the lines company

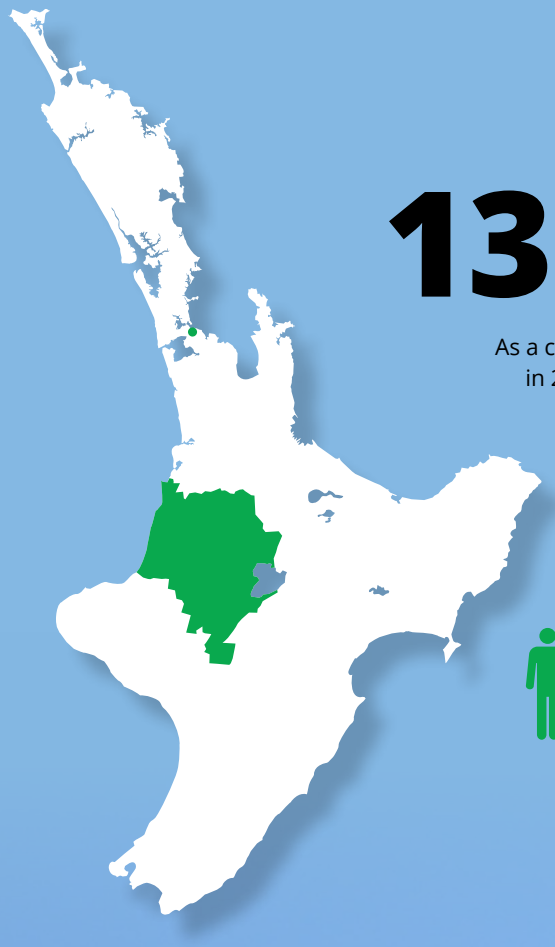
2018 Annual Report

The Lines Company Limited and Subsidiaries

keeping you connected.

keeping you connected.

contents



TLC COVERS AN AREA OF

13,700km²

As a comparison the Auckland CBD is **4.32km²** and in 2016 had a population of **~40,000** people*

18,323

CUSTOMERS

142

TLC STAFF

AROUND

381 Gigawatt

HOURS OF ELECTRICITY PER YEAR

That's the equivalent of supplying **48,000** average New Zealand households.

Distributing electricity to iron sand extraction; timber, limestone, meat and milk processing; dairy, dry stock and sheep farming; horticulture; ski-fields; tourism and holiday accommodation; and to the residents of five main towns, and numerous other urban and rural customers.

In an area which is variously rural, urban, coastal, alpine, pastoral and conservancy land.

* **References:** Margaret McClure, 'Auckland places - Auckland central business district', Te Ara - the Encyclopedia of New Zealand, http://www.TeAra.govt.nz/en/auckland-places/page-10 (accessed 17 June 2018)

Stats NZ Population Density, Auckland Region, Mapping Trends in the Auckland Region.

24,074
CONNECTIONS

8
SUPPLY POINTS

6
HYDRO - GENERATORS

27
SUB STATIONS

38
POWER TRANSFORMERS

5,099
DISTRIBUTION TRANSFORMERS

8,193
DISTRIBUTION SWITCHES

318km
UNDERGROUND CABLES

4,036km
OVERHEAD LINES

34,548
POWER POLES

51,156
CROSS-ARMS

834
SCADA AND COMMUNICATION POINTS

24,058
METERS

18
RETAILERS

Outages

AROUND
60 - 70%
OF POWER OUTAGES IN STORMS NATIONWIDE ARE DUE TO TREES

WE SPEND

$1 million
per year on trimming and felling trees

$700,000 - $1 million
per year fixing faults caused by trees falling on lines

**2018 tree-related SAIDI*
58 minutes/customer/year**

*SAIDI measures in minutes the average outage duration for each customer served

The year was characterised by a string of high impact weather-related events causing major flooding, slips, strong winds and damage to homes and infrastructure.

ON THE LINES COMPANY NETWORK WE EXPERIENCED

5
EX-TROPICAL CYCLONES

NEAR RECORD LOW MAXIMUM WINTER TEMPERATURES
in National Park and Ohakune (12 – 14 July 2017)

1
TORNADO

~10,000+
LIGHTNING STRIKES ON ONE DAY
(26 January 2018)

155 km/hour
WINDS
(Cyclone Cook, April 2017)

References: MetService NIWA Annual and Seasonal Climate Summaries, 2017 and 2018

2018 weather-related SAIDI* 41 minutes/customer/year

*SAIDI measures in minutes the average outage duration for each customer served

Our network

COVERS

12%

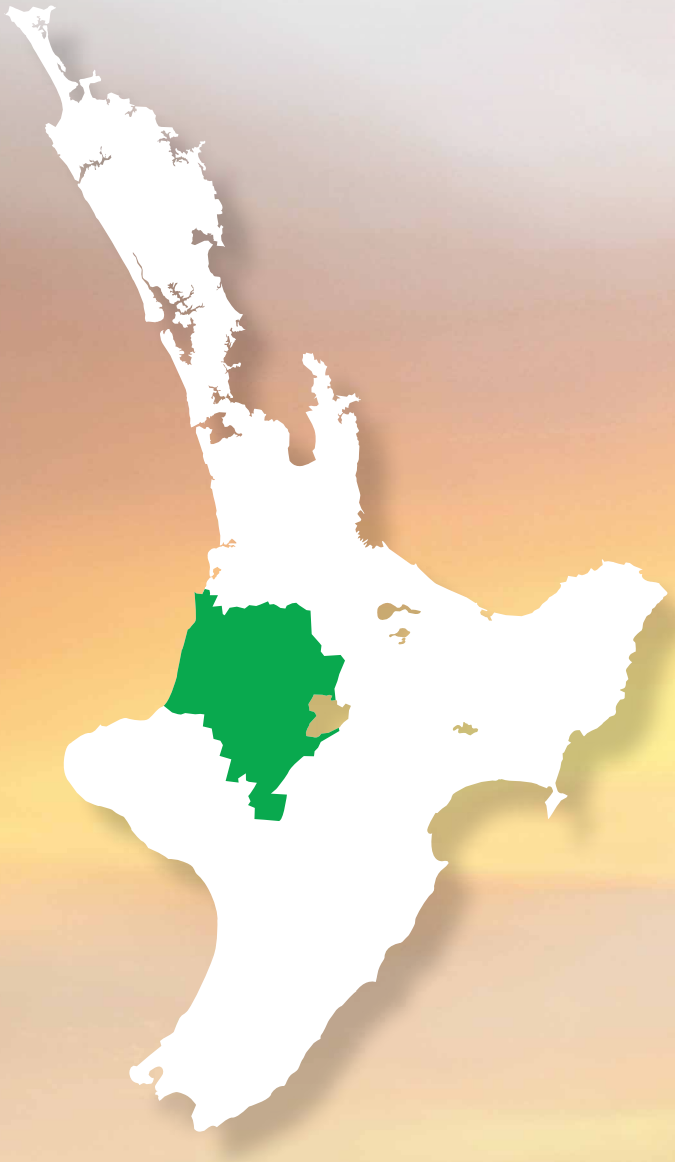
of the North Island

AND IS HOME TO

0.7%

of New Zealand's population**

** References: Stats NZ Estimated New Zealand Population March 2018
Region population figures, Commerce Commission



Health and Safety

- ACC Tertiary Accreditation retained
- Health and Safety Roadmap in place
- Comprehensive Health and Safety review
- No notifiable incidents 2017 – 2018 year

Chair's Annual Review

I am very proud to present the Annual Report for the year ended 31 March 2018 and review the significant progress made during the year.

The strategic themes running through the business have changed dramatically over the past two years as we work to keep our community and our customers connected.

As a community-owned company we strive to provide an efficient, reliable and safe network despite our challenging topography. We must be a business enabler while recovering costs in a way that is transparent and equitable and offers as much flexibility and control as possible to consumers. Most importantly, we also must deliver on our shareholders' stated objectives while being good governors and excellent employers.

The year was one of substantial progress and involved considerable change as we addressed various legacy issues.

Health and safety

As expected, the organisation continued to have a strong focus on health and safety to keep staff safe as well as ensure a safe environment for the wider public. Work began during the year on a comprehensive health and safety roadmap and we look forward to seeing this work implemented.

As a Board, we take our responsibilities of health and safety extremely seriously. We will continue to support any initiatives which create a healthier, safer workplace and community and will continue to encourage managers and staff to pursue a 'Zero Harm' workplace with vigour.

Increasing investment

After a significant review, the Board approved a programme of work focussed on improving the reliability and safety of the electricity network. Our 10-year Asset Management Plan will set in place investment priorities for the next decade and will ensure The Lines Company is able to support the King Country and Ruapehu districts well into the future with network quality and resilience.

The Asset Management Plan, one of the company's six strategic priorities, is a comprehensive programme that will see The Lines Company lifting its capital expenditure investment by 50 per cent – to $15 million each year – over the next decade. This reflects a forecast increase in electricity demand but also reflects our absolute commitment to building a more resilient network and investing in assets that support local economic development.

It is pleasing to see work is already under way on implementing key initiatives from the Asset Management Plan and we look forward to seeing it rolled out in a well-planned and managed way.

Pricing structure

Work continued at pace during the year to finalise changes to a pricing structure which has been in place for more than 10 years and which, following expert advice, the Board considers no longer fit-for-purpose. Very complex and detailed work has been done to ensure a new pricing methodology will be ready to launch in October 2018. The new system will deliver a pricing structure that will be transparent and equitable and importantly, will be better understood by our customers.

The change will mean some bills will go up and some will go down if usage patterns don't change. However, this gives immediacy of cost control back to our customers and provides an appropriate price signal to optimise capital expenditure. We are equally confident that this change will achieve the requirements of the Terms of Reference originally set by the Board.

Non-regulated businesses

During the year we continued to focus on taking a strategic, long-term view to ensure the company can continue to add value to the services we provide. Our subsidiary FCL Metering (FCLM) remains a critical part of providing metering and technology services to The Lines Company as well as developing off-network

opportunities. FCLM has provided another positive contribution and has significantly more potential as smart meters and technology solutions are required across networks.

Our investment in start-up company Embrium, of which we are a 36 per cent shareholder, is also giving us a valuable edge in technology development. Over time Embrium has the potential to be an international business. We are happy with progress and the Board is currently looking at options at shareholder level around strategic partnerships.

Shareholder relationship

Throughout the year, the Board worked positively with its shareholder, the Waitomo Energy Services Customer Trust (WESCT). In December 2017 the Trust and the company jointly advised that all WESCT beneficiaries would receive a discount appearing as a credit on line charges accounts.

The discount was the result of a review of the options available to us. We recommended, and WESCT agreed, that the discount largely replace the capital distribution from WESCT which saw $5 million distributed in 2016. This change meant that, during the last financial year, $6.44 million was credited to customer accounts. We appreciated the opportunity to work alongside WESCT on this issue and for the Trust's support of this change that is value accretive to beneficiaries.

Board changes

During the year there were changes to the Board with Dr Timothy Densem and Roger Sutton joining as Directors. After two full terms on the Board, Director Peter Till retired at our AGM in August 2017. I thank Peter for his service and also thank my fellow Directors for their commitment to our common purpose and for their ongoing diligence and support.

Finally, I would like to sincerely thank our Chief Executive Sean Horgan and his team for responding positively to Board objectives and for continuing to raise the bar of commitment and performance. Sean is showing strong leadership both in the business and within the community and we are delighted to see culture change happening as we become a more customer-centric business. That work is now clearly showing through in customer feedback. We are acutely aware that we are dealing with some significant legacy issues which we are addressing with conviction.

The coming year will be pivotal for the company and its beneficiaries and customers. We will continue to work diligently on keeping people safe, improving the network, implementing the new pricing system and delivering on our new Statement of Corporate Intent. We will do so within a framework of change while being a positive contributor and enabler in our community.

We look forward to that challenge.

MARK DARROW
Chair, Board of Directors

Chief Executive's Annual Review

Last year was a busy period for The Lines Company as we sought to make solid progress on some complex initiatives that will add value to our community over time.

Financially we ended the year in a strong position, generating Net Profit After Tax (NPAT) of $4.6m after receiving $46.1m in revenue. Our efforts, with the support of our shareholder, allowed us to credit $6.44m to customer accounts. This largely replaced the capital distribution we had seen previously while providing some tax and other advantages.

Once again storm events beyond our control had a demonstrable impact on our network and in the last financial year we did not meet both of our reliability targets. Our reliability performance was also compounded by a national review of industry standards which saw the sector actively discourage the use of live line techniques. We support this stance and acknowledge this change in practice has impacted our ability to undertake maintenance and repairs without interrupting supply to our customers.

While storm events cannot be foreseen, we put a particular focus during the year on working with forestry block and other tree owners to address the fraught issue of trees near electricity lines. We spend around $1m each year on trimming and felling trees and another $700,000 to $1m per year fixing faults caused by trees falling on lines, particularly during storm events. During the year, we joined groups like the Electricity Networks Association in calling for a review of tree regulations. We believe this is essential, not just in terms of costs, but also in terms of reducing unnecessary safety risks to our staff.

Broader issues around health and safety remained a priority following the commissioning of a benchmarking report into our health and safety performance. The report showed we perform well when compared internationally but, as always, there was room for improvement. At the specific direction of the Board, health and safety will continue to be an absolute focus for the entire organisation. During the year, we had no notifiable incidents and also retained our tertiary ACC accreditation.

Huge effort has gone into building preparedness for the launch in October this year of the new pricing methodology. I would like to acknowledge the team that has worked diligently in preparation for its roll out; it has been a massive undertaking. I am also grateful to our local stakeholders from whom we have taken guidance as we prepare for this change.

Throughout the year, staff at The Lines Company have sought to more proactively engage with our community. We want to be an engaged and contributing member of the King Country and to build an organisation people can be proud of. Given that, we sought to work more closely and more openly with stakeholders during the year as we actively planned for a more visible and connected role. That increased visibility will demand a greater investment in building and nurturing relationships and that is something I welcome.

In terms of sponsorship, The Lines Company put $85,000 of funding back into our community during the year with close to 60 local clubs, organisations and community projects gaining financial support. We also provided some 'in-kind' support, in terms of supplying specialist machinery. Sponsorship highlights included assisting with the Sir Colin Meads statue project and unveiling, the Otorohanga and the Waitomo districts sports awards as well as the King Country Christmas event in Taumarunui. In the coming year, we will be refining our sponsorship strategy to ensure we are able to support more sustainable projects with long-term benefits to our community.

In a practical sense, we have also made some changes on the ground. During the year, in order to minimise the impacts of outages, we allowed for more generator capacity. This proved valuable and as a result, we made the decision to buy a new, more flexible generator so we are better placed to keep our community connected when outages are inevitable. This decision has come at a cost but one which we believe is balanced by the benefits and security generator capacity can provide.

Work also continued at pace on securing our network and we invested $17m in capital expenditure throughout the year, a significant sum. In the last financial year we did more physical work on our network than in the past three or four years as we moved as fast as possible to future-proof our assets. During the year, $6.6m was spent specifically on line renewal and replacement work.

Despite this, we did not utilise our full capital expenditure budget, simply because of the very tight contracting market and the requirement to address unanticipated outages. The lower than anticipated expenditure on capital has meant our year-end cash-flow was higher than budgeted.

As we begin implementing our Asset Management Plan, we will see a significant uplift in prudent investment and management of our assets. We have worked hard to understand and assess the real state of our network and to plan well for the future. It has been rewarding to see work on projects like the Te Waireka and Hangatiki substation upgrades begin. Both projects will allow us to provide better service to our customers and both illustrate our much more comprehensive approach to planning and asset management.

Thanks to strong water flows and good stewardship, our hydro-generation activities performed well and reported exemplary environmental results. Our wholly-owned subsidiary FCL Metering (FCLM) also had an excellent year as it continued to roll out smart meters. FCLM now provides smart meters to 27 of 35 main electricity retailers in New Zealand and continues to look for further opportunities via our shareholding in Embrium.

As well as investing in the network, we have continued to invest in our people. During the year we recruited a number of new senior leaders who are charged with driving positive change throughout our organisation in a range of areas, including the better use of technology. Change is something to be embraced and I look forward to reporting next year on the results of new initiatives which aim to make us a more effective and responsive organisation.

We also reinstituted a line mechanic trainee programme during the year and received nearly 70 applications, the vast majority from local, smart people. Personally I take great heart from that as we strive harder than ever to be an active, contributing part of the King Country.

As we look to the future, there will be a continued emphasis on driving change that links us more closely to our community. We already work within an ever-changing environment. The emergence of technologies like solar power, electric vehicles and data management are just three examples of a changing energy landscape. To provide the best value to our shareholder, we must manage our network in the best way possible without being closed to other opportunities.

With the support of the Board, I am looking forward to the future for The Lines Company and what that means. In closing, I would like to offer my very genuine thanks to every member of staff. We each have a unique set of skills to offer this community and I am pleased and honoured to be working with a fine group of people.

SEAN HORGAN
Chief Executive

Senior Leadership Team

Sean Horgan
Chief Executive

Kevin Barnes
Chief Financial Officer

Mike Fox
Network Development General Manager

Jo Ireland
Customer Service and Communications General Manager

Dave Kitchen
FCL Metering General Manager

Sue Lomas
Human Resources Manager

Dayl Spencer
Operations General Manager
Retired June 2018

Board of Directors

Mark Darrow
Chair

Tim Densem

Richard Krogh

John Rae

Roger Sutton

Simon Young

Financial Statements 2018

Five Year Trend Statement

Financial performance

	2018 $'000	2017 $'000	2016 $'000	2015 $'000	2014 $'000
Revenue*	**46,100**	50,298	50,148	49,139	48,555
EBITDA	22,782	25,877	24,811	24,636	23,434
EBIT	11,823	14,900	13,383	13,466	12,646
Profit before tax	9,100	12,093	10,725	10,543	9,568
Profit after tax	4,607	8,619	7,427	7,342	7,315
Network discounts granted	5,600	-	-	-	-
Operating cash flow before tax	18,777	24,211	22,342	21,302	22,633
Dividends paid	200	5,300	5,000	5,000	4,950
Total assets	266,871	257,884	250,789	245,253	249,776
Shareholder funds	149,386	144,336	140,299	138,895	145,565
Shareholder equity	146,386	141,336	137,299	135,895	142,565
Debt to assets ratio	25.9%	26.0%	26.0%	25.1%	25.3%
Capital ratio	54.9%	54.8%	54.7%	55.4%	57.1%
Return on average equity	3.2%	6.2%	5.4%	5.3%	5.2%
Earnings per share net of tax (cents)	39	73	63	62	56

*Revenue for 2018 is after paying customer discounts of $5.6m. This was not paid in previous years.

Operating performance

	2018	2017	2016	2015	2014
Outage minutes per customer	38	65	33	38	42
Planned	205	187	159	148	181
Unplanned					
Total	243	252	192	185	223
Outage per customer					
Planned	0.25	0.43	0.20	0.21	0.23
Unplanned	3.50	2.96	3.19	2.86	2.97
Total	3.75	3.39	3.39	3.07	3.20

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

2017/18 Financial Report

Directory of Notes to the Financial Statements

Statement of Service Performance

Performance against targets set in the Statement of Corporate Intent for the year ended 31 March 2018 was as follows: (All dollar amounts are in $'000)

	Actual	Target
1. Return on average assets Target was based on pre discount figure. The equivalent result adjusting for the discount would be 4.8%*	3.2%	4.7%
2. Return on average equity Average equity (including subordinated debentures)	146,861	146,066
Return on Equity Target was based on pre discount figure. The equivalent result adjusting for the discount would be 7.1%*	3.2%	6.2%
3. Borrowings (including subordinated debentures)	58,039	62,050
4. Equity (including subordinated debentures) to assets ratio	56%	56%
5. Dividends	200	5,800
6. Discount granted*	5,600	-
7. Reliability The performance target relating to SAIDI and SAIFI reliability in the Statement of Corporate Intent was for TLC to not breach the reliability limits as set out in the Default Price Path Annual Compliance Statement. The audited Default Price Path Annual Compliance Statement for the year to 31 March 2018 shows that TLC has exceeded the SAIDI and SAIFI limits. As a result TLC has breached the reliability limits. Weather has contributed significantly to the exceedances with snow storms in July 2017, and wind, rain and lightning related storms in September 2017, January 2018 and February 2018. In general the weather across the year consistently impacted our network more than is typical.	SAIDI 243 SAIFI 3.75	234 3.47
8. Regulated revenues To have a Notional Revenue to Allowable Notional Revenue ratio as set out in the Default Price Path Annual Compliance Statement of between 80% and 100%.	90%	>80%
9. Funding of Community Projects To expend up to $100,000 in supporting community projects.	76	<100
10. Safety Notifiable injuries that resulted in serious harm Lost time hours / worked hours	Nil 515 per 200,000	Nil
Development of Health and Safety Culture The focus of the company is to continually improve our safety culture and performance. Part of this has been shown by the retention of ACC tertiary status, the highest level available. The lost time hour/worked hours measure is an industry standard measure that will enable us to compare our performance to others.	Maintained ACC Tertiary Status	

*During the year TLC agreed with its shareholder to provide a discount direct to eligible consumers. At the same time it was agreed that the dividend paid would be reduced.

Financial Statements

2018 Financial statements

The financial statements for the year ended 31 March 2018 are signed on behalf of the Board of Directors by:

19 June 2018	19 June 2018
MARK DARROW Date	**JOHN RAE** Date
Chair, Board of Directors	Director

Statement of Comprehensive Income

for the year ended 31 March 2018

	Note	2018 $'000	2017 $'000
Revenue	1	46,100	50,298
Total revenue		46,100	50,298
Operating expenses	2	(22,991)	(24,218)
Depreciation and amortisation	8 & 9	(10,745)	(10,669)
Interest costs (net)	3	(2,723)	(2,807)
Impairment of assets		(214)	(308)
Total expenses		**(36,673)**	**(38,002)**
Share of net loss of associate accounted for using the equity method	11.2	(326)	(203)
Profit before tax		9,100	12,093
Income tax expense	4	(4,493)	(3,474)
Profit for the year			
Profit for the year is attributable to:		4,607	8,619
Equity holders of the parent		4,657	8,647
Non-controlling interest		(50)	(28)
Other comprehensive income **Items that will not be reclassified to profit or loss**			
Revaluation of network assets, land and buildings	8	590	-
Income tax relating to revalued assets		(125)	-
Other comprehensive income for the year		465	-
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge reserve		247	997
Income tax relating to cash flow hedges	12.2	(69)	(279)
Other comprehensive income for the year, net of tax		178	718
Total comprehensive income for the year		5,250	9,337
Total comprehensive income is attributable to:			
Equity holders of the parent		5,300	9,365
Non-controlling interest		(50)	(28)

Balance Sheet

as at 31 March 2018

	Note	2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents		566	667
Trade and other receivables	6	2,668	2,961
Inventories	7	1,962	1,767
		5,196	5,395
Non-current assets			
Property, plant and equipment	8	255,679	246,182
Intangible assets	9	2,166	1,941
Investments in Equity Accounted Associate	11.2	2,753	3,079
Deferred tax asset	14	1,046	1,187
Other financial assets		31	100
		261,675	252,489
Total assets		266,871	257,884
Current liabilities			
Trade and other payables	16	6,548	5,875
Convertible notes issued by subsidiary	15	250	250
Other financial liabilities	19.1	2,306	2,634
Current tax liability	13	988	675
Provision for staff entitlements	17	1,214	1,474
		11,306	10,908
Non-current liabilities			
Bank borrowings	15	53,939	52,239
Other financial liabilities	19.1	81	-
Convertible notes issued by subsidiary	15	850	900
Subordinated debentures	15	3,000	3,000
Deferred tax liability	14	51,309	49,501
		109,179	105,640
Total liabilities		120,485	116,548
Net assets		146,386	141,336
Equity			
Share capital	12.1	8,013	8,013
Retained earnings		57,710	53,253
Cash flow hedge deficit	12.2	(1,718)	(1,896)
Revaluation reserves	12.3	81,582	81,117
Equity attributable to parent company		145,587	140,487
Non-controlling interest		799	849
Total equity		146,386	141,336

Statement of Changes in Equity

for the year ended 31 March 2018

	Note	Share Capital $'000	Retained Earnings $'000	Cashflow Hedge Reserves $'000	Revaluation Reserves $'000	Total Attributable to Owners of Parent $'000	Non-controlling Interest $'000	Total Equity $'000
Balance as at 31 March 2016		8,013	49,906	(2,614)	81,117	136,422	877	137,299
Profit for the year		-	8,647	-	-	8,647	(28)	8,619
Other comprehensive income								
Interest rate swaps		-	-	718	-	718	-	718
Total other comprehensive income		-	-	718	-	718	-	718
Transactions with owners								
Dividends	10	-	(5,300)	-	-	(5,300)	-	(5,300)
Total transactions with owners		-	(5,300)	-	-	(5,300)	-	(5,300)
Balance as at 31 March 2017		8,013	53,253	(1,896)	81,117	140,487	849	141,336
Profit for the year		-	4,657	-	-	4,657	(50)	4,607
Other comprehensive income								
Interest rate swaps		-	-	178	-	178	-	178
Revaluation of land and buildings		-	-	-	465	465	-	465
Total other comprehensive income		-	-	178	465	643	-	643
Transactions with owners		-	-	-	-	-	-	-
Dividends	10		(200)			(200)		(200)
Total transactions with owners		-	(200)	-	-	(200)	-	(200)
Balance as at 31 March 2018		8,013	57,710	(1,718)	81,582	145,587	799	146,386
Attributable to equity holders of the company		8,013	57,710	(1,718)	81,582	145,587		145,587

Cash Flow Statement

for the year ended 31 March 2018

	Note	2018 $'000	2017 $'000
Operating activities			
Cash generated from operations		21,762	27,162
Interest received	3	2	-
Interest paid		(2,987)	(2,951)
Income taxes paid	13	(2,423)	(3,023)
Net cash from operating activities		16,354	21,188
Investing activities			
Purchases of property, plant and equipment		(17,426)	(14,729)
Purchases of intangible assets		(621)	(861)
Proceeds on disposal of property, plant and equipment		142	115
Purchase of Equity Accounted Associate		-	(3,282)
Net cash used in investing activities		(17,905)	(18,757)
Financing activities			
Dividends paid	10	(200)	(5,300)
Convertible notes in subsidiary sold to non-controlling interest		(50)	(50)
Bank borrowings advanced	15	1,700	3,139
Net cash (used)/provided from in financing activities		1,450	(2,211)
Net (decrease)/increase in cash and cash equivalents		(101)	220
Cash and cash equivalents at the beginning of the year		667	447
Cash and cash equivalents at end of the year		566	667

Cash Flow Statement Reconciliation

for the year ended 31 March 2018

Reconciliation of profit before tax to net cash from operating activities

	Note	2018 $'000	2017 $'000
Profit before tax		9,100	12,093
Adjustments for non-cash items			
Depreciation and amortisation	8 & 9	10,745	10,669
Non cash asset replacement (gifted asset)		(1,883)	-
Impairment	9	214	308
Asset write-off		-	(5)
Interest capitalised	3	(237)	(170)
Movement in provision for doubtful debt	6	(65)	(80)
Share of surpluses/(losses) retained by Equity Accounted Associate		326	203
		18,200	23,018
Changes in net assets and liabilities			
Trade and other receivables		359	782
Construction contracts			-
Inventories		(195)	(79)
Trade and other payables		673	327
Current provision for staff entitlements		(260)	163
		577	1,193
Net cash from operating activities before tax		18,777	24,211
Income Tax paid		(2,423)	(3,023)
Net cash from operating activities		16,354	21,188

Notes to the Financial Statements

General information

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

The address of its registered office is King Street East, Te Kuiti and its principal activities are substantially carried out in the greater King Country region of New Zealand.

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

The financial statements were authorised for issue by the Directors on 19 June 2018.

Summary of significant accounting policies

Basis of preparation

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

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

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

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

Significant accounting policies, estimates and judgements

The Board and management are required to make judgements, estimates and apply assumptions that affect the amounts reported in the financial statements. They are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in the future periods.

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

Notes to the Financial Statements

For the year ended 31 March 2018

1. Revenue

		2018 $'000	2017 $'000
Continuing operations			
Network		41,053	40,811
Non cash asset replacement (gifted asset)		1,883	-
Less network discount	10	(5,600)	-
Net network revenue		37,336	40,811
Meters and relays		4,551	4,009
Contracting		2,027	3,329
Generation		2,183	2,147
Corporate services		3	2
		8,764	9,487
Revenue		**46,100**	**50,298**

Policies

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

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

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

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

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

Key judgements

Management must apply judgement where:

Part of the network charges are based on normalisation, where demand is assessed based on historical actual meter readings. Occasionally the meter reading history data is not consistent and subsequent adjustments are made to customers' accounts, where further charges are applied or refunds given, these adjustments are not material compared with total network revenue. External contracting projects are considered significant when the project value is greater than $500,000.

2. Operating expenses

	2018 $'000	2017 $'000
Transmission charges	7,044	7,423
Total staff cost recognised as expense	9,675	10,277
Cost of inventories recognised as expense	1,134	1,270
Professional fees	2,609	1,784
Property expenses	830	697
Directors fees and expenses	284	270
Gain on disposal of PPE and software intangibles	(17)	(88)
Other indirect expenses	1,432	2,584
Total	22,991	24,218

Fees paid to auditors	2018 $'000	2017 $'000
Financial statement audit fees	159	159
Regulatory audit fees	85	72
OAG fees	17	16
Regulatory advice	11	80
	272	327

3. Interest costs (net)

	2018 $'000	2017 $'000
Interest on bank borrowings	2,715	2,709
Capitalised interest	(237)	(170)
Interest on convertible notes issued by subsidiary	75	79
Interest on subordinated debentures	170	174
Other interest expense, principally IRD Use of Money	2	15
Interest income	(2)	-
Total	2,723	2,807

The weighted average interest rate on bank borrowings, including interest rate swap derivatives, is 5.18% (2017: 4.89%).

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

Policies

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

4. Income tax expense

Reconciliation of income tax expense	2018 $'000	2017 $'000
Profit before income tax	9,100	12,093
Expenses that are non-deductible	6,399	292
Impairment of assets	197	308
Taxable profit	15,696	12,693
Income tax expense at 28%	4,395	3,554
Effect of prior period tax adjustment	98	(80)
Income tax expense	4,493	3,474
Effective tax rate (being total tax expense divided by profit before tax)	49%	29%
Current tax expense	2,736	2,384
Deferred tax expense	1,757	1,090
Income tax expense	4,493	3,474
Attributable to:		
Continuing activities	4,493	3,474

Amounts recognised directly in other comprehensive income

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

Deferred tax – debited (credited) directly to other comprehensive income	194	(279)
Total tax expense for the year recognised in other comprehensive income	194	(279)

Policies

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

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

Imputation credits

The value of imputation credits available for subsequent reporting periods as at 31 March 2018 is $7.72m (2017 – $4.27m).

5. Operational profit

	2018 $'000	2017 $'000
Earnings before interest, tax, depreciation and amortisation (EBITDA)		
Network	22,542	25,110
Meters and relays	2,382	2,836
Contracting	1,472	1,513
Generation	1,224	1,517
Corporate services	(4,838)	(5,099)
	22,782	25,877
Depreciation and amortisation	10,745	10,669
Impairment	214	308
Earnings before interest and tax (EBIT)	11,824	14,900

6. Trade and other receivables

	2018 $'000	2017 $'000
Trade Receivables		
Trade receivables	2,563	3,129
Less provision for doubtful debts	(562)	(627)
Balance at 31 March	2,001	2,502
Other Receivables		
Sundry debtors	238	96
Prepayments	429	363
Balance at 31 March	667	459
Receivables balance at 31 March	2,668	2,961
Ageing Of Trade Receivables		
Current to 90 days	1,698	2,344
Greater than 90 days	865	785
	2,563	3,129

Provision for doubtful debts

	2018 $'000	2017 $'000
Opening balance	627	707
Movement in provision	11	47
Receivables written off during the year as uncollectable	(76)	(127)
	562	627

Policies

No interest is charged on trade receivables for most customers.

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

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

A provision for impairment is recognised when there is evidence The Lines Company will be unable to collect the debt.

Judgements

Factors involved in gathering this evidence include ageing of the debt, any disputes with debtors, ability to locate the debtor and debtor's perceived ability to pay.

7. Inventories

	2018 $'000	2017 $'000
Contracting stores	1,030	886
Network stores	15	15
Transformers	368	387
Private lines	547	424
Meters and relays	1	54
Generation	1	1
	1,962	1,767

Policies

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

Cost includes the cost of direct materials and other charges, e.g. freight incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

8. Property, plant and equipment

	Land $'000	Buildings $'000	Network Distribution System $'000	Meters & Relays $'000	Plant & Vehicles $'000	Generation $'000	Total $'000
Gross carrying amount							
At 31 March 2016	1,356	1,912	225,018	26,567	8,760	21,706	285,319
Additions	-	15	9,377	3,822	884	64	14,162
Disposals	- -	-		-	(458)	(44)	(502)
Reclassification	-	-	-	-	-	(28)	(28)
Capital works in progress	-	329	567	(134)	-	3	765
At 31 March 2017	1,356	2,256	234,962	30,256	9,185	21,701	299,716
Additions	-	49	15,700	2,405	881	12	19,047
Disposals	-	-	(161)	-	(382)	-	(543)
Reclassification	-	-	(346)	-	-	-	(346)
Capital works in progress	-	-	24	585	-	7	616
At 31 March 2018	1,356	2,305	250,179	33,246	9,684	21,720	318,490

Accumulated depreciation and impairment

At 31 March 2016	-	47	19,649	14,615	6,069	3,194	43,575
Depreciation charge	-	36	7,502	1,110	974	585	10,207
Impairment	-	139	-	-	-	-	139
Disposals	-	-	-	-	(378)	(8)	(386)
At 31 March 2017	-	222	27,151	15,725	6,666	3,771	53,535
Depreciation charge	-	38	7,376	1,420	948	585	10,367
Reclassification	-	-	(346)	-	-	-	(346)
Revaluation	(11)	(332)	-	-	(66)	66	(343)
Disposals	-	(106)	(24)	-	(272)	-	(402)
At 31 March 2018	(11)	(178)	34,157	17,145	7,276	4,422	62,811

Carrying amount (Net book value)

	Land $'000	Buildings $'000	Network Distribution System $'000	Meters & Relays $'000	Plant & Vehicles $'000	Generation $'000	Total $'000
At 31 March 2016	1,356	1,865	205,369	11,952	2,691	18,512	241,744
At 31 March 2017	1,356	2,034	207,811	14,530	2,519	17,930	246,182
At 31 March 2018	1,367	2,483	216,022	16,101	2,408	17,298	255,679

Carrying amount (Cost model)

	Land $'000	Buildings $'000	Network Distribution System $'000	Meters & Relays $'000	Plant & Vehicles $'000	Generation $'000	Total $'000
At 31 March 2017	719	1,917	116,931	14,530	2,519	17,930	154,546
At 31 March 2018	719	1,928	125,095	16,101	2,408	17,298	163,549

The table represents the carrying amounts that would have arisen had all Property Plant and Equipment (PPE) been carried under the cost model.

Policies

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

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

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

Capitalisation occurs immediately once an asset is acquired or installed.

Depreciation begins once an asset is ready for use.

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

Estimated useful asset lives are as follows:

Buildings	40 – 100 years
Distribution System	5 – 60 years
Meters & Relays	4 – 15 years
Plant & Vehicles	1 – 10 years
Generation	10 – 75 years

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

Judgements

Land and buildings

The land and buildings of the Group, comprising the vacant land and depots at Waitete Road Te Kuiti, Te Peka Street Taumarunui, Old Station Road Ohakune, the residential dwellings at Te Peka Street Taumarunui and head office at King Street East Te Kuiti were revalued to $3.5m at 31 March 2018.

These valuations were prepared by Doyle Valuations Ltd (ANZIV, SNZPI), an independent valuer with local experience. These valuations were carried out in accordance with API and PINZ Professional Practice and International Valuation Standards. Cost summation, market rate and income approaches were used for the valuation.

The fair value measurements above are considered to be Level 2 as they are derived from valuation techniques that include inputs for the assets that are based on observable market data.

Network distribution system

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

Network distribution system assets, excluding meters and relays, were valued to $214.7 million at 31 March 2018. This value was within the valuation range ($201.2m – $217.1m) independently prepared by Deloitte and the key assumptions used are shown in the table below. In all cases an element of professional judgment is required. The valuation is based on revenue and cost assumptions applied against a combination of discount rates and distribution revenues.

Assumptions	Valuation midpoint assumptions adopted	Low	High	Valuation impact $000's
				-$1,239
Distribution revenue	-	-5%	5%	+ $3,596
				+ $8,106
Discount rate	6.2%	-0.5%	0.5%	- $7,739

Consistent with prior years, the valuer has assumed the terminal value equal to forecast Regulatory Asset Base (RAB) based on information disclosures, as it is believed that the terminal value would approximate the RAB value in a steady state regulatory environment.

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

Generation assets

The carrying value of the Group's generation assets are assessed for impairment annually.

The basis of the impairment assessment is the value-in-use discounted cash flow analysis of the future earnings of the assets. The major inputs that are used in the value-in-use model that required judgment include the forward price path of electricity, sales volume forecasts, projected operational and capital expenditure profiles, discount rates and life assumptions for each generation station.

During 2017 the Electricity Authority (EA) provided guidance that Avoided Cost of Transmission (ACOT) revenue was not expected to continue in the current form past October 2018. This has reduced the base impairment value of the generation property compared to the prior year.

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

Group generation assessment

Assumptions - Group	Low	High	Total Impairment base value in use $20.21m	
			Negative value impact ($'000)	Positive value impact ($'000)
Price path - Energy Link	Energy Link - 25th percentile	Energy Link - 75th percentile	$3,660	$3,620
Generation volume	-10.0%	+10.0%	$2,930	$2,930
Operational costs	+20.0%	-20.0%	$2,340	$2,340
Discount rate - 7.19%	7.99%	6.39%	$2,880	$3,950

9. Intangible assets

	Software $'000	Land Easements $'000	Resource Consents & Rights $'000	Total $'000
Cost				
Total cost at 31 March 2016	3,715	304	557	4,576
Additions	555	113	175	842
Reclassification	18	-	-	18
Total cost at 31 March 2017	4,288	417	732	5,437
Additions	541	-	80	621
Total cost at 31 March 2018	4,829	417	812	6,058
Accumulated amortisation and impairment				
Total at 31 March 2016	2,862	-	-	2,862
Amortisation charge for the year	461	-	169	630
Disposal	4	-	-	4
Total at 31 March 2017	3,327	-	169	3,496
Amortisation charge for the year	378	-	-	378
Impairment	-	-	17	17
Total at 31 March 2018	3,705	-	186	3,891
Carrying amount (Net book value)				
Total at 31 March 2016	853	304	557	1,714
Total at 31 March 2017	962	417	563	1,941
Total at 31 March 2018	1,124	417	626	2,166

Policies

Software is amortised on a straight line basis over its estimated useful life of 1 – 8 years.

Land easements have an indefinite life due to the right existing in perpetuity and are therefore not amortised and are required to be assessed for impairment annually.

Resource consents include the rights to construct small hydro schemes. These consents are classified as having an indefinite life due to the recognition of monitoring and renewal costs as operating expenses and are therefore tested for impairment annually.

10. Dividends

	2018 $'000	2017 $'000
Dividends paid	200	5,300

Dividends of $0.2m (2017: $5.3m), being 1.69 cents per share (2017: $0.4474), were paid to shareholders during the year.

During the year TLC agreed with its shareholder to provide a discount of $5.6m direct to eligible consumers. At the same time it was agreed that the dividend paid would be reduced.

11. Investments

11.1 Investment in subsidiaries

Name	Principal activity	Ownership Interest	
		2018 %	2017 %
Financial Corporation Limited	Meter and relay assets	100	100
Speedys Road Hydro Limited	Hydro generation scheme	75	75

On 1 February 2018 Financial Corporation Limited issued an additional 2.0m shares for $2m to The Lines Company Limited.

Policies

Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-Group transactions are eliminated on consolidation.

Balance dates

All subsidiaries have a balance date of 31 March.

Geography

All subsidiaries are incorporated in New Zealand.

11.2 Investment in associates

Name	Principal activity	Ownership Interest		Nature of relationship	Measurement method	Carrying amount	
		2018 %	2017 %			2018 $'000	2017 $'000
Embrium Holdings Limited	Meter support technology	36	36	Associate	Equity method	2,753	3,079

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

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

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

Summarised Financial Information of Equity Accounted Associate	2018 $'000	2017 $'000
Cash and cash equivalents	1,064	2,278
Total current assets	**640**	312
Total non current assets	**54**	45
Total assets	**1,758**	2,635
Total current liabilities	**192**	162
Total non current liabilities	**-**	-
Total liabilities	**192**	162
Net assets	**1,566**	2,473
Group's share of net assets	**564**	890
Goodwill acquired on acquisition of Equity Accounted Investee	2,189	2,189
Carrying amount of Equity Accounted Investee	**2,753**	3,079
Revenue	481	73
Depreciation and Amortisation	13	3
Interest income	(44)	(50)
Net loss before tax	**(1,015)**	(629)
Tax credit	120	65
Net loss after tax	**(895)**	(564)
Group's share of net loss after tax	**(326)**	(203)
Reconciliation to carrying amounts		
Opening net assets	2,473	3,037
Profit/(loss) for the period	(895)	(564)
Closing net assets	1,578	2,473
Group's share in %	36%	36%
Group's share in closing net assets	564	890
Goodwill	2,189	2,189
Carrying amount	**2,753**	3,079

Policies

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

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

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

Judgements

Through the shareholder agreement, Financial Corporation Limited is guaranteed two seats on the Board of Embrium and participates in all significant financial and operating decisions. The Group has therefore determined that it has significant influence over this entity; however, with 36% shareholding it does not have a controlling interest. The carrying value of the investment is reviewed annually for impairment. As the investment is meeting the planned achievements no impairment is judged to be required. In common with other start-up companies this judgement is based on the expectation that the associate will be able to raise further capital over the next financial year. If this does not occur this investment may need to be impaired.

12. Equity and reserves

12.1. Share capital

Dividends

The Lines Company's final dividend for the year 31 March 2018 of 1.69 cents per share was paid on 31 October 2017.

Shares

The total number of authorised and issued shares is 11,846,808 (2017 – 11,846,808).

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

12.2. Hedge reserves

Hedge reserves comprise the cash flow hedge reserve.

Policies

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

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

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

Judgements

During the year, $0.178m (2017 – $0.718m) was transferred to the cash flow hedge reserve to interest cost.

12.3. Revaluation reserve

	Network Distribution System $'000	Land & buildings $'000	Total $'000
Total at 31 March 2016	80,704	413	81,117
Total at 31 March 2017	**80,704**	**413**	**81,117**
Revaluation increases	-	590	590
Deferred tax on revaluation	-	(125)	(125)
Total at 31 March 2018	**80,704**	**878**	**81,582**

13. Current tax liability/(asset)

	2018 $'000	2017 $'000
Opening balance	675	1,320
Tax payments and tax credits received	(2,423)	(3,023)
Prior year transfer from current to deferred tax	-	(6)
Current tax expense for the year	2,736	2,384
Closing balance	988	675

Policies

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

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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14. Deferred tax liability

	Property, plant & equipment $'000	Cash flow hedges $'000	Provisions $'000	Total $'000
At 31 March 2016	48,380	(1,017)	(418)	46,945
Charged to income	1,121	-	(31)	1,090
Charged to other comprehensive income	-	279	-	279
At 31 March 2017	49,501	(738)	(449)	48,314
Charged to income	1,683	-	74	1,757
Charged to other comprehensive income	125	67	-	192
At 31 March 2018	51,309	(671)	(375)	50,263

	2018 $'000	2017 $'000
Non-current - deferred tax asset	(1,046)	(1,187)
Non-current - deferred tax liability	51,309	49,501
Net deferred tax liability	50,263	48,314

Policies

Deferred tax is:

- Recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.
- Determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to be applied when the related deferred income tax asset is realised or the deferred income tax liability is settled.

15. Bank borrowings, convertible notes and subordinated debentures

	2018 $'000	2017 $'000
Bank borrowings	53,939	52,239
Convertible notes issued by subsidiary	1,100	1,150
Subordinated debentures:		
Waitomo Energy Services Customer Trust	1,000	1,000
North King Country Development Trust	2,000	2,000
	58,039	56,389
Disclosed in the financial statements as:		
Current borrowings	250	250
Non-current borrowings	57,789	56,139
	58,039	56,389

	Borrow. Due within 1 year $'000	Borrow. Due after 1 year $'000	Total $'000
Net debt as at 31 March 2017	**250**	**56,139**	**56,389**
Cash flows	**-**	**1,650**	**1,650**
Net debt as at 31 March 2018	**250**	**57,789**	**58,039**

Policies

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

The subordinated debentures are stated at their fair values.

Bank borrowings

The group has term lending facilities of $75.4m for three years, expiring 31 May 2020. The working capital portion of this facility is $3m and is subject to annual renewal and expires on 31 December 2018.

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

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

Convertible notes

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

On 30 September 2017, $200,000 of the convertible notes were repaid reducing the balance to $3.3m to TLC and $1.1m to the minority shareholder.

The holder may either elect to convert the notes to shares, redeem the notes for cash or extend the maturity date of the notes. The election notice is subject to agreement by the SRHL Board of Directors who are entitled to act in what they reasonably consider to be in the best interests of SRHL. At 31 March 2018, there were two separate tranches of convertible notes of $1,000,000 each with maturity dates of 30 September 2018, and 30 September 2019. There were three separate tranches of convertible notes of $800,000 each with maturity dates of 30 September 2020, 30 September 2021, and 30 September 2022. SRHL reserves the right to defer interest payments in perpetuity while it does not have sufficient cash to make the payment.

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

Subordinated debentures

The Waitomo Energy Services Customer Trust (WESCT) loan has a principal value of $1,000,000 and had fixed interest of 7.42% per annum (2017: 7.42%). The North King Country Development Trust (NKCDT) loan has a principal value of $2,000,000 and had fixed interest of 5.00% per annum (2017: 5.00%).

The subordinated debentures are unsecured and have no specified maturity date. Repayment of the subordinated debentures is not permitted until full repayment of all other borrowings of the Company.

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

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

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

16. Trade and other payables

	2018 $'000	2017 $'000
Trade creditors	2,457	2,694
Interest accruals	327	355
Other payables and accruals	2,445	1,643
Customer credit balances	1,319	1,183
	6,548	5,875

Policies

Trade and other payables are:

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

17. Provision for staff entitlements

	2018 $'000	2017 $'000
Opening balance	1,474	1,311
Accrued	1,214	1,470
Utilised	(1,474)	(1,307)
	1,214	1,474

Policies

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

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

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

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

18. Contingent assets and liabilities

The Group has capital commitments of $4.2m including $4m of transformers and $0.2m of metering equipment (2017: $1.6m).

The Group has no contingent liabilities.

The Group leases office space under a non-cancellable operating lease expiring within three years. The lease has varying terms and renewal rights. On renewal, the terms of the lease are renegotiated.

	2018 $'000	2017 $'000
No later than one year	63	63
Later than one year and no later than five years	14	76
Later than five years	-	-
	77	139

19. Financial risk management

Objectives

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

- Interest rate risk;
- Credit risk;
- Capital risk;
- Liquidity risk; and
- Electricity price risk.

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

19.1 Interest rate risk

	2018 $'000	2017 $'000
Current	(2,306)	(2,634)
Non current	(81)	-
Mark to market fair value of interest rate swaps at balance date (liability) were	(2,387)	(2,634)

Policies

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

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

Sensitivity

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

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

	2018 $'000	2017 $'000
Impact on profit or loss		
-1% change in interest rates	(100)	(77)
+1% change in interest rates	100	77
Impact on balance sheet		
-1% change in interest rates	(598)	(668)
+1% change in interest rates	598	668

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

19.2 Credit risk

The Group's principal financial assets are cash and cash equivalents, trade and other receivables and related party loans, which represent the Group's maximum exposure to credit risk in relation to financial assets.

19.2a Fair value of financial instruments

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

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

Fair value measurements recognised in the balance sheet

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

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

		Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Group 2018	**Year**				
Derivative financial liabilities	2018		(2,387)		(2,387)
Group 2017	**Year**				
Derivative financial liabilities	2017	-	(2,634)	-	(2,634)

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

19.2b Financial instruments by category

2018	Loans and receivables $'000	Financial liabilities at amortised cost $'000	Derivatives designated as cash flow hedges $'000	Total $'000
Cash and bank balances	566	-	-	566
Trade and other receivables	2,239	-	-	2,239
Total financial assets	2,805	-	-	2,805
Trade and other payables	-	3,323	-	3,323
Borrowings	-	58,039	-	58,039
Other financial liabilities	-	-	2,387	2,387
Total financial liabilities	-	61,362	2,387	63,749
2017				
Cash and bank balances	667	-	-	667
Trade and other receivables	2,598	-	-	2,598
Total financial assets	3,265	-	-	3,265
Trade and other payables	-	3,447	-	3,447
Borrowings	-	56,389	-	56,389
Other financial liabilities	-	-	2,634	2,634
Total financial liabilities	-	59,836	2,634	62,470

Policies

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

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

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

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

19.3 Capital risk

During 2018, the Group's strategy, which was unchanged from 2017, was to maintain an equity/assets ratio of not less than 40%.

The ratios at March 2018 and 2017 were as follows:

	2018 $'000	2017 $'000
Average equity (including subordinated debentures)	146,861	142,317
Total assets at year end	266,871	257,884
Equity to Assets Ratio	55.0%	55.2%

Policies

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

The Group's overall strategy remains unchanged from 2017 and is based on risk management strategies and treasury management policies set and monitored by the Board.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 15, and equity attributable to equity holders of the parent, comprising issued capital, retained earnings and reserves as disclosed in note 12 and statement of changes in equity respectively.

19.4 Liquidity risk

Financial liability maturity analysis

	Less than 1 month $'000	1 month to 1 year $'000	1 to 5 years $'000	Total $'000
Non-interest bearing	3,323	-	-	3,323
Variable interest rate instruments	146	2,293	56,447	58,886
At 31 March 2018	3,469	2,293	56,447	62,209
Non-interest bearing	3,447	-	-	3,447
Variable interest rate instruments	144	1,780	55,228	57,152
At 31 March 2017	3,591	1,780	55,228	60,599

The table includes both interest and principal cash flows.

Variable rate instruments includes the impact of derivatives.

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

Policies

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

19.5 Electricity price risk

Policies

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

The Group has entered in to a fixed term contract to supply electricity at agreed rates. This contract is fixed until 31 December 2019.

20. Related party transactions

	2018 $'000	2017 $'000
Transactions with Waitomo Energy Services Customer Trust		
Dividends paid	200	5,300
Interest paid on subordinated debentures	72	72
Transactions with key management personnel		
Salary and other short-term employee benefits	1,354	1,367
Directors' fees and expenses	284	270

Simon Young is a Director of Financial Corporation Limited and Embrium Holdings Limited. Financial Corporation Limited holds a 36% shareholding in Embrium Holdings Limited.

Sean Horgan is a Director of Embrium Holdings Limited and is the Chief Executive of The Lines Company Limited, the holding company of Financial Corporation Limited which holds a 36% shareholding of Embrium Holdings Limited.

21. Subsequent events

There were no material events after the 31 March 2018 balance date which require recognition or disclosure.

Corporate Governance

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

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

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

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

Board of directors

The Directors and Chair are appointed by the shareholder. All Directors are non-executive and are independent. The Board is responsible for setting and monitoring the strategic plans and goals of the company. It delegates the day to day management of the company to the Chief Executive. The Board's authority and accountability is based on the regulatory framework and the Statement of Corporate Intent (SCI). The SCI is produced annually and sets out the Board's strategic objectives, goals and performance targets, as agreed with the shareholder. The Board operates in accordance with the Constitution of TLC, adopted on 1 April 1999. The Board receives monthly reports from management and meets at least eight times during each financial year. The Constitution specifies that there shall be no fewer than four and no more than seven Directors at any one time, and that at every Annual General Meeting one third of the Directors shall retire from office and be eligible for reappointment.

The Board have two standing committees. The Remuneration Committee, Chaired by Mark Darrow, makes recommendations to the Board on the remuneration packages including base salary, fringe benefits, incentive schemes, superannuation and entitlements of the CEO and senior executive officers. The Audit Committee, Chaired by John Rae, reviews the effectiveness and efficiency of internal controls and information systems, oversees TLC's compliance with legal and regulatory requirements, financial statements, treasury policy and preparation of the annual report. It also liaises with the Office of the Auditor General on the appointment of external auditors.

To provide oversight and give comment to TLC management throughout two important projects the Board formed two additional subcommittees this year. They are the Pricing Working Group led by Simon Young and the Asset Management Planning subcommittee led by Richard Krogh.

Risk management

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

Health and safety

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

Treasury management

Exposure to treasury related financial risks is managed in accordance with TLC's treasury policy. This policy sets out financial and treasury management objectives, specific responsibilities, limits on management authority, permissible financial instruments and

reporting and monitoring requirements. Under this policy the Board is responsible for approving all treasury and interest rate strategies and any subsequent changes to these strategies.

Indemnification and insurance of Directors

TLC has insured all its Directors, both present and past, and staff against liabilities to other parties that may arise from their positions as Directors or staff. This insurance does not cover liabilities arising from criminal actions.

Information used by Directors

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

Interests register

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

Statutory Information

1. Directors' remuneration

Directors' remuneration for The Lines Company of $237,291 (2017 – $218,407) distributed as follows:

	Appointment Date	Retirement Date	2018	2017
Mark Darrow (Chair)	01 Sep 2015		71,526	50,228
Timothy Densem	03 Aug 2017		24,761	-
E Richard Krogh	01 Sep 2015		36,484	35,169
John Rae	24 Mar 2014		36,484	35,169
Roger Sutton	03 Aug 2017		23,146	-
Simon Young	03 Jun 2010		36,484	35,169
A Malcolm Don	24 Nov 1994	04 Aug 2016	-	27,504
Peter Till	01 Aug 2011	03 Aug 2017	11,974	35,169
			237,291	**218,407**

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

2. Directors' register

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

	The Lines Company	Financial Corporation Limited	Speedys Road Hydro Limited	Embrium
Mark Darrow	✓	✓	✓	
Timothy Densem	✓	✓		
E Richard Krogh	✓	✓		
John Rae	✓	✓		
Roger Sutton	✓	✓		
Simon Young	✓	✓		✓
Marcus Paterson			✓	
Sean Horgan				✓

3. Directors' disclosures of interest

Interests Register

Register of Directors' Interests as at 31 March 2018
Companies Act 1993, Section 189(1)(C)

Company	Nature
M C Darrow	
Primary Industry Training Organisation Incorporated	Chair
Motor Trade Association Incorporated and subsidiaries	Director
Balle Bros Group Limited and subsidiaries	Director
Advisory Board, Courier Solutions Limited	Chair
Advisory Board, Armstrong Motor Group	Chair
Signum Holdings Limited and subsidiaries	Chair and Shareholder
Counties Manukau Health	Director
New Zealand Transport Agency	Director
Justice of the Peace	
Financial Corporation Limited	Director
Speedys Road Hydro Limited	Director
J McF Rae	
Eastland Group Limited and subsidiaries	Director
Smart Environmental Limited	Chair
National Infrastructure Advisory Board	Chair
FJ Hawkes & Co. Limited	Managing Director and Shareholder
Kingyo Foods Limited – Personal Catering Interests	Director and Shareholder
Gobble Limited – Personal Catering Interests	Director and Shareholder
Ngapuhi Asset Holding Company Limited and subsidiaries	Director
Activate Tairawhiti Limited	Director and Chair
Cavalier Corporation Limited	Director
Thos Corson Holdings Limited	Director and Chair
Financial Corporation Limited	Director
Provincial Growth Fund, Independent Advisory Panel	Member

Company	Nature
S V Young	
Jimmi Interests Limited	Director
Carbon One Limited	Director
The Karo Group Limited	Director
Karo Interests Limited Partnership	General Partner
Opunake Hydro Limited	General Manager
Top Energy Limited and subsidiaries	Director
Utilise Limited	Director
Opunake Hydro Holdings Limited	Director
Embrium Holdings Limited	Director
Financial Corporation Limited	Director
E R Krogh	
PKW Farms GP Limited	Director
Top Energy Limited and subsidiaries	Chair
Port Taranaki Limited	Deputy Chair
First Gas Topco Limited and subsidiary	Deputy Chair
Gas Services NZ Limited and subsidiary	Deputy Chair
Energia Limited	Director
Goodshelf Holdings (No.10) Limited	Director
Financial Corporation Limited	Director
T J Densem	
Pukeko Rentals Limited	Director and Shareholder
Southwest Consulting Group Limited	Director and Shareholder
Maungatautari Ecological Island Trust	Co-Chair
Financial Corporation Limited	Director
R A Sutton	
Anglican Church Property Trust	Director
Independent Line Services Limited	Director
Electricity Ashburton Limited	Director
Network Tasman Limited	Director
Christchurch District Energy Company Limited	General Manager
Big Brothers Big Sisters	Board member
Christchurch Youth Hub	Trustee
Wells Group Advisory Board	Member
Roger Sutton Consulting	Principal
Financial Corporation Limited	Director

4. Employee remuneration

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

	2018	2017
$450,000 - $460,000*	1	-
$420,000 - $430,000	-	1
$300,000 - $310,000	1	-
$280,000 - $290,000	1	-
$250,000 - $260,000	-	1
$240,000 - $250,000	-	-
$180,000 - $190,000	2	1
$170,000 - $180,000	-	-
$160,000 - $170,000	-	1
$150,000 - $160,000	2	-
$140,000 - $150,000	1	2
$130,000 - $140,000	2	4
$120,000 - $130,000	4	2
$110,000 - $120,000	4	4
$100,000 - $110,000*	12	9
	30	**25**

*This table includes two people who left TLC during the year. (2017 – 1). Remuneration includes the payment of accrued leave and final pays.

Accounting Standards Not Yet Adopted

New and amended accounting standards adopted

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

New accounting standards and interpretations not yet adopted

The following standards and interpretations which are considered relevant but not yet effective for the year ended 31 March 2018 have not been applied in preparing the financial statements:

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

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

- **NZ IFRS 9 *Financial Instruments***
  (Effective date: periods beginning on or after 1 January 2018)

NZ IFRS 9, 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group intends to adopt NZ IFRS 9 on its effective date and early assessment has indicated that there will be no significant changes to Note 19.2b.

- **NZ IFRS 16 *Leases* (Effective date: periods beginning on or after 1 January 2019)**

NZ IFRS 16, 'Leases' replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The standard is effective for accounting periods beginning on or after 1 January 2019. The Group intends to adopt NZ IFRS 16 on its effective date but is yet to assess NZ IFRS 16's full impact.

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Independent Auditors' Report

To the Shareholders of The Lines Company Limited's Group Financial Statements and Performance Information for the year ended 31 March 2018

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

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 15 to 43 and on page 50, that comprise the balance sheet as at 31 March 2018, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information; and
- the performance information of the Group on page 14.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 31 March 2018; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards; and
- the performance information of the Group presents fairly, in all material respects, the Group's achievements measured against the performance targets adopted for the year ended 31 March 2018.

Our audit was completed on 22 June 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance;
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements and performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 14, pages 44 to 49, and page 55 but does not include the financial statements and the performance information, and our auditor's report thereon.

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

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

Independence

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

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

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

Glossary of Terms

EBITDA

Earnings before interest, tax, depreciation and amortisation.

EBIT

Earnings before interest and tax.

Net assets

Non-current assets plus net working capital.

Shareholder funds

Shareholder equity plus subordinated debentures.

Debt to asset ratio

(Total liabilities less deferred tax liabilities) divided by total assets.

Capital ratio

Shareholder equity divided by total assets.

Return on average equity

(Profit after tax) divided by ((opening shareholder equity plus closing shareholder equity) divided by 2).

Return on average net assets

(EBIT multiplied by the applicable tax rate) divided by ((opening net assets plus closing net assets) divided by 2).

Corporate Directory

The Lines Company Limited

Company number

578653

Directors

M C Darrow
T J Densem
E R Krogh
J M Rae
R A Sutton
S V Young

Registered Office

The Lines Company Limited
King Street East
Te Kuiti 3941
New Zealand

Auditor

PricewaterhouseCoopers has been appointed to perform the audit on behalf of the Auditor-General

Solicitors

Russell McVeagh
Forgeson Law
Harmos Horton Lusk

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the lines company

keeping you connected.