

The Lines Company Limited

Annual Report

for the year ended 31 March 2011

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Results in brief

Financial performance

	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Revenue	43,543	40,523	37,540	32,689	29,128	26,727
EBITDA	22,712	18,956	15,504	17,730	16,783	15,145
EBIT	14,100	10,617	8,508	11,600	11,144	9,746
Profit before discount and tax	11,004	8,396	5,741	9,311	9,984	8,660
Profit after tax*	7,744	6,060	4,031	7,037	2,940	1,715
Operating cash flow before discounts	19,349	16,554	11,187	13,063	15,491	12,647
Dividends paid	3,250	3,000	4,033	8,095	132	132
Special discount	-	-	-	-	6,200	6,200
Total assets	181,438	177,442	174,044	136,084	120,809	117,528
Shareholder funds	101,970	96,074	92,888	77,425	76,918	74,055
Shareholder equity	98,970	93,074	89,888	74,425	73,918	71,055
Debt to assets ratio	28.20%	29.90%	31.30%	28.90%	19.00%	19.30%
Capital ratio	54.50%	52.50%	51.60%	54.70%	61.20%	60.00%
Return on average equity	7.80%	6.50%	4.90%	9.50%	9.80%	8.40%
Earnings per share before discount and net of tax (cents)	59	46	31	53	54	45

Operating performance

	2011	2010	2009	2008	2007	2006
Outage minutes per customer						
Planned	75	91	58	81	101	98
Unplanned	232	207	237	167	233	180
Total	307	298	295	248	334	278
Outage per customer						
Planned	0.81	0.56	0.81	0.34	0.52	0.60
Unplanned	2.51	2.11	3.87	2.58	2.73	3.20
Total	3.32	2.67	4.68	2.92	3.25	3.80

Overview

The Lines Company network is a difficult network to manage.

It covers some of the remotest areas in New Zealand.

The network covers 13,700 km² - 9 % of New Zealand's North Island. It has over 4,500 kms of high voltage line – more than enough to stretch from the wild west coast of the King Country to Sydney and back again. The 4,500kms includes 1,500km of single wire earth return – a cost-saving technology for remote rural networks for which The Lines Company is internationally recognised. Many of these lines carry two or more circuits; the total circuit length required is therefore considerably greater than 4,500km. The conductors, made from copper and aluminium, are expensive.

To carry these lines, we have 45,000 poles. Many of these poles are in remote country. Some of the spans between poles stretch from ridge top to ridge top at lengths of over 1km. All require regular inspection, maintenance and, where necessary, replacement. Our lines run through areas of dense vegetation. Many of the original access tracks to our poles were overgrown many years ago. Accessing these lines to repair faults can be difficult and expensive. Speedy fault response often involves the use of helicopters.

To supply electricity to customers at the correct voltage there are 5,000 transformers and over 30 zone substations.

The topography of the region means that communication is not easy. There are many places where cell phone coverage is non-existent. We have 20 repeater sites throughout the region to carry voice and data signals, so that we can communicate with our staff and with the network itself to automate network operations; there is a total of over 100 remote-controlled switches and 20 load control points. Automation systems need to be maintained and upgraded when necessary.

Due to the size of the network it needs to connect with Transpower's transmission system at 5 different points – known as GXPs or Grid Exit Points. Waipa Networks, a much smaller adjacent network, has only two GXPs. At each point Transpower has assets just for our connection. As they are just for us, Transpower expects us to pay for them.

We supply only 24,000 customers – around 1% of New Zealand's customer base. This is about the same proportion as is supplied by Waipa Networks.

These realities mean that, with 5.4 customers per kilometre of line, our costs to supply each customer, and consequently the line charges necessary to provide the revenue to cover line costs, will be greater than those of most lines companies.

The network is old.

Much of the network around Otorohanga, Te Kuiti and Taumarunui was reticulated in the 1920's. The network extended over time as farm development spread into more remote areas. The growth of leisure opportunities has seen new developments in the southern King Country around the mountain and around Lake Taupo.

Many the lines companies throughout New Zealand invested heavily in renewing their networks in the late 1970's, as they passed 50 years of age. At that time the newer parts of our network were not as old and did not require renewal.

The age profile of the network now, however, means that it is amongst the oldest in New Zealand.

The network was built at a low cost.

Innovative techniques were used in the building of the historic networks that now comprise the TLC network, in order to minimise construction cost. As mentioned, a significant portion of the TLC network was built in single wire earth return – TLC has almost 90% of this type of line used in New Zealand. In parts of the network second hand rail irons were used as poles to carry the conductor. These rails had spent 50 years supporting trains and trams. They have now spent a further 50 supporting electricity lines.

Lines built at a low cost 50 or more years ago, such as these, often fail to meet the safety and technical standards required to provide a modern electrical distribution service.

Government subsidies contributed significantly to the original line construction.

The construction of many rural lines and some of the lines supplying holiday home areas was assisted with Government funding from the Rural Electrical Reticulation Council scheme along with contributions by eager potential customers at that time. The scheme was wound up in the 1998 industry reforms and, since then, governments have made it clear that they will not contribute to the cost of any renewal of these lines. With no other source of funding, the on-going cost of our network must now be met by our customers.

Most domestic customers are financially constrained.

All the urban areas we cover rank in the bottom two socio-economic deciles as measured by the general census. In contrast the surrounding rural areas rank in the middle deciles. The ability of our urban customers to subsidise our rural customers, let alone the many holiday home owners in our area, is therefore severely limited.

Peak load drives network costs.

A significant proportion of connections in the southern region are holiday homes or seasonal businesses. They have a profile of high peak load but with relatively low energy usage. It is these businesses which are driving our southern load growth.

A large part of the cost of a local network is determined by the peak load it needs to supply. Local peak load is dictated by local circumstances, whether these be weather related such as cold winters, seasonal accommodation, the dairy season, or industrial patterns. For the rest of the time the load being taken from the network is considerably lower than the capacity it is able to deliver. However the costs of supplying and maintaining the lines must still be met.

Some customers require dedicated assets.

We have significant assets that we supply just for the needs of individual customers. The size of many of our rural farms means that they have more than one transformer to provide them with the supply they need.

Electricity generation subsidised lines.

Whilst the topography of the region meant that the construction of power lines was costly, it provided a contrary benefit in that there were significant opportunities in the area for the development of generation schemes.

All the legacy power boards and councils whose networks now comprise TLC's network invested in generation. These schemes were subsidised by the government of the time. As the debt of the schemes was retired the surplus cash they earned was used to keep the overall price of energy at a level the community could afford. Occasionally this balance was not achieved. For example the Wairere Power Board amalgamated with the Waitomo Board in 1976 when significant line renewal coincided with a need to renew the generation plant.

The separation of lines and energy in 1999 as a result of the 'Bradford reforms' prevented network companies from owning generation assets and therefore the use of generation surpluses to offset network prices. As a result of these reforms, TLC purchased the King Country Energy network and transferred its ownership of two generation schemes to King Country Energy, with the balance being paid in cash. The ownership of TLC has continued to evolve to the stage that it is now 90% owned by the Waitomo Energy Services Customer Trust.

It is a requirement that the company provides its owners with an adequate return on their investments as well as providing a sustainable network. It is necessary that we provide a supply that meets our customers' needs.

Just as the current owners of King Country Energy, which includes the King Country Electric Power Trust, are able to seek an appropriate commercial return from that company's generation and retailing activities, so the Waitomo Energy Services Customer Trust is entitled to seek an appropriate return to distribute to its beneficiaries. In our case the level of return is dictated by the Commerce Commission. The main factor influencing the return we can earn is our network's value. The method of valuing the network is set by the Commerce Commission. As our network is relatively old it has a low value which means that the return earned is similarly low. As we renew the network and its value grows then so will the surplus we are able to earn.

In the absence of either government subsidies or surplus cash flow from generation to offset the cost of the network we have adopted a four tier strategy to ensure we are able to provide a sustainable network at a cost that meets our customers' needs.

1. Adopt good innovative asset management practices.
2. Clearly signal our cost drivers by way of both the peak load that customers seek from our system and the dedicated assets they require us to supply. Inadequate cost signals meant our network peak load was growing in key regions at well above the growth rate in electricity used. If this continued then the extra cost of the network upgrades to provide for the increasing peak load would have to be met by all customers through price rises rather than from just the customers requiring the load. This was seen by us as not being affordable by our customers. To ensure that this signal was not filtered out by electricity retailers we moved to direct billing.
3. Ensure that all customers who benefit from the network make a fair contribution towards that part of the network they use. The more people who contribute towards the costs of our network the lower the charge to our customers. Due to the attractiveness of our region as a leisure destination, this has meant a concentration on gaining a level of revenue from holiday homes and properties which are only occupied over the peak season that matches our cost in supplying these properties.
4. Invest in generation, metering and other related business activities over time to provide cash flow to assist in funding our network requirements and provide the required return to our shareholders. Lines companies are again permitted to do this.

This four-part strategy, the way it impacts upon our total business and the results we have seen to date saw The Lines Company win the 2010 Deloitte Lines Company of the Year Award.

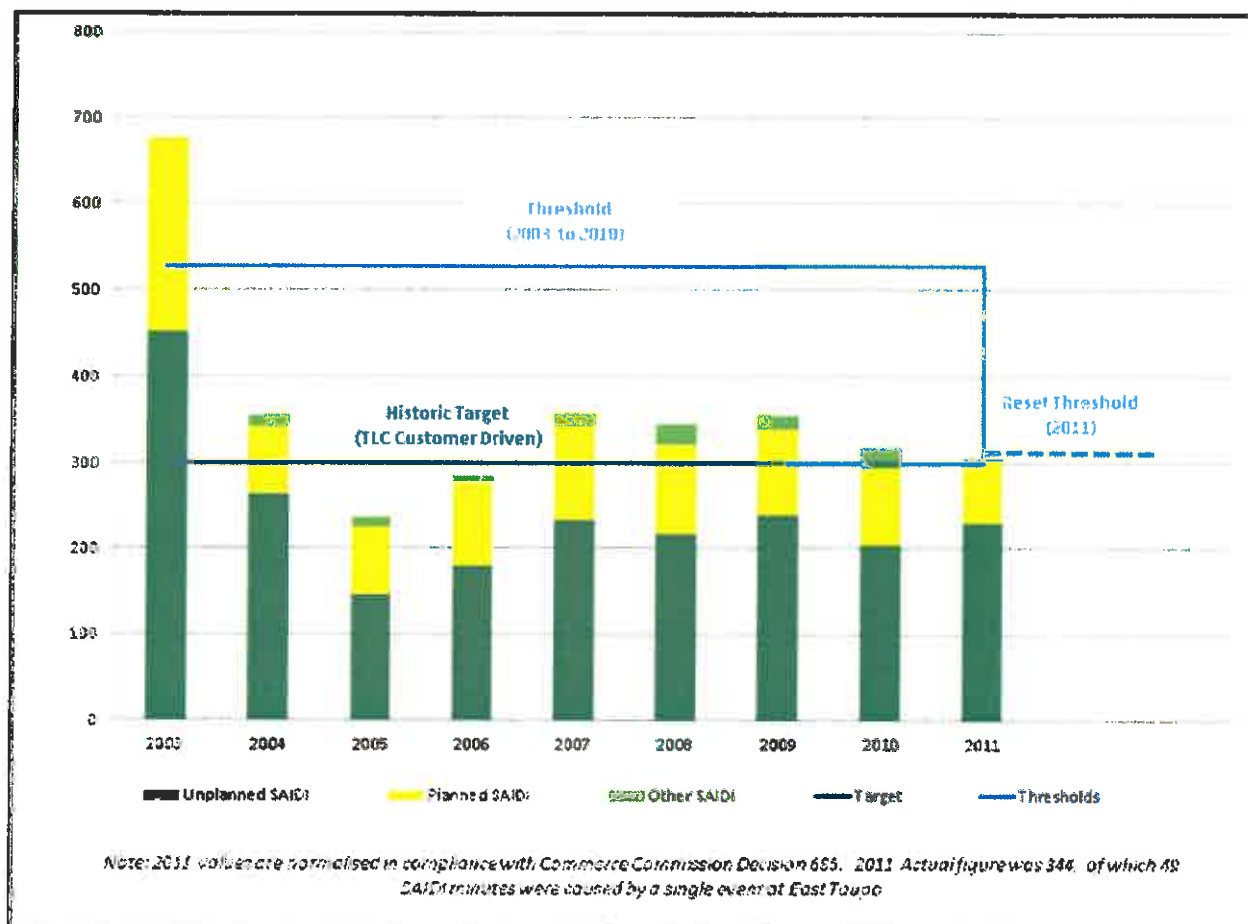
How are we going?

Asset Management Systems Reduce Costs.

In 2003 we adopted a best practice condition-based asset management system. This is a rigorous, carefully structured programme in which we assess all components of the network, renew what is necessary to renew and upgrade what needs to be upgraded.

Each year 300km of lines on the network are inspected and maintained. This is done on a 15-year cycle. We have a programme of renewing poor condition transformers each year, so that we avoid them failing while in service. Each year two zone substations are substantially renovated to ensure they meet today's requirements. Each year between 5 to 10 new remote control switches are installed on the network to reduce outage times. To keep fault occurrences at an acceptable level we have an aggressive vegetation control programme.

This programme has given us one of the highest reductions in outage levels within the industry.



To keep the cost of supplying the Whakamaru region at a reasonable level we disconnected that area from the Transpower network and connected it to a combination of local generators. This significantly lowered its cost of supply. It was the first by-pass of a Transpower grid exit point undertaken in the country. Subsequently, we have undertaken asset bypasses and commissioned alternative supplies in other areas to keep costs at a reasonable level, especially at Ohakune.

We have developed zone substations built in old containers as a low cost method of upgrading capacity in small isolated areas.

Our aim is to ensure assets within our network are replaced 'just in time' so that we do not incur costs earlier than necessary. Results to date are that, while many assets are replaced before they fail, some of the assets that do fail have been recorded within our system as needing attention and have been programmed for renewal, but have failed just before the planned date. This was especially so with the outages in Tirohanga last year.

Our current asset data base is comprehensive and extensive. We have engaged extra engineering resource both to work with the outputs from the database and to strengthen our planning to renew assets before a failure occurs.

We are keen to explore with local communities joint efforts that will keep costs down so we can pass any benefits to our customers.

Performance Indicators for Demand Billing show progress.

Reduced Peak Load Growth:

Since the charge on peak load was introduced in 2007/2008 the growth in peak load has fallen to a rate consistent with electricity consumption growth.

Delayed Investment:

This has meant that we have been able to delay investment in network growth. By constraining network growth we have avoided having tariff increases of the magnitude of comparable line companies such as Top Energy. This benefits our customers.

Growth in Customer Awareness:

This outcome has been gradual as people have become more aware of what peak load is and how their behaviour affects our network.

A campaign by the Ruapehu District Council and the King Country Electric Power Trust to replace old open fires with heat pumps resulted in a significant peak load increase on some substations in the Taumarunui area over the 2009 winter that threatened to take them to their full capacity. The increase in load was due to customers operating the new heat pumps in a similar manner to the way they would heaters by only turning them on at peak times.

One of the unintended consequences of the heat pump campaign was that many of those who installed heat pumps had not anticipated that their line charge would increase if they were used in this way. The feedback that we received indicated that the expectation was that the line charges would remain constant irrespective of the increase in both load and electricity consumption. However shifting from open fires to heat pumps used at peak times had, in most cases, a significant effect on their peak load.

Publicity of this effect on our substations resulted in that load reducing the following year as customers modified the way they used their heat pumps.

This increase in kW load charges however coincided with a second increase in our prices in two years which were required to bring the revenue closer to that needed to provide a sustainable network.

The combination of increased energy usage leading to higher load charges and the criticism by the King Country Electric Power Trust (KCEPT) of our price increases as unnecessary and unaffordable led to increased dissatisfaction with line prices especially in the Ruapehu area. This dissatisfaction focused on the peak load charge as it was the highest component of the bill.

We increased our efforts to provide information to all customers on how the load charge worked and how they could use it to their advantage and reduce their kW load charge. The best way to get the message across however was through seminars. A continuous programme of community-based seminars has been running over the past year or more. These are best held with small groups and, while one seminar encourages another, progress is necessarily slow.

For both the company and its customers to make the most of kW load pricing signals, customers need to know when we are load controlling and how high their load is. Load monitors in New Zealand are expensive so we have imported a significant quantity of the OWL in-house monitors which are available to customers at a purchase price of \$100 or for a rental of \$3 a month. The OWL Energy Monitor stores a wealth of information on energy consumption and usage and gives an instant kW readout. Data from the OWL can be downloaded to the customer's computer and used to calculate peak load, track electricity consumption and make changes that would result in a lower line charge.

For customers with lines charge increases that they cannot afford we have offered a postponement of a peak load reset if they take action to reduce their peak kW load and install a time-of-use meter to verify that they have successfully done so. The result has varied from customers who have achieved significant savings with a life style change they are happy with, those who have achieved a bill decrease but would prefer not to have made changes, to those who have made no changes at all.

Revenue from unoccupied properties:

We have traditionally sought payment of line charges from the owners of unoccupied commercial, rural and holiday home properties while their properties remain unoccupied. With an infrastructure service similar to water reticulation, roads and sewerage we have set our charges on a basis similar to Council property rates and service charges, which must be paid whether or not a property is occupied.

There are many businesses in our area that are seasonal. To receive revenue from them only when they are operating would require either very high charges over the season (with minimal charges outside the season) or an increase in charges across all customers to recover the loss in revenue. Customer feedback has been that neither option is supported by the general customer base.

The decision in 2010 to extend this philosophy to urban areas, where some residences are also used as seasonal accommodation, met with strong resistance from those affected, especially in Taumarunui. The opinion of the Chief Judge of the District Court recorded in a recent settlement with one landlord was that the company was entitled to payment as long as a property owner expected us to reserve capacity on our system irrespective of whether the property was occupied or not.

The new regulatory framework has also ratified the company's practice of charging for unoccupied properties while connected to the network.

Comparative Prices:

As a result the lines charges to residential customers in our areas are well below those in similar areas for a similar usage such as Bay of Islands and Gisborne; our residential charges even compare well with areas that do not face the problems we do.

AVERAGE PRICES IN DOLLARS PER MONTH										
Line Price Comparisons	RESIDENTIAL			ACCOMMODATION		BUSINESSES			FARM	
	Standard	Large	Holiday home	All year	Seasonal	Office	Shop	Commercial	Dairy shed	Remote Beef Farm
NATIONAL PARK	77.35	133.69	74.83	1404.23	322.90	161.77	340.54	228.64	988.71	186.92
OHAKUNE	59.89	103.09	57.99	1122.31	247.84	125.07	262.18	175.27	790.68	153.99
TAUMARUNUI	70.66	122.67	68.27	1341.63	297.78	147.98	313.00	211.15	944.74	183.84
TE KUITI/ OTOROHANGA	66.56	115.22	64.36	1258.17	278.77	139.27	293.66	197.49	886.11	175.79
TURANGI	65.85	113.93	63.68	1243.80	275.50	137.76	290.33	195.14	876.02	183.15
WHAKAMARU / AROHENA	70.36	122.13	67.99	1335.61	296.40	147.36	311.60	210.16	940.51	180.31
BAY OF ISLANDS	87.28	149.74	13.28	2326.07	342.24	178.91	669.28	404.30	1318.65	223.27
EAST CAPE	88.31	168.53	26.33	1639.46	264.08	201.64	459.03	301.07	1014.44	244.08
TAUPO	68.12	116.03	43.63	1526.29	180.17	135.03	267.13	200.47	700.47	180.93
WAIKATO	62.39	144.52	21.87	1542.03	229.27	200.75	446.68	270.53	1200.54	138.94
WAIPA	45.31	106.04	17.29	1898.52	172.63	151.69	329.96	202.49	886.00	113.96
WHAKATANE	78.70	116.22	37.19	1490.84	166.69	151.93	279.20	168.04	929.31	201.36

Prices given include GST and exclude any annual customer discounts

As can be seen from the table the main effect of our kW load pricing structure has been to increase the charges to holiday homes. As holiday homes are a major driver of load growth then ultimately this pricing policy will see load growth constrained to a level that the home owners are happy to pay for.

The table also clearly demonstrates that, as a company, we are meeting our objective of providing our region's permanent residential and business customers with line charges which remain at a fair level. This is not recognised or understood by some of our customers since line charges in other parts of the country are hidden in the combined energy/lines bills issued by the retailers. Our charges, on the other hand, are totally transparent.

Company revenues approach sustainability.

Price increases in 2009 and early 2010 have brought the returns from our network division closer to the level seen as sustainable by the Commerce Commission. These have had a significant effect on our network surpluses.

Network Lines	2008	2009	2010	2011
	\$'000	\$'000	\$'000	\$'000
Gross	20,271	19,841	23,449	26,159
Opex	4,783	5,955	6,066	6,091
Ebitda	15,488	13,886	17,383	20,069
Depreciation	4,526	4,750	6,112	6,174
Ebit	10,962	9,136	11,271	13,899

The increase means that we are closer to meeting our need to have sufficient free cash funds to invest in our twenty year programme of network renewals while being able to provide a modest dividend to our shareholders.

The Commerce Commission is currently reviewing pricing levels of all regulated lines companies. Its initial assessment is that our prices, before last years 8% increase, were still 17% below a fair level.

Improved Productivity from Other Businesses:

We restructured our contracting division two years ago to ensure greater productivity and an enhanced return from external businesses.

Operation	Net Contribution To EBIT		
	2009	2010	2011
	\$'000	\$'000	\$'000
Scope Oil	-	4	45
John Deere Electrical	531	380	290
TLC (external)	7	197	383
TLC (internal net)	(233)	845	1,206
Discontinued Business (Scope Infrastructure)	(217)	(481)	(9)
Redundancies	-	(226)	-
EBIT	88	719	1,915

The contribution from internal work is net of the profit removal on capital work. The 2011 internal contribution represents a full year of restructuring benefits.

It is pleasing to see that profit on external work now makes up 37% of the total contracting EBIT. The external profit was mainly earned from street lighting installation contracts on a number of major arterial roading projects. The decline in JDE reflects the tougher economic climate that all electrical contractors are currently experiencing. The cyclic nature of electrical contracting was taken into account when JDE was purchased, and was factored into its purchase price at the time of acquisition.

Generation Results:

We have two operational generation schemes and have just commissioned the third. We have resource consents for a further scheme while other schemes are currently under investigation.

	2009	2010	2011
	\$'000	\$'000	\$'000
Revenue	23	452	814
Opex	282	532	661
Depreciation	54	196	321
EBIT	(313)	(276)	(168)

Our generation activity combines the operating results of two of our schemes with the investigatory costs of Clearwater Hydro. The flat cost of the investigatory activity means that the division as a whole will show good growth in profit levels as extra revenues are earned from new schemes. In 2011 our generation business earned a positive cash flow of \$186,000.

Metering Results:

We have established a significant metering business that owns meters throughout New Zealand.

	2009	2010	2011
	\$'000	\$'000	\$'000
Revenue	2,755	2,511	2,538
Ebit	1,655	1,405	1,077

We recognise that the roll out of advanced meters throughout New Zealand over the next 5 years will mean the displacement of many of our meters. We have therefore accelerated the depreciation of all our metering stock to ensure that meters are fully written off by the time they are displaced. Whilst this has lowered the surplus from our metering activities the underlying cash flow remains strong.

Where to from here?

Sapere Report:

Last year the company commissioned a report from the Sapere Research Group on its lines pricing methodology. The report was received in early 2011. That report made a number of recommendations including amending the peak load measurement from a single three hour peak to six two hour peaks, and making full use of the data that we were receiving from load/time of use meters to adjust the formulae for those customers still on the legacy charging system. The report recommends proceeding to advanced meters to capture the benefits and features these offer customers. That report has been publicly released for consultation and we have been publicising the recommendations.

NZIER Report:

A report by NZIER was released subsequently. The report was commissioned jointly by the Ruapehu District Council and the King Country Electricity Consumers' Trust to identify the impact of TLC's pricing on people and business in the district. Most of the NZIER concerns on TLC's pricing method relate to how it is implemented rather than the pricing method itself. NZIER supports pricing to signal peak demand. NZIER cite a number of customers who are actively reducing usage in control periods in response to TLC's pricing signals. NZIER suggest an alternative pricing system based on charging for pre-set periods when peak load is likely. However the system suggested does not recognise the heavy contribution made to peak load by holiday homes in the Ruapehu and Turangi regions. Neither does it recognise the active use that is made of load control in NZ to manage peak load. The NZIER report presents an alternative for consultation.

Price Regulation and Cross Subsidies:

We are regulated by both the Commerce Commission and the Electricity Authority. It appears that our current prices are below that considered fair by the Commerce Commission and we will be authorised to increase them by an amount above CPI. There remains a level of subsidisation from the Waitomo/Otorohanga/Whakamaru region to the Ruapehu/Turangi region. This breaches the pricing principles set down by the Electricity Authority and is not sustainable in the long term. Increases in the Ruapehu/Turangi area are therefore likely to continue at levels above CPI.

In setting its prices the company takes into account the ability of the community to pay as well as the ability of the company to fund its network renewal programme without breaching its obligation on maximum outages. This is a fine balancing act as the company is subject to heavy fines if it does breach its allowable outage levels. Consultation will be held over the year on whether the community would be willing to trade off the full effect of future price increases for an increase in outage levels.

Meter Replacement:

The Lines Company is a member of the SmartCo consortium of lines companies which is investigating the purchase and installation of advanced meters. Given the recommendations of both the Sapere and the NZIER reports involve installing such meters over the short term, it is likely that a rollout of advanced meters will commence on our network in early 2012. In the interim we have purchased a large shipment of OWL Energy Monitors, which enable customers to monitor their kW loads and, in conjunction with a Switchit, lower their peak loads. The installation of advanced meters will require writing off our existing meter stocks and, as noted, we have accelerated the depreciation in recognition of this. Equally, it provides us with opportunities to expand our external metering business. These opportunities will be explored over the year ahead.

Generation Schemes:

Our Speedy's Road generation scheme commenced injecting electricity into our network on June 14 2011. The addition of this scheme to our portfolio should see the total generation operation producing a positive EBIT. No scheme will be constructed in the 2012 year as attention will be focused on the three existing schemes to ensure they meet expected output and expenditure levels. This includes remedying the difficulties with the crossing at Matawai. Over the next year the Board expects to consider three schemes for possible investment.

Financial Outlook:

We have not increased our network prices since March 2010. They will be reviewed again with effect from 1 October 2011. With a slight decrease in load as revealed in our recent load reset, the network surplus for 2012 is likely to be below that of the 2011 year. An expected increase in generation surplus will balance this, as will the reduced taxation rate. Overall, our 2012 net profit after tax is expected to be close to that for 2011.

Company Debt:

Debt levels have declined this year. The completion of our 2012 network construction programme will see debt levels remain at this level for the next year.

	2009	2010	2011
	\$'000	\$'000	\$'000
Bank Debt	42,250	44,450	41,450
Interest	2,837	2,253	3,110

The change of banker to Westpac gave us considerable headroom and enabled the company to reduce the impact of increased interest margins that had been foreshadowed by the company's previous banker. Interest increased this year as we moved away from exposure to the short term rate to medium term rates in order to stabilize our interest exposure. The interest rate hedges that we have put in place should see our interest cost remain at today's low rates over the next few years.

Dividend:

As indicated in our 2010/2011 Statement of Corporate Intent a final dividend of \$1.75 million will be paid on the 30 June 2011.

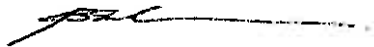
Retirement:

Peter Browne has advised that he will be retiring as a director of TLC at our AGM. Peter joined the Board in January 2000. With his close connections within the industry and his continued work with the Electrical Engineers' Association, Peter has ensured that the company has been kept fully briefed on and able to meet the continual regulatory changes. We thank Peter for his contribution over these past 11 years.

As stated at the start of this review, The Lines Company network is difficult to manage. We expect that the strategy we have put in place, and which we will continue to progress, will deliver a sustainable network into the future – one that is able to meet the needs of the community we serve while providing our shareholders with an adequate return on their investment.



A M Don
Chair



J B Anderson
Chief Executive

Date: 8 June 2011

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 period 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 and the Board;
- 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; and
- communicating with stakeholders.

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 John Lindsay. The purpose of the committee is to ensure that the company's senior executives are fairly rewarded for their individual contributions to the company's overall performance.

The remuneration committee reviews the remuneration of 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 Chief Executive Officer. 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

In accordance with the Company Constitution, on the 3rd June 2010, Messrs Simon Young and Earl Rattray were appointed to the Board.

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 2011 Annual Meeting, Messrs Peter M R Browne and Arthur P Muldoon retire.

Remuneration of directors

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

	2011	2010
Peter M R Browne	31,000	31,000
A Malcolm Don (Chair)	52,000	52,000
John C Lindsay	31,000	31,000
Arthur P Muldoon	31,000	31,000
Earl Rattray	24,000	-
Simon Young	24,000	-
	193,000	145,000

Entries recorded in the interest register

In their personal capacity 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 2011

A Malcolm Don	- Director of Speedy's Road Hydro Limited
	- Director of John Deere Electrical Limited
John C Lindsay	- Director of Speedy's Road Hydro Limited
Simon Young	- Director of Windflow Technology Limited
	- Director of Opunake Hydro Limited
	- Director of Jimmi Interests Limited
	- Director of Eco Securities New Zealand Limited
	- Director of The Karo Group Limited
	- Director of Hydro Partners Limited
Earl Rattray	- Chairman of NZRL UC Zone
	- Director of Canterbury Grassland Limited
	- Director of Tokoroa Organics Limited
	- Director of Honikiwi Pastoral Limited
	- Director of Dairy Link Limited
	- Director of Dairy SolutionNZ Limited
	- External advisor to the Reserve Bank of New Zealand

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 Deloitte 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 Price 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:

John B Anderson (CEO)	- Partner of Abseil Inn
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	- External Advisor to the Reserve Bank of New Zealand
Simon Young	- Director of Windflow Technology Limited - Director of Jimmi Interests Limited - Director 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 or interest on loans.

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	
	2011	2010
\$310,000 - \$320,000	1	-
\$300,000 - \$310,000	-	1
\$210,000 - \$220,000	1	-
\$200,000 - \$210,000	1	1
\$190,000 - \$200,000	-	1
\$120,000 - \$130,000	1	1
\$110,000 - \$120,000	3	3
\$100,000 - \$110,000	1	2
	8	9

The 2010 figures include restructuring costs.

Directors' Report

Statement of performance

Performance against targets set in the Statement of Corporate Intent for the year ended 31 March 2011 was as follows: (All dollar amounts are in \$'000)

	Actual	Target
1. Return on equity		
Average equity *	99,022	98,050
Return on Equity	7.8%	7.7%
Revaluation of Assets	0.0%	0.0%
Gross return	7.8%	7.7%
2. Term debt	41,450	48,000
3. Term debt to asset ratio	22.8%	< 50%
4. Domestic price ranking in MED survey		
Within upper quartile in MED domestic supply price survey.		
To be ranked better than 11th out of 45 electricity lines company regions.		
Waitomo	28th	< 11th
King Country	31st	< 11th
5. Dividends	3,250	3,500
6. Reliability		
Average minutes off per customer		
Planned	75	110
Unplanned	232	190
Total	307	300
Supply interruptions per customer		
Planned	0.81	1.20
Unplanned	2.51	3.70
Total	3.32	4.9

7. Customer satisfaction

To have at least 15% greater customer satisfaction than the national electricity lines company average on the National Business Review (NBR) satisfaction question: "Do you think The Lines Company generally does a good job of serving its customers?" Note that this question is no longer asked in the survey and therefore a national average cannot be ascertained.

The satisfaction level in the WESCT Trust area was 76%. The satisfaction in the KCEPT Trust area was 51%.

8. Safety

Average annual man hours lost through accidents	3.68	< 2.5 hours
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* Average equity excludes subordinated debentures



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 2011

The Auditor-General is the auditor of The Lines Company Limited (the company) and group. The Auditor-General has appointed me, Bruno Dente, using the staff and resources of Deloitte, 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 70, that comprise the statement of financial position as at 31 March 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company and group on page 19.

Opinion on the financial statements and the statement of service performance

In our opinion,

- the financial statements of the company and group on pages 22 to 70:
 - comply with generally accepted accounting practice in New Zealand;
 - comply with International Financial Reporting Standards; and
 - give a true and fair view of the company and group's:
 - financial position as at 31 March 2011; and
 - financial performance and cash flows for the year ended on that date;
- the statement of service performance of the company and group on page 19:
 - complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the company and group's service performance for the year ended on that date, including:
 - the performance achieved as compared with forecast targets specified in the statement of forecast service performance for the financial year; and
 - the revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses specified in the statement of forecast service performance for the financial year.

Opinion on other legal requirements

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

Our audit was completed on 8 June 2011. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments, we



consider internal control relevant to the preparation of the company and group's financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control.

An audit also involves evaluating:

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

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

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

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company and group's financial position, financial performance and cash flows; and
- give a true and fair view of the company and group's service performance achievements.

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

The Board of Directors' 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 New Zealand Institute of Chartered Accountants.

In addition to the audit we have carried out assignments in the areas of the audit of the regulatory work for the purpose of reporting to the Commerce Commission, 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.

Bruno Dente

Deloitte

On behalf of the Auditor-General
Hamilton, New Zealand

This audit report relates to the financial statements of The Lines Company Limited and group for the year ended 31 March 2011 included on The Lines Company Limited's website. The Board of Directors is responsible for the maintenance and integrity of The Lines Company Limited's website. We have not been engaged to report on the integrity of The Lines Company Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 8 June 2011 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Comprehensive Income

for the year ended 31 March 2011

	Note	Group		Parent	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Revenue	4	43,529	40,492	38,874	34,291
Dividend Income		-		5,250	
Investment Income	7	14	31	14	31
Total revenue from continuing operations		43,543	40,523	44,138	34,322
Transmission charges		(5,624)	(5,300)	(5,624)	(5,300)
Total staff costs recognised as expense		(8,717)	(10,147)	(6,945)	(7,799)
Cost of inventories recognised as expense		(6,002)	(2,294)	(4,668)	(3,247)
Impairment loss recognised on trade receivables		(170)	(512)	(154)	(500)
Total staff defined contribution plan expense		(12)	(10)	-	-
Depreciation and amortisation		(8,612)	(8,339)	(7,443)	(7,218)
Finance costs	8	(3,110)	(2,252)	(3,110)	(2,252)
Auditors remuneration - audit fees		(114)	(152)	(68)	(103)
Auditors remuneration - other fees		(22)	(26)	(19)	(26)
Directors fees and expenses		(212)	(157)	(212)	(157)
Impairment of loss on investment in subsidiaries		-	-	-	-
Gain / (Loss) on sale of assets		(28)	35	(8)	88
Other expenses		84	(2,973)	(348)	(332)
Total expenses from continuing activities		(32,539)	(32,127)	(28,599)	(26,845)
Profit before tax		11,004	8,396	15,539	7,477
Income tax expense	9	(3,260)	(2,336)	(3,050)	(2,059)
Profit from continuing activities		7,744	6,060	12,489	5,418
Discontinued operations					
Profit from discontinued operations		-	-	-	-
Profit for the year		7,744	6,060	12,489	5,418
Profit for the year is attributable to:					
Equity holders of the parent		7,744	6,060	12,489	5,418
Minority Interest		-	-	-	-
Other comprehensive income					
Effect on reserves balance due to change in income tax rates		1,495		1,435	
Interest rate hedging		(157)	(129)	(157)	(129)
Income tax relating to components of comprehensive income		47	33	47	33
Other comprehensive income for the year net of tax		1,385	(96)	1,325	(96)
Total comprehensive income for the year net of tax		9,129	5,964	13,814	5,322
Total comprehensive income is attributable to:					
Equity holders of the parent		9,129	5,964	13,814	5,322
Minority Interest		-	-	-	-

Notes to the financial statements are included on pages 29 to 70

Statement of Comprehensive Income

for the year ended 31 March 2011

	Group		Parent	
	2011	2010	2011	2010
Earnings Per Share				
From continuing operations				
Basic (cents per share)	58.8	46.0	94.9	41.2
Diluted (cents per share)	58.8	46.0	94.9	41.2

Notes to the financial statements are included on pages 29 to 70

Balance Sheet

as at 31 March 2011

	Note	Group		Parent	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current assets					
Cash and cash equivalents	13	808	1,068	577	710
Trade and other receivables	14	1,828	3,052	1,185	2,063
Construction contracts	15	131	12	131	10
Inventories	16	1,667	1,558	924	1,051
Current tax asset	11	497	367	608	383
Other financial assets	17	-	-	8,716	4,644
		4,931	6,057	12,141	8,861
Non-current assets					
Property, plant and equipment	18	173,250	168,292	150,344	146,875
Goodwill	19	1,640	1,701	-	-
Intangible assets	20	1,517	1,392	1,115	1,140
Other financial assets	17	100	-	18,614	18,582
		176,507	171,385	170,073	166,597
Total assets		181,438	177,442	182,214	175,458
Current liabilities					
Trade and other payables	22	3,940	2,963	3,449	1,996
Borrowings	23	-	61	-	61
Other financial liabilities	24	1,450	1,293	3,558	5,696
Provision for staff entitlements	26	1,163	1,179	937	906
		6,553	5,496	7,944	8,659
Non-current liabilities					
Provision for staff entitlements	26	72	95	3	101
Borrowings	23	41,450	44,450	41,450	44,450
Subordinated debentures	23	3,000	3,000	3,000	3,000
Deferred tax liabilities	10	31,393	31,327	30,473	30,279
		75,915	78,872	74,926	77,830
Total liabilities		82,468	84,368	82,870	86,489
Net assets		98,970	93,074	99,344	88,969
Equity					
Share capital	27	8,013	8,013	8,013	8,013
Minority interest		200	200	-	-
Retained earnings		50,457	45,946	52,332	43,640
Hedging reserves	28	(1,015)	(905)	(1,015)	(905)
Revaluation reserves	29	41,315	39,820	40,014	38,221
Total equity		98,970	93,074	99,344	88,969

8th June 2011

Malcolm Don
Chair

Peter Browne
Director

Notes to the financial statements are included on pages 29 to 70

The Lines Company Group
2011 Annual Report

Statement of Changes in Equity

for the year ended 31 March 2011

Group	Note	Share Capital \$'000	Minority Shares \$'000	Retained Earnings \$'000	Hedging Reserves \$'000	Revaluation Reserves \$'000	Total Equity \$'000
Balance as at 31 March 2009		8,013	-	42,837	(809)	39,847	89,888
Minority shareholding in subsidiary		-	200	-	-	-	200
Gain on Revaluation of Network Distribution System		-	-	-	-	(27)	(27)
Items taken directly to Equity		-	-	16	(96)	-	(80)
Prior period adjustment		-	-	33	-	-	33
Net income Recognised directly in Equity		-	200	49	(96)	(27)	126
Net Profit After Tax for the Year		-	-	6,060	-	-	6,060
Total Recognised Income and Expense for the Year		-	200	6,109	(96)	(27)	6,186
Dividends paid		-	-	(3,000)	-	-	(3,000)
Balance as at 31 March 2010		8,013	200	45,946	(905)	39,820	93,074
Effect on reserves balance due to change in income tax rates		-	-	-	-	1,495	1,495
Items taken directly to Equity		-	-	-	(110)	-	(110)
Net income recognised directly in Equity		-	-	-	(110)	1,495	1,385
Net Profit After Tax for the year		-	-	7,744	-	-	7,744
Total Recognised Income and Expense for the year		-	-	7,744	(110)	1,495	9,129
Wind up of Paragon Oil Limited		-	-	17	-	-	17
Dividends paid	12	-	-	(3,250)	-	-	(3,250)
Balance as at 31 March 2011		8,013	200	50,457	(1,015)	41,315	98,970
Attributable to Equity Holders of the Company		8,013	200	50,457	(1,015)	41,315	98,970

Notes to the financial statements are included on pages 29 to 70

Statement of Changes in Equity

for the year ended 31 March 2011

Note	Share Capital \$'000	Minority Shares \$'000	Retained Earnings \$'000	Hedging Reserves \$'000	Revaluation Reserves \$'000	Total Equity \$'000
Parent						
Balance as at 31 March 2009	8,013	-	41,230	(809)	38,249	86,683
Minority shareholding in subsidiary	-	-	-	-	-	-
Gain on Revaluation of Network Distribution System	-	-	-	-	(27)	(27)
Items taken directly to Equity	-	-	-	(96)	-	(96)
Prior period adjustment	-	-	(8)	-	(1)	(9)
Net income Recognised directly in Equity	-	-	(8)	(96)	(28)	(132)
Net Profit After Tax for the Year	-	-	5,418	-	-	5,418
Total Recognised Income and Expense for the Year	-	-	5,410	(96)	(28)	5,286
Dividends paid	-	-	(3,000)	-	-	(3,000)
Balance as at 31 March 2010	8,013	-	43,640	(905)	38,221	88,969
Effect on reserves balance due to change in income tax rates	-	-	-	-	1,434	1,434
Items taken directly to Equity	-	-	-	(110)	-	(110)
On-network relays transferred to the parent	-	-	(547)	-	358	(189)
Net income recognised directly in Equity	-	-	(547)	(110)	1,792	1,135
Net profit after tax for the year	-	-	12,489	-	-	12,489
Total Recognised Income and Expense for the Year	-	-	11,942	(110)	1,792	13,624
Dividends paid	12	-	(3,250)	-	-	(3,250)
Balance as at 31 March 2011	8,013	-	52,332	(1,015)	40,013	99,343
Attributable to Equity Holders of the Company	8,013	-	52,332	(1,015)	40,013	99,343

Notes to the financial statements are included on pages 29 to 70

Cash Flow Statement

for the year ended 31 March 2011

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Operating activities				
Cash receipts from customers net of special discount	42,026	39,290	37,042	32,533
Cash paid to suppliers and employees	(17,339)	(20,221)	(13,939)	(16,703)
	24,687	19,069	23,103	15,830
Interest received	14	31	14	31
Taxes paid	(1,782)	(165)	(1,788)	(165)
Interest paid	(3,569)	(2,381)	(3,260)	(2,380)
Net cash from operating activities	19,350	16,554	18,069	13,316
Investing activities				
Purchases of property, plant and equipment	(13,580)	(14,890)	(10,590)	(11,710)
Purchases of intangible assets	(239)	(110)	(234)	(360)
Proceeds on disposal of property, plant and equipment	620	69	81	69
Payment to acquire financial assets	(100)	-	(100)	-
Investment in subsidiaries	-	(844)	69	(844)
Net cash used in investing activities	(13,299)	(15,775)	(10,774)	(12,845)
Financing activities				
Dividends paid	(3,250)	(3,000)	(3,250)	(3,000)
Intercompany Loans (advance)/received	-	-	(1,117)	256
Loans drawn down (repaid)	(3,061)	2,200	(3,061)	2,200
Net cash from financing activities	(6,311)	(800)	(7,428)	(544)
Net (decrease)/increase in cash and cash equivalents	(260)	(21)	(133)	(73)
Cash and cash equivalents at the beginning of the year	1,068	1,089	710	783
Cash and cash equivalents at the end of the year	808	1,068	577	710

Notes to the financial statements are included on pages 29 to 70

Cash Flow Statement

for the year ended 31 March 2011

Reconciliation of net profit to net cash from operating activities

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Profit after tax for the period	7,744	6,060	12,489	5,418
Adjustments for non cash items:				
Depreciation and amortisation	8,612	8,339	7,443	7,218
Intercompany dividend payments	-	-	(5,250)	-
(Gain)/loss on disposal of non-current assets	28	(35)	8	(88)
Capital contribution - assets	-	(557)	-	(557)
Capitalised interest expense	(459)	(128)	(150)	-
Impairment of accounts receivable	170	513	154	500
Deferred tax movements recognised directly in retained earnings	1,542	-	1,293	-
Recognition of insurance debtors relating to fraud costs incurred in previous year	-	(320)	-	(320)
	17,637	13,872	15,987	12,171
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses				
Trade and other receivables	1,224	1,043	878	511
Construction contracts	(119)	1,193	(121)	550
Inventories	(109)	470	127	115
Trade and other payables	820	(2,209)	1,296	(1,975)
Current provision for staff entitlements	(16)	(166)	31	(132)
Non current provision for staff entitlements	(23)	76	(98)	82
Increase/decrease in current tax assets	1,652	818	1,563	627
Increase/decrease in deferred tax assets	66	1,622	194	1,532
Net cash used in investing activities	3,495	2,847	3,870	1,310
Payments made				
Income taxes paid	(1,782)	(165)	(1,788)	(165)
	(1,782)	(165)	(1,788)	(165)
Net cash from operating activities	19,350	16,554	18,069	13,316

Notes to the financial statements are included on pages 29 to 70

Notes to the financial statements

for the year ended 31 March 2011

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) and other applicable financial reporting standards as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that these consolidated financial statements comply with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the Directors on 8th June 2011.

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 the Group'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. The Group is not required to comply with NZ IFRS 8 – Operating Segments. However, additional information regarding the Group's business units has been provided.

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 in the parent company's financial statements.

Notes to the financial statements for the year ended 31 March 2011

b) Business combinations

The acquisition of subsidiaries is accounted for using the purchase 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.

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 possible 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.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

Defined benefit plans

The Group makes no contributions to defined benefit plans for any employees.

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.

Notes to the financial statements for the year ended 31 March 2011

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.

Notes to the financial statements for the year ended 31 March 2011

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

Intangible assets acquired separately are 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.

k) Goodwill

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

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

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

Notes to the financial statements for the year ended 31 March 2011

I) 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

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

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.

Notes to the financial statements for the year ended 31 March 2011

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 or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit loss.

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	years
Buildings	40 - 100	years
Meters & Relays	15	years
Plant & Vehicles	1 - 10	years

m) Financial assets and liabilities, derivatives and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in interest rates.

The significant interest rate risk arises from bank loans. The Group's policy is to convert a proportion of its floating rate debt to fixed rates. The Group designates these as cash flow hedges of interest rate risk.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not enter into or trade financial instruments, including derivative financial instruments for speculative purposes.

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's becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Notes to the financial statements for the year ended 31 March 2011

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.

Notes to the financial statements for the year ended 31 March 2011

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 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, 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

Finance leases

The Group is not party to any financial lease arrangements.

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 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 not 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.

Notes to the financial statements for the year ended 31 March 2011

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 to customers for the special discount are disclosed for operating activities. Cash receipts and payments are shown inclusive of GST. Investing activities include the purchase and disposal of assets, shown inclusive 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:

- Improvements to NZ IFRS (2008)
- Improvements to NZ IFRS (2009)
- NZ IFRS 3 (revised 2008) 'Business Combinations'
- NZ IAS 27 (revised 2008) 'Consolidated and Separate Financial Statements'
- NZ IFRS 2 'Share-based Payment': Group cash-settled Share-based Payment Transactions
- Amendments to NZ IAS 39 'Financial Instruments': Recognition and Measurement - Eligible Hedged Items
- NZ IFRIC 17 'Distributions of Non-Cash Assets to owners'
- NZ IFRIC 18 'Transfers of Assets from Customers'
- NZ Specific Omnibus Amendments (2009-1)
- Amendments to NZ IAS 32 'Financial Instruments': Presentations - Classification of Rights Issues

The adoption of these interpretations has not led to any changes in the Group's accounting policies.

Notes to the financial statements for the year ended 31 March 2011

New or revised Standards

At the authorisation of these financial statements, other than the Standards and Interpretations adopted by the Group in advance of their effective dates the following are the new or revised Standards or Interpretations in issue that are not yet effective:

Financial statements for periods ending on 31 March 2011

The following are the new or revised Standards or Interpretations in issue that are not yet required to be adopted by entities preparing financial statements for periods ending on 31 March 2011:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Amendments to NZ IAS 24 'Related Party Disclosures'	1 January 2011	31 March 2012
NZ IFRS 9 'Financial Instruments'	1 January 2013	31 March 2014
NZ IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'	1 July 2010	31 March 2012
Amendments to NZ IFRIC 14 'Prepayments of a Minimum Funding Requirement'	1 January 2011	31 March 2012
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2010		
- Improvements to NZ IFRS 3 and NZ IAS 27	1 July 2010	31 March 2012
- Improvements to other standards	1 January 2011	31 March 2012
Amendments to NZ IFRS 7 'Financial Instruments Disclosures'	1 July 2011	31 March 2013
Amendment to NZ IAS 12 'Income Taxes' - Deferred Tax: Recovery of Underlying Assets	1 January 2012	31 March 2013
Amendment to NZ IFRS 7 - Appendix E	1 April 2011	31 March 2012
IFRS 10 'Consolidated Financial Statements'	1 January 2013	31 March 2014
IFRS 11 'Joint Arrangements'	1 January 2013	31 March 2014
IFRS 12 'Disclosures of Interest in Other Entities'	1 January 2013	31 March 2014
IFRS 13 'Fair Value Measurements'	1 January 2013	31 March 2014
IAS 27 'Separate Financial Statements' (revised 2011)	1 January 2013	31 March 2014
IAS 28 'Investments in Associates and Joint Ventures' (revised 2011)	1 January 2013	31 March 2014
Amendment to New Zealand Equivalents to International Financial Reporting Standards to Harmonise with International Financial Reporting Standards and Australian Accounting Standards	1 July 2011	31 March 2013
FRS 44 'New Zealand Additional Disclosures'	1 July 2011	31 March 2013

* The effective date and transitional provisions vary by Standard. Most of the improvements are effective for annual periods beginning on or after 1 January 2010, with earlier adoption permitted.

Notes to the financial statements for the year ended 31 March 2011

3. Critical accounting judgements and key sources of estimation uncertainty

a) Critical judgements in applying the entity's accounting policies

In the process of applying the entity's accounting policies, which are described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the Financial Statements (apart from those involving estimations, which are dealt with below).

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.

b) 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.

c) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at balance date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Property, plant and equipment

The major inputs and assumptions that are used in the valuation model to ascertain fair values that require management judgment include revenue forecasts, projected operational and capital expenditure profiles, capacity and estimation of useful life. Discount rates used are based on expected rates of return within the industry sector.

Doubtful debt provision

The move to direct billing customers for network services has increased the Group's exposure to customers' credit risk. As such the provision made for doubtful debts has been increased based on assessment of the collectability of large accounts and an estimate for all smaller ones.

Financial instruments

Note 37 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.

Notes to the financial statements for the year ended 31 March 2011

4. Revenue

An analysis of revenue is as follows:

	Note	Group		Parent	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<u>Continuing operations</u>					
Network		34,083	30,975	34,083	30,975
Revenue collection		538	473	538	473
Meters and relays		2,538	2,511	868	-
Contracting		5,445	5,991	2,805	2,400
Generation		808	432	432	353
Other		117	110	148	89
Total revenue as reported in statement of comprehensive income		43,529	40,492	38,874	34,291
Dividend received		-	-	5,250	-
Investment Income	7	14	31	14	31
Total revenue		43,543	40,523	44,138	34,322

5. 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:

- 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.
- Revenue collection, which provides revenue collection and account enquiry services for customers of the network.
- Meters and relays, which owns and supplies meter and relay equipment for both customers of this network and on other networks, within New Zealand.
- 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.
- Generation, which involves the investigation, design, construction and management of small hydro-electricity schemes throughout the North Island.
- Corporate services, which provides managerial support for the other segments listed above.

Business unit information about these businesses follows on the next pages.

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

Notes to the financial statements for the year ended 31 March 2011

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 Comprehensive Income Statement.

A. Network

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Note				
Income	31,516	28,581	31,516	28,581
Less transmission charges	5,356	5,132	5,356	5,132
Gross profit	26,160	23,449	26,160	23,449
Expenditure				
Revenue collection (internal)	648	748	648	748
System costs (external)	546	600	546	600
System costs (internal)	2,996	2,991	2,996	2,991
Customer liaison	678	479	678	479
Asset management	1,157	857	1,157	857
Insurance	62	79	62	79
Impairment of accounts receivable		312		312
Depreciation and amortisation	6,174	6,112	6,174	6,112
Total expenditure	12,261	12,178	12,261	12,178
Earnings before interest and tax	13,899	11,271	13,899	11,271

B. Revenue collection

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Note				
Income				
External	538	473	538	473
Internal	648	748	648	748
	1,186	1,221	1,186	1,221
Expenditure				
Administration costs	1,031	907	1,031	907
Bad debts and impairment of accounts receivable	99	188	99	188
Depreciation and amortisation	84	99	84	99
Total expenditure	1,214	1,194	1,214	1,194
Earnings before interest and tax	(28)	27	(28)	27

Notes to the financial statements for the year ended 31 March 2011

Customers were billed directly for network charges from 1 October 2005. This profit centre was created to carry out the billing and revenue collection function for the network.

The internal income is charged to the network segment and is based on what was being paid by the network to energy retailers to carry out its revenue collection function.

C. Meters and relays

	Note	Group		Parent	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Income		2,538	2,511	868	270
Expenditure					
Administration costs		362	328	229	178
Bad debts and impairment of accounts receivable		-	-	-	-
Depreciation and amortisation		1,099	778	262	15
Total expenditure		1,461	1,106	491	193
Earnings before interest and tax		1,077	1,405	377	77

D. Contracting

	Note	Group		Parent	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Income					
External revenue					
Construction contract revenue		2,458	3,188	2,196	1,957
Service contract revenue		2,946	3,401	521	379
Internal revenue					
Contracting service provider to network		1,785	3,161	1,870	3,211
Revenue from internal capital works		4,568	3,442	4,568	3,442
		11,757	13,192	9,155	8,989
Expenditure					
Costs including labour, materials and overheads		8,717	10,085	6,555	6,122
Bad debts and impairment of accounts receivable					
Depreciation and amortisation		732	943	633	745
Total expenditure		9,449	11,028	7,188	6,867
Surplus before capital expenditure profit adjustment		2,308	2,164	1,967	2,122
Less profit adjustment on internal capital works		393	1,445	393	1,445
Earnings before interest and tax		1,915	719	1,574	677

Internal revenue is charged to the network 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 Income Statement.

**Notes to the financial statements
for the year ended 31 March 2011**

E. Generation

	Note	Group		Parent	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Revenue		814	452	432	354
Expenditure					
Costs including labour, materials and overheads		661	532	232	236
Bad debts and impairment of accounts receivable		-	-	-	-
Depreciation and amortisation		321	196	89	47
Total expenditure		982	728	321	283
Earnings before interest and tax		(168)	(276)	111	71

F. Corporate services

	Note	Group		Parent	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Income		92	27	92	27
Expenditure					
Finance		744	862	744	862
Auditor remuneration - Audit fees		114	152	68	103
Auditor remuneration - Other fees		19	26	19	26
Building maintenance		12	6	12	6
Corporate expenses		931	941	931	941
Board expenses		213	157	213	157
Information technology		119	74	119	74
Public relations		160	38	160	38
Project investigations		173	123	173	123
Depreciation and amortisation		202	211	202	211
Total expenditure		2,687	2,590	2,641	2,541
Deficit before interest and tax		(2,595)	(2,563)	(2,549)	(2,514)

Discontinuing operations:
Nil. (2010: Nil)

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 in numerous locations in New Zealand.

Notes to the financial statements for the year ended 31 March 2011

6. Profit from operations

Note	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Profit from continuing operations				
Network	20,073	17,383	20,073	17,383
Revenue collection	56	126	56	126
Meters & relays	2,176	2,183	639	92
Contracting	3,040	3,108	2,600	2,857
Less profit adjustment on internal capital works	(393)	(1,445)	(393)	(1,445)
Generation	153	(80)	200	118
Corporate services	(2,393)	(2,352)	(2,347)	(2,303)
	22,712	18,923	20,828	16,828
Depreciation and amortisation	8,612	8,339	7,443	7,218
Earnings before interest and tax	14,100	10,584	13,385	9,610

7. Investment income

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Interest on bank deposits	14	31	14	31

8. Finance costs

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Interest on bank overdrafts and loans	3,389	2,273	3,080	2,145
Interest on perpetual loans	174	99	174	99
Other interest expense	6	8	6	8
	3,569	2,380	3,260	2,252
Interest capitalised	(459)	(128)	(150)	-
Total finance costs	3,110	2,252	3,110	2,252

9. Income tax

Company tax is calculated at 30% (2010: 30%) of the estimated assessable profit for the year.
The charge for the year can be reconciled to the profit per the income statement as follows:

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Profit from operations	11,004	8,396	15,539	7,476
Effect of expenses that are non deductible	1	85	1	78
Effect of income that is not assessable	(24)	(693)	(5,274)	(693)
	(23)	(608)	(5,273)	(615)
Taxable profit	10,981	7,788	10,266	6,861

**Notes to the financial statements
for the year ended 31 March 2011**

	Note	Group		Parent	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Income tax expense at 30%		3,294	2,336	3,080	2,058
Impact of building depreciation no longer tax deductible		664	-	664	-
Effect on deferred tax due to change in tax rates		(745)	-	(741)	-
Effect of prior period tax adjustment in current tax		47	-	47	-
Total tax expense for the year recognised in the income statement		3,260	2,336	3,050	2,058
Effective tax rate (being Total tax expense divided by Profit before tax)		30%	28%	20%	28%
Current tax movement		1,652	714	1,563	526
Deferred tax movement		1,608	1,622	1,487	1,532
Total tax expense for the year recognised in the income statement		3,260	2,336	3,050	2,058
Attributable to:					
Continuing activities		3,260	2,336	3,050	2,058

Imputation credit memorandum account

Imputation credits are gained through income tax being paid by the Group and are available for attachment to future dividends paid.

Opening imputation credit balance	681	1,850	(783)	386
Credits gained due to tax payments made	1,782	165	1,788	165
Credits applied to dividends paid out	(1,393)	(1,334)	(1,393)	(1,334)
Closing imputation credit balance	1,070	681	(388)	(783)

10. Group deferred tax

	Property, plant & equipment \$'000	Cash flow hedges \$'000	Provisions \$'000	Other \$'000	Total \$'000
At 31 March 2009	30,657	(355)	(424)	(173)	29,705
Charged to income	1,556	(33)	-	99	1,622
At 31 March 2010	32,213	(388)	(424)	(74)	31,327
Charged to income	1,497	-	118	74	1,689
Impact of building depreciation no longer tax deductible	664	-	-	-	664
Recognition from change in tax rate in profit or loss	(795)	29	21	-	(745)
Charged to other comprehensive income	-	(47)	-	-	(47)
Recognition from change in tax rate in other comprehensive income	(1,495)	-	-	-	(1,495)
At 31 March 2011	32,084	(406)	(285)	-	31,393

Notes to the financial statements for the year ended 31 March 2011

Parent entity deferred tax

	Property, plant & equipment \$'000	Cash flow hedges \$'000	Provisions \$'000	Other \$'000	Total \$'000
At 31 March 2009	29,789	(355)	(514)	(174)	28,746
Charged to income	1,442	(33)	-	124	1,533
At 31 March 2010	31,231	(388)	(514)	(50)	30,279
Charged to income	1,396	-	118	50	1,564
Impact of building depreciation no longer tax deductible	664	-	-	-	664
Recognition from change in tax rate in profit or loss	(796)	29	26	-	(741)
Deferred tax arising from revaluation	189	-	-	-	189
Charged to other comprehensive income	-	(47)	-	-	(47)
Recognition from change in tax rate in other comprehensive income	(1,435)	-	-	-	(1,435)
At 31 March 2011	31,249	(406)	(370)	-	30,473

In May 2010, the government announced a reduction to the corporate tax rate from 30% to 28%, effective April 2011. The impact of this is a reduction in the deferred tax balance of which the amount relating to the revaluation reserve is recognised through other comprehensive income and the remainder in profit or loss.

11. Current tax asset

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Opening balance	367	1,020	383	845
Tax payments and tax credits received	1,782	61	1,788	64
Current tax expense for the year	(1,652)	(714)	(1,563)	(526)
	497	367	608	383

12. Dividends

Amounts recognised as distributions to equity holders in the period:

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
	3,250	3,000	3,250	3,000

Notes to the financial statements for the year ended 31 March 2011

13. Cash and cash equivalents

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Cash and cash equivalents	808	1,068	577	710

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

14. Trade and other receivables

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Trade debtors	1,666	2,679	1,194	1,786
Less impairment loss recognised on receivables	(521)	(497)	(495)	(485)
Sundry debtors	444	625	277	561
Prepayments	239	245	209	201
	1,828	3,052	1,185	2,063

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.

15. Construction contracts

Contracts in progress at balance date:

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Construction costs incurred plus recognised profits less recognised losses to date	178	12	178	10
Less: Progress billings	(47)	-	(47)	-
Recognised in the financial statements as construction contracts current assets	131	12	131	10

Advances received from customers during the year for construction contract work that is in progress amounted to \$Nil (2010: \$Nil)

Retentions of \$30,000 are held by customers for construction work in progress. (2010: \$60,000)
All amounts included in trade and other receivables and arising from construction contracts are due for settlement within the following 12 months.

Notes to the financial statements for the year ended 31 March 2011

16. Inventories

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Contracting stores	995	890	850	788
Network stores (Strategic spares)	28	182	28	182
Transformers	366	371	366	371
Meters and relays	241	300	-	-
Generation	357	105	-	-
Less provision for obsolescence and internal margins	(320)	(290)	(320)	(290)
Total inventories	1,667	1,558	924	1,051

17. Other financial assets

	Group			
	Current		Non-current	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Investments carried at cost				
Other investments	-	-	100	-

	Group		Parent	
	Current		Non-current	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Loans carried at amortised cost				
Loans to subsidiaries	8,716	4,644	-	-
Investments carried at cost				
Investments in subsidiaries	-	-	18,514	18,582
Other investments	-	-	100	-
	8,716	4,644	18,614	18,582

Loans to subsidiaries

	Parent	
	2011 \$'000	2010 \$'000
Clearwater Hydro Ltd	3,607	2,831
Scope Infrastructure Ltd	1,175	1,795
Paragon Oil Ltd	-	18
Matawai Hydro Ltd	166	-
Speedy's Road Hydro Ltd	3,768	-
	8,716	4,644

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

**Notes to the financial statements
for the year ended 31 March 2011**

18. Group property, plant and equipment

	Land	Buildings	Network Distribution System	Meters & Relays	Plant & Vehicles	Generation	Total
	(At Valuation)	(At Valuation)	(At Valuation)	(At Valuation)	(At Cost)	(At Cost)	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross carrying amount							
At 31 March 2009	614	2,532	158,788	11,745	10,275	9,479	193,433
Additions	1,107	240	6,433	1,041	924	9,984	19,729
Disposals	-	-	-	-	(1,265)	-	(1,265)
Transfers	-	(190)	370	-	(814)	(9,172)	(9,806)
Capital works in progress	-	-	78	-	-	4,732	4,810
At 31 March 2010	1,721	2,582	165,669	12,786	9,120	15,023	206,901
Additions	23	13	6,745	665	683	298	8,427
Disposals	-	-	-	(1,013)	(1,299)	(339)	(2,651)
Transfers	(20)	20	-	-	-	-	-
Capital works in progress	-	-	1,150	29	-	4,438	5,617
At 31 March 2011	1,724	2,615	173,564	12,467	8,504	19,420	219,294
Accumulated depreciation and impairment							
At 31 March 2009	-	277	23,242	3,264	5,159	-	31,942
Depreciation charge	-	110	5,840	764	1,136	218	8,068
Eliminated on disposals	-	-	-	-	(798)	-	(798)
Eliminated on revaluation	-	-	-	-	(603)	-	(603)
At 31 March 2010	-	387	29,082	4,028	4,894	218	38,609
Depreciation charge	-	61	6,008	1,086	917	280	8,352
Eliminated on disposals	-	-	-	(1,033)	(877)	(7)	(1,917)
Eliminated on revaluation	-	-	-	-	-	-	-
At 31 March 2011	-	448	35,090	4,081	4,934	491	45,044
Carrying amount (Net book value)							
At 31 March 2009	614	2,255	135,546	8,481	5,116	9,479	161,491
At 31 March 2010	1,721	2,195	136,587	8,758	4,226	14,805	168,292
At 31 March 2011	1,724	2,167	138,474	8,386	3,570	18,929	173,250

Notes to the financial statements for the year ended 31 March 2011

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

At 31 March 2010	1,304	2,118	76,874	5,396	4,227	14,805	104,724
At 31 March 2011	1,229	2,178	85,935	6,200	3,570	18,929	118,041

Land and buildings were valued by Doyle Valuations Ltd (A.N.Z.I.V, S.N.Z.P.I.) an independent valuer with local experience, on 31 March 2009. Summation and income approaches were used for the valuation.

The network distribution system was valued on 31 March 2009, on a depreciated replacement cost basis, by our electrical engineer and the valuation verified by PricewaterhouseCoopers. The valuation has been adjusted for impairment.

Meter and relay assets were revalued in August 2003 based on a valuation by PricewaterhouseCoopers. These assets have not been revalued since due to its carrying amount not being materially different from its fair value. Plant and motor vehicles have been valued at cost less accumulated depreciation.

**Notes to the financial statements
for the year ended 31 March 2011**

Parent property, plant and equipment

	Land	Buildings	Network Distribution System	Meters & Relays	Plant & Vehicles	Generation	Total
	(At Valuation)	(At Valuation)	(At Valuation)	(At Valuation)	(At Cost)	(At Cost)	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross carrying amount							
At 31 March 2009	614	2,519	158,788	-	8,744	4,493	175,158
Additions	1,087	240	6,433	-	687	2,852	11,299
Disposals	-	-	-	-	(694)	-	(694)
Transfers	-	(203)	370	-	(814)	(4,184)	(4,831)
Capital works in progress	-	-	78	-	-	-	78
At 31 March 2010	1,701	2,556	165,669	-	7,923	3,161	181,010
Additions	23	13	6,745	1,988	601	65	9,435
Disposals	-	-	-	-	(817)	-	(817)
Transfers	-	-	-	-	-	-	-
Capital works in progress	-	-	1,150	-	-	156	1,306
At 31 March 2011	1,724	2,569	173,564	1,988	7,707	3,382	190,934

Accumulated depreciation and impairment

At 31 March 2009	-	277	23,242	-	4,830	-	28,349
Depreciation charge	-	110	5,840	-	908	93	6,951
Eliminated on disposals	-	-	-	-	(560)	-	(560)
Eliminated on revaluation	-	-	-	-	(605)	-	(605)
At 31 March 2010	-	387	29,082	-	4,573	93	34,135
Depreciation charge	-	61	6,008	249	785	81	7,184
Eliminated on disposals	-	-	-	-	(729)	-	(729)
Eliminated on revaluation	-	-	-	-	-	-	-
At 31 March 2011	-	448	35,090	249	4,629	174	40,590

Carrying amount (Net book value)

At 31 March 2009	614	2,242	135,546	-	3,914	4,493	146,809
At 31 March 2010	1,701	2,169	136,587	-	3,350	3,068	146,875
At 31 March 2011	1,724	2,121	138,474	1,739	3,078	3,208	150,344

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

At 31 March 2010	1,284	2,094	76,874	-	3,372	3,067	86,691
At 31 March 2011	1,229	2,133	85,935	740	3,078	3,208	96,323

**Notes to the financial statements
for the year ended 31 March 2011**

19. Goodwill

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Note				
Cost				
Carrying amount at 31 March 2010	1,701	1,701	-	-
Amounts recognised from business combinations occurring during the year	-	-	-	-
Adjustment to goodwill	(61)	-	-	-
Carrying amount at 31 March 2011	1,640	1,701	-	-

Annual test for impairment

During the year, the Group **assessed** the recoverable amount of goodwill, and determined that goodwill was not impaired except for an adjustment to goodwill.

The adjustment to goodwill relates to the reduction in purchase price of John Deere Electrical Ltd arising from terms within the sale and purchase agreement that were not fulfilled. Previously this had been recognised as a liability which has now been extinguished.

**Notes to the financial statements
for the year ended 31 March 2011**

20. Intangible assets

Group			
Software	Land	Resource	Total
\$'000	easements	consents	
	\$'000	and rights	\$'000
		\$'000	

Cost

Total cost at 31 March 2009	2,009	123	475	2,607
Additions	395	5	-	400
Disposals	(83)	-	(250)	(333)
Total cost at 31 March 2010	2,321	128	225	2,674
Additions	179	31	278	488
Disposals	(31)	-	(103)	(134)
Total cost at 31 March 2011	2,469	159	400	3,028

Accumulated amortisation and impairment

Total at 31 March 2009	1,082	-	-	1,082
Amortisation charge for the year	283	-	-	283
Eliminated on disposal	(83)	-	-	(83)
Total at 31 March 2010	1,282	-	-	1,282
Amortisation charge for the year	260	-	-	260
Eliminated on disposal	(31)	-	-	(31)
Total at 31 March 2011	1,511	-	-	1,511

Carrying amount (Net book value)

At 31 March 2009	927	123	475	1,525
At 31 March 2010	1,039	128	225	1,392
At 31 March 2011	958	159	400	1,517

**Notes to the financial statements
for the year ended 31 March 2011**

	Parent			
	Software	Land	Resource	Total
	\$'000	easements \$'000	consents and rights \$'000	
Cost				
Total cost at 31 March 2009	1,980	123	-	2,103
Additions	396	5	-	401
Disposals	(83)	-	-	(83)
Total cost at 31 March 2010	2,293	128	-	2,421
Additions	203	31	-	234
Disposals	(31)	-	-	(31)
Total cost at 31 March 2011	2,465	159	-	2,624
Accumulated amortisation and impairment				
Total at 31 March 2009	1,081	-	-	1,081
Amortisation charge for the year	283	-	-	283
Eliminated on disposal	(83)	-	-	(83)
Total at 31 March 2010	1,281	-	-	1,281
Amortisation charge for the year	259	-	-	259
Eliminated on disposal	(31)	-	-	(31)
Total at 31 March 2011	1,509	-	-	1,509
Carrying amount (Net book value)				
At 31 March 2009	899	123	-	1,022
At 31 March 2010	1,012	128	-	1,140
At 31 March 2011	956	159	-	1,115

Software assets have a finite useful life and are amortised over that useful life.

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 when any indication occurs that they may be impaired.

Resource consents include the rights to construct small hydro schemes. These have not been depreciated because construction of the scheme has not been completed.

**Notes to the financial statements
for the year ended 31 March 2011**

21. Investments in Subsidiaries

Name	Principal Activity	Ownership Interest			
		2011 %	2010 %	2011 \$'000	2010 \$'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	1,907
Speedy's Road Hydro Limited	Hydro generation scheme	93.75	93.75	3,218	3,218
Matawai Hydro Limited	Hydro generation scheme	100	100	6,250	6,250
Paragon Oil Limited	Transformer oil refining services		100	-	8
				18,514	18,583

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

Impairment

There has been no impairment of the investment in subsidiaries recognised in the 2011 financial year.
(2010: \$ Nil)

22. Trade and other payables

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Trade creditors and accruals	2,305	1,348	2,019	1,323
Other accruals	1,635	1,615	1,430	673
	3,940	2,963	3,449	1,996

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.

Notes to the financial statements for the year ended 31 March 2011

23. Borrowings

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current				
Vendor financing loan for John Deere Electrical Ltd	-	61	-	61
Non-Current				
Bank loans	41,450	44,450	41,450	44,450
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
	44,450	47,511	44,450	47,511

Bank lending facilities

The Group has total bank lending facilities with Westpac of \$62 million. These lending facilities are for five years, expiring 31 March 2016. Bank loans are at floating rates and expose the Group to cash flow interest rate risk.

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 7.62% per annum (2010: 7.62%). 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 (2010: 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.

**Notes to the financial statements
for the year ended 31 March 2011**

24. Other financial liabilities

		Group and Parent			
		Current		Non-current	
	Note	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Derivatives designated and effective as hedging instruments carried at fair value					
Interest rate swaps					
	37	1,450	1,293	-	-

		Parent	
		2011 \$'000	2010 \$'000
Current			
Loans from subsidiaries			
		2,108	4,403
Loans from subsidiaries			
Matawai Hydro Limited		-	12
Speedy's Road Hydro Limited		-	255
John Deere Electrical		502	252
Financial Corporation Limited		1,606	3,884
		2,108	4,403

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

25. Obligations under finance leases

Nil

26. Provision for staff entitlements

		Group		Parent	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Total at 31 March 2009		1,364		1,057	
Movement during the year		(90)		(50)	
Total at 31 March 2010		1,274		1,007	
Movement during the year		(39)		(67)	
Total at 31 March 2011		1,235		940	
Classified as:					
Current		1,163	1,179	937	906
Non-current		72	95	3	101
		1,235	1,274	940	1,007

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.

**Notes to the financial statements
for the year ended 31 March 2011**

27. Share Capital

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'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 and carry no right to fixed income. There were no changes in shareholding during the year.

28. Hedging reserves

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

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Opening balance	(905)	(809)	(905)	(809)
Gain/(Loss) recognised on cash flow hedges:				
Interest rate swaps	(157)	(129)	(157)	(129)
Income tax related to gain/losses recognised in equity	47	33	47	33
	(1,015)	(905)	(1,015)	(905)

Notes to the financial statements for the year ended 31 March 2011

29. Revaluation reserves

The asset revaluation reserve arises on the revaluation of network distribution system assets, meter and relay assets, land and buildings. The reserve is adjusted by transferring to retained earnings the difference between the depreciation expense based on the revalued carrying amount of the asset and the depreciation based on the asset's original cost. Also where a revalued asset is sold the portion of the asset revaluation reserve that relates to that asset, and is effectively realised, is transferred directly to retained earnings.

Group

	Network Distribution System	Land & Buildings	Meters & Relays	Total
	\$'000	\$'000	\$'000	\$'000
Total at 31 March 2009	38,033	216	1,598	39,847
Revaluation increases / (decreases)	(27)	-	-	(27)
Total at 31 March 2010	38,006	216	1,598	39,820
Revaluation increases / (decreases)	1,415	8	72	1,495
Total at 31 March 2011	39,421	224	1,670	41,315

Parent

	Network Distribution System	Land & Buildings	Meters & Relays	Total
	\$'000	\$'000	\$'000	\$'000
Total at 31 March 2009	38,033	216	-	38,249
Revaluation increases / (decreases)	(28)	-	-	(28)
Total at 31 March 2010	38,005	216	-	38,221
Revaluation increases / (decreases)	1,415	8	12	1,435
Transferred to retained earnings			358	358
Total at 31 March 2011	39,420	224	370	40,014

Notes to the financial statements for the year ended 31 March 2011

30. Contingent liabilities

The purchase price of the Mangapehi Hydro Scheme includes a deferred payment that is subject to the generation output achieved by the scheme, to be determined 2 years after its re-commissioning. The Mangapehi Scheme was re-commissioned in April 2009.

The Parent and Group have no other contingent liabilities at balance date (2010: Nil).

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

Subsequent to 31st March 2011 the Company announced a fully imputed dividend of \$1.75 million to be paid on 1st July 2011.

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. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Financial Corporation Limited

In August 2004, The Lines Company Limited divested its meter and relay assets into a wholly owned subsidiary, in exchange for share capital. The assets were transferred at fair value of \$7,200,000.

The Parent company recorded a gain on sale with the asset transfer of \$216,741. Deferred tax of \$1,322,540 was also eliminated in the parent's accounts on transfer.

Effective 1st April 2010, Financial Corporation Limited sold its 'On Network' relay assets valued at \$1,966,593 back to The Lines Company Limited at net book value, as these assets now form part of The Lines Company Limited's regulatory asset base.

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.

On 31st March 2011 Financial Corporation Limited declared and paid a dividend of \$5,000,000. This was paid through the intercompany loan, reducing the balance by the same amount. Because both companies are part of the same 'tax group' no imputation credits were attached or RWT payable.

Notes to the financial statements for the year ended 31 March 2011

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

	2011 \$'000	2010 \$'000
Management and acquisition fees received from FCL	274	269
Warehousing fee received from FCL	10	-
Installation of meter and relay assets by TLC	75	414
Dividend received from FCL	5,000	-
Purchase of on-network relays by TLC	1,967	-
Intercompany loan account (Payable by /(to) FCL)	(1,606)	(3,884)

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.

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

	2011 \$'000	2010 \$'000
Project management and engineering fees paid to CWH	40	449
Hydro management charge paid to CWH	18	-
Intercompany loan account (Payable by / (to) CWH)	3,607	2,831

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.

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

	2011 \$'000	2010 \$'000
Intercompany loan account (Payable by / (to) Matawai)	166	(12)

Notes to the financial statements for the year ended 31 March 2011

Speedy's Road Hydro Limited

The Lines Company Limited established Speedy's Hydro Limited 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 Speedy's Hydro Limited (Speedy's) and have been eliminated in the group consolidated accounts.

	2011 \$'000	2010 \$'000
Job revenue received from Speedy's	63	-
Intercompany loan account (Payable by / (to) Speedy's)	3,768	(255)

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.

	2011 \$'000	2010 \$'000
Purchases made by TLC to Scope	48	-
Assets purchased by TLC	298	-
Intercompany loan account (Payable by / (to) Scope)	1,175	1,795

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.

	2011 \$'000	2010 \$'000
Consulting and administration fees received from JDE	33	-
Job revenue received from JDE	6	-
Dividend received from JDE	250	-
Purchases made by TLC to JDE	79	-
Intercompany loan account (Payable by / (to) John Deere Electrical)	(502)	(252)

Paragon Oil Limited

Paragon Oil Limited was established as a wholly owned subsidiary to provide transformer oil refining services. The company was wound-up in 2011 and its operations transferred to Scope Infrastructure Limited.

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

	2011 \$'000	2010 \$'000
Intercompany loan account (Payable by Paragon Oil)	-	18

Notes to the financial statements for the year ended 31 March 2011

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	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Interest paid	74	74	74	74
Dividends paid	2,925	2,700	2,925	2,700

King Country Electric Power Trust

The following transactions occurred during the year.

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Dividends paid	325	300	325	300

Remuneration of key management personnel

	Group		Parent	
	2011	2010	2011	2010
Short-term employee benefits	1,169	1,189	976	1,001
Post-employment benefits	12	7	-	-
Directors' Fees & Expenses	212	157	212	157
	1,393	1,353	1,188	1,158

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

35. Acquisition of subsidiaries

Subsidiaries acquired in 2011

During 2011 no subsidiaries were acquired.

36. Breach of Price Path Threshold

The Lines Company received clearance of its 2010 breach of the price path threshold for the Commerce Commission on 4th April 2011.

Notes to the financial statements for the year ended 31 March 2011

37. Financial instruments

Currency derivatives

The Group is not a party to any currency derivatives.

Interest rate swaps

	Note	Group		Parent	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Fair value of interest rate swaps at balance date were:	24	(1,450)	(1,293)	(1,450)	(1,293)

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	4.08%	2-May-11
Receive floating - Pay fixed interest swap	\$5,000,000	Quarterly	7.27%	2-Apr-12
Interest rate collar (effective from 2 Nov '09)	\$10,000,000	Quarterly	6.38%-8.5%	2-Nov-12
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

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 has been charged directly to equity.

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 2010.

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 2011

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 interest rate risk and price 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 2011. (2010: \$ Nil)

Interest rate risk management

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

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

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

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 75 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.

Notes to the financial statements for the year ended 31 March 2011

If interest rates had been 75 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 2011 would decrease/increase by \$310,875 (2010: decrease/increase by \$325,125). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings; and
- Other equity reserves would decrease/increase by \$nil (2010: decrease/increase by \$nil) mainly as a result of the changes in the fair value of available-for-sale fixed rate instruments.

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 bank balances and cash, trade and other receivables, 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(l) to the financial statements.

**Notes to the financial statements
for the year ended 31 March 2011**

Categories of financial instruments

		Group				
		Designated at fair value \$'000	Loans and receivables \$'000	Financial liabilities at amortised cost \$'000	Derivatives designated as cash flow hedges \$'000	Investments carried at cost \$'000
	Note					Total \$'000
Cash and bank balances	13	-	808	-	-	808
Trade and other receivables	14	-	1,589	-	-	1,689
Total financial assets		-	2,397	-	-	2,497
Total non-financial assets						178,941
Total assets at 31 March 2011						181,438
Trade and other payables	22	-	-	3,940	-	3,940
Borrowings	23	-	-	44,450	-	44,450
Other financial liabilities	24	-	-	-	1,450	1,450
Total financial liabilities		-	-	48,390	1,450	49,840
Total non-financial liabilities						32,628
Total liabilities at 31 March 2011						82,468

Cash and bank balances	13	-	1,068	-	-	1,068
Trade and other receivables	14	-	2,807	-	-	2,807
Total financial assets		-	3,875	-	-	3,875
Total non-financial assets						173,567
Total assets at 31 March 2010						177,442
Trade and other payables	22	-	-	2,963	-	2,963
Borrowings	23	-	-	47,511	-	47,511
Other financial liabilities	24	-	-	-	1,293	1,293
Total financial liabilities		-	-	50,474	1,293	51,767
Total non-financial liabilities						32,601
Total liabilities at 31 March 2010						84,368

Notes to the financial statements for the year ended 31 March 2011

Categories of financial instruments

Parent						
		Designated at fair value \$'000	Loans and receivables \$'000	Financial liabilities at amortised cost \$'000	Derivatives designated as cash flow hedges \$'000	Investments carried at cost \$'000
	Note					Total \$'000
Cash and bank balances	13	-	577	-	-	577
Trade and other receivables	14	-	976	-	-	976
Other financial assets	17	-	8,716	-	-	18,614
Total financial assets		-	10,269	-	-	18,614
Total non-financial assets						28,883
Total assets at 31 March 2011						153,331
						182,214
Trade and other payables	22	-	-	3,449	-	3,449
Borrowings	23	-	-	44,450	-	44,450
Other financial liabilities	24	-	-	2,108	1,450	3,558
Total financial liabilities		-	-	50,007	1,450	51,457
Total non-financial liabilities						31,413
Total liabilities at 31 March 2011						82,870

Cash and bank balances	13	-	710	-	-	-	710
Trade and other receivables	14	-	1,862	-	-	-	1,862
Other financial assets	17	-	4,644	-	-	18,582	23,226
Total financial assets		-	7,216	-	-	18,582	25,798
Total non-financial assets							149,660
Total assets at 31 March 2010							175,458
Trade and other payables	22	-	-	1,996	-	-	1,996
Borrowings	23	-	-	47,511	-	-	47,511
Other financial liabilities	24	-	-	4,403	1,293	-	5,696
Total financial liabilities		-	-	53,910	1,293	-	55,203
Total non-financial liabilities							31,286
Total liabilities at 31 March 2010							86,489

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 2011

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 2011	Year				
Investments carried at cost	2011	-	100	-	100
Derivative financial liabilities	2011	-	(1,450)	-	(1,450)
Group & Parent 2010	Year				
Derivative financial liabilities	2010	-	(1,293)	-	(1,293)

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

c) 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 2011

Financial liability maturity analysis

	Group					
	Less than 1 month \$'000	1 month to 1 year \$'000	1 to 5 years \$'000	5+ years \$'000	Adjustment \$'000	Total \$'000
Non-interest bearing	3,645	1,460	56	-	-	5,161
Variable interest rate instruments	189	2,076	50,509	1,076	-	53,850
Fixed interest rate instruments	8	92	400	2,100	-	2,600
At 31 March 2011	3,842	3,628	50,965	3,176	-	61,611
Non-interest bearing	2,765	1,377	95	-	-	4,237
Variable interest rate instruments	193	2,119	53,698	1,076	-	57,086
Fixed interest rate instruments	69	92	400	2,100	-	2,661
At 31 March 2010	3,027	3,588	54,193	3,176	-	63,984

	Parent					
	Less than 1 month \$'000	1 month to 1 year \$'000	1 to 5 years \$'000	5+ years \$'000	Adjustment \$'000	Total \$'000
Non-interest bearing	3,182	1,204	3	-	-	4,389
Variable interest rate instruments	189	2,076	50,509	1,076	-	53,850
Fixed interest rate instruments	8	92	400	2,100	-	2,600
At 31 March 2011	3,379	3,372	50,912	3,176	-	60,839
Non-interest bearing	1,872	1,030	101	-	-	3,003
Variable interest rate instruments	193	2,119	53,698	1,076	-	57,086
Fixed interest rate instruments	69	92	400	2,100	-	2,661
At 31 March 2010	2,134	3,241	54,199	3,176	-	62,750

Glossary of terms

EBITDA	Earnings before interest, tax, discretionary discount, depreciation and amortisation.
EBIT	Earnings before discretionary discount, interest and tax.
Special discount	Total discount paid or committed as per note.
Total assets	Fixed 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).

Corporate directory

The Lines Company Limited

Company number	578653
Directors	A M Don J C Lindsay A P Muldoon P M R Browne E Rattray S Young
Registered Office	The Lines Company Limited King Street Te Kuiti New Zealand
Auditor	Bruno Dente of Deloitte has been appointed to perform the audit on behalf of the Auditor-General
Solicitors	Russell McVeagh Forgeson Law
Postal Address	P.O. Box 281 Te Kuiti New Zealand
Telephone	07 878 0600
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