March 2012	3,666	3,727	50,632	3,177	61,202

	Parent				
	Less than 1 month $'000	1 month to 1 year $'000	1 to 5 years $'000	5+ years $'000	Total $'000
Non-interest bearing	2,805	1,651	18	-	4,474
Variable interest rate instruments	172	1,894	49,214	-	51,280
Fixed interest rate instruments	15	160	697	3,248	4,119
At 31 March 2013	2,992	3,704	49,929	3,248	59,873
Non-interest bearing	2,921	1,290	33	-	4,244
Variable interest rate instruments	194	2,131	50,199	1,077	53,601
Fixed interest rate instruments	8	92	400	2,100	2,600
At 31 March 2012	3,123	3,513	50,632	3,177	60,445

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 appliable tax rate) divided by ((opening net assets plus closing net assets) divided by 2).

Corporate directory

The Lines Company Limited

Company number	578653
Directors	A M Don J C Lindsay A P Muldoon E Rattray P J Till S 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
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