



# New Zealand Gazette

OF THURSDAY, 6 MARCH 2008

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## THE LINES COMPANY LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO  
SECTION 57T OF THE COMMERCE ACT 1986



## REPORT OF THE AUDITOR-GENERAL

### TO THE READERS OF THE FINANCIAL STATEMENTS OF THE LINES COMPANY LIMITED ELECTRICITY DIVISION FOR THE YEAR ENDED 31 MARCH 2007

We have audited the financial statements of The Lines Company Limited Electricity Division ("the Electricity Division") on pages 5 to 18. The financial statements provide information about the past financial performance of the Electricity Division and its financial position as at 31 March 2007. This information is stated in accordance with the accounting policies set out on pages 8 to 11.

#### **Directors' Responsibilities**

The Commerce Commission's Electricity Information Disclosure Requirements 2004 made under section 57T of the Commerce Act 1986 require the Directors to prepare financial statements which give a true and fair view of the financial position of the Electricity Division as at 31 March 2007, and the results of its operations and cash flows for the year ended on that date.

#### **Auditor's Responsibilities**

Section 15 of the Public Audit Act 2001 and Requirement 30 of the Electricity Information Disclosure Requirements 2004 require the Auditor-General to audit the financial statements. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed Graham Naylor of Deloitte to undertake the audit.

#### **Basis of Opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Electricity Division's circumstances, consistently applied and adequately disclosed.

We conducted the audit in accordance with the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### ***Basis of Preparation of Financial Statements***

As described in the basis of preparation set out on pages 8 to 11, the financial statements of the Electricity Division have been prepared using Generally Accepted Accounting Practice in New Zealand existing prior to the adoption of New Zealand Equivalents to International Financial Reporting Standards. However, the statutory annual financial statements for The Lines Company Limited (the company) for the year ended 31 March 2007 were prepared using New Zealand Equivalents to International Financial Reporting Standards.

Other than in our capacity as auditor acting on behalf of the Auditor-General, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the company. The firm has no other relation with, or interests in the Electricity Division.

# Deloitte.

## Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion –

- proper accounting records have been maintained by the Electricity Division as far as appears from our examination of those records; and
- the financial statements of the Electricity Division on pages 5 to 18:
  - (a) comply with generally accepted accounting practice in New Zealand; and
  - (b) give a true and fair view of the Electricity Division's financial position as at 31 March 2007 and the results of its operations and cash flows for the year ended on that date; and
  - (c) comply with the Electricity Information Disclosure Requirements 2004.

Our audit was completed on 3 March 2008 and our unqualified opinion is expressed as at that date.



Graham Naylor

Deloitte

On behalf of the Auditor-General

Hamilton, New Zealand

### MATTERS RELATING TO THE PUBLICATION OF THE AUDITED FINANCIAL STATEMENTS IN THE NEW ZEALAND GAZETTE

This audit report relates to the financial statements of The Lines Company Electricity Division for the year ended 31 March 2007 that have been published in the *New Zealand Gazette*. The *New Zealand Gazette* is required to publish hard copies of audited financial statements and the related audit report of The Lines Company Electricity Division for the year ended 31 March 2007, and to include an electronic version of the published *New Zealand Gazette* on the *New Zealand Gazette's* website.

We have not been engaged to report on the integrity of the financial statements of The Lines Company Electricity Division that have been published on the *New Zealand Gazette's* website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially signed and published.

This audit report refers only to the financial statements named above. If readers of this audit report are concerned with the inherent risks arising from electronic data communication, they should refer to the original signed and published hard copy of the audited financial statements and related audit report dated 3 March 2008 to confirm the information included in the audited financial statements published in the *New Zealand Gazette* or on the *New Zealand Gazette's* website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.



**AUDITOR-GENERAL'S OPINION ON THE PERFORMANCE MEASURES OF  
THE LINES COMPANY LIMITED  
FOR THE YEAR ENDED 31 MARCH 2007**

We have examined the information on pages 19 to 22, being –

- (a) the derivation table in requirement 15;
- (b) the annual ODV reconciliation report in requirement 16;
- (c) the time weighted averages calculations in requirements 32;
- (d) the financial performance measures in clause 1 of Part 3 of Schedule 1; and
- (e) the financial components of the efficiency performance measures in clause 2 of Part 3 of Schedule 1,

that were prepared by The Lines Company Limited and dated 31 March 2007 for the purposes of the Commerce Commission's Electricity Information Disclosure Requirements 2004.

In our opinion, having made all reasonable enquiry, and to the best of our knowledge, that information has been prepared in accordance with those Electricity Information Disclosure Requirements 2004.

Graham Naylor  
Deloitte  
On behalf of the Auditor-General  
Hamilton, New Zealand  
3 March 2008

**MATTERS RELATING TO THE PUBLICATION OF THE AUDITED PERFORMANCE MEASURES  
IN THE NEW ZEALAND GAZETTE**

This audit report relates to the performance measures of The Lines Company Electricity Division for the year ended 31 March 2007 that have been published in the *New Zealand Gazette*. The *New Zealand Gazette* is required to publish hard copies of audited performance measures and the related audit report of The Lines Company Electricity Division for the year ended 31 March 2007, and to include an electronic version of the published *New Zealand Gazette* on the *New Zealand Gazette's* website.

We have not been engaged to report on the integrity of the performance information of The Lines Company Electricity Division that have been published on the *New Zealand Gazette's* website. We accept no responsibility for any changes that may have occurred to the performance information since they were initially signed and published.

This audit report refers only to the performance information named above. If readers of this audit report are concerned with the inherent risks arising from electronic data communication, they should refer to the original signed and published hard copy of the audited performance information and related audit report dated 3 March 2008 to confirm the information included in the audited performance information published in the *New Zealand Gazette* or on the *New Zealand Gazette's* website.

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**CERTIFICATION OF FINANCIAL STATEMENTS, PERFORMANCE MEASURES AND STATISTICS  
DISCLOSED BY LINE OWNERS OTHER THAN TRANSPower**

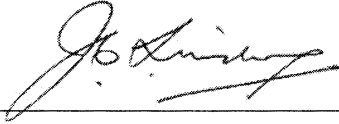
We, **Angus Malcolm Don** and **John Carleton Lindsay**, Directors of The **Lines Company Limited**, certify that, having made all reasonable inquiries, to the best of our knowledge, that;

- a) The attached audited financial statements of The Lines Company Limited – Lines Business Activity, prepared for the purposes of Regulation 6 of the Electricity (Information Disclosure) Regulations 2004, comply with the requirements of those regulations, and;
- b) The attached information, being the derivation table, financial performance measures, efficiency performance measures, energy delivery efficiency performance measures, reliability performance measures and statistics in relation to The Lines Company Limited - Lines Business Activity, and having been prepared for the purposes of regulations 14, 15, 20 and 21 of the Electricity (Information Disclosure) Regulations 2004, complies with the requirements of those regulations.

The valuations on which those financial performance measures are based are as at 31 March 2004.

Signature:  \_\_\_\_\_ Director

(Angus Malcolm Don)

Signature:  \_\_\_\_\_ Director

(John Carleton Lindsay )

Date \_\_\_\_\_ 12 February 2008 \_\_\_\_\_

**THE LINES COMPANY LIMITED – LINES BUSINESS ACTIVITY**

**Statement of Financial Performance  
For the Year Ended 31 March 2007**

	Note	2007 \$000's	2006 \$000's
Operating revenue	3	21,776	21,376
Operating expenses	4	20,579	19,987
<b>Surplus before taxation</b>		1,198	1,389
Taxation expense	5	395	458
<b>Surplus after taxation</b>		<b>802</b>	<b>931</b>

**Statement of Movements of Equity  
For the Year Ended 31 March 2007**

	2007 \$000's	2006 \$000's
<b>Equity at beginning of year</b>	60,488	59,507
Surplus retained for the year	802	931
Revaluation of fixed assets	-	314
Deferred tax adjustment on line asset revaluations	-	-
<b>Total recognised revenue and expenses</b>	802	1,245
Dividends	132	263
<b>Total distribution to owners</b>	132	263
<b>Equity at year end</b>	<b>61,159</b>	<b>60,488</b>

**THE LINES COMPANY LIMITED – LINES BUSINESS ACTIVITY**

**Statement of Financial Position  
As at the 31 March 2007**

	Note	2007 \$000's	2006 \$000's
<b>Equity</b>			
Share capital		6,021	6,021
Retained earnings		12,654	11,983
Revaluation reserve		42,484	42,484
<b>Total equity</b>		<b>61,159</b>	<b>60,488</b>
<b>Fixed assets</b>			
Fixed assets	6	103,651	100,217
Intangible assets		-	-
<b>Total fixed assets</b>		<b>103,651</b>	<b>100,217</b>
<b>Current assets</b>			
Cash		1,067	343
Receivables & prepayments		19	448
Work in progress		42	63
Inventory		386	329
<b>Total current assets</b>		<b>1,514</b>	<b>1,183</b>
<b>Total assets</b>		<b>105,165</b>	<b>101,401</b>
<b>Non-current liabilities</b>			
Loans	7	32,140	28,570
Deferred tax	8	7,900	7,504
<b>Total non-current liabilities</b>		<b>40,040</b>	<b>36,074</b>
<b>Current liabilities</b>			
Accounts payable		1,294	2,176
Provisions	14	186	158
Customer discount provision		2,486	2,503
<b>Total current liabilities</b>		<b>3,966</b>	<b>4,838</b>
<b>Total liabilities</b>		<b>44,006</b>	<b>40,912</b>
<b>Net assets employed</b>		<b>61,159</b>	<b>60,488</b>

Director:



Director:



Date: 12 February 2008

**THE LINES COMPANY LIMITED – LINES BUSINESS ACTIVITY**

**Statement of Cashflows  
For the Year Ended 31 March 2007**

	Note	2007 \$000's	2006 \$000's
<b>Operating activities</b>			
Cash was provided from:			
Receipts from customers		17,951	19,462
Cash was distributed to:			
Payment to suppliers & employees		(10,525)	(11,497)
Taxes paid		-	-
Interest paid		(2,371)	(2,033)
		<u>(12,896)</u>	<u>(13,530)</u>
<b>Net cash flows from operating activities</b>	11	<u>5,056</u>	<u>5,931</u>
<b>Investing activities</b>			
Cash was provided from:			
Proceeds from sale of fixed assets		17	-
		<u>17</u>	<u>-</u>
Cash was applied to:			
Fixed asset purchase		(7,787)	(5,676)
		<u>(7,787)</u>	<u>(5,676)</u>
<b>Net cash flows to investing activities</b>		<u>(7,770)</u>	<u>(5,676)</u>
<b>Financing activities</b>			
Cash was provided from:			
Loans raised		3,570	1,700
		<u>3,570</u>	<u>1,700</u>
Cash was provided to:			
Loans repaid		-	(1,884)
Dividend		(132)	(132)
		<u>(132)</u>	<u>(2,016)</u>
<b>Net cash flows from financing activities</b>		<u>3,439</u>	<u>(316)</u>
Net cash flow from operating		5,056	5,931
Net cash flow to investing		(7,770)	(5,676)
Net cash flow from financing		3,439	(316)
<b>Net increase in cash held</b>		724	(61)
Cash brought forward		343	404
<b>Total cash</b>		<u>1,067</u>	<u>343</u>



**THE LINES COMPANY LIMITED – LINES BUSINESS ACTIVITY**

**Notes to the Financial Statements  
For the Year Ended 31 March 2007**

**NOTE 1: STATEMENT OF ACCOUNTING POLICIES****REPORTING ENTITY**

The Lines Company Limited is owned by Waitomo Energy Services Customer Trust (75%) and King Country Electric Power Trust (25%) and is incorporated under the Companies Act 1993. The principal activity of the entity is the provision of electricity distribution services.

**BASIS FOR PREPARATION**

The financial statements of The Lines Company Limited – Lines Business Activity have been prepared in accordance with the requirements of the Electricity (Information Disclosure) Regulations 2004 as amended by the Electricity Information Disclosure Amendment Requirements 2004 effective 8 May 2004 and the Electricity Information Disclosure Amendment Requirements 2006 and the Electricity Information Disclosure Handbook (2004) issued by the Commerce Commission.

These financial statements are prepared in accordance with New Zealand GAAP before the adoption of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). This basis varies from the Annual Report of The Lines Company which is prepared in accordance with NZ IFRS. The difference in treatment is intended to provide users of this Lines Business Activity report with comparable information within the requirements issued by the Commerce Commission.

The material difference between the figures in this report and NZ IFRS is related to the valuation of deferred tax. If these financial statements were prepared in accordance with NZ IFRS the deferred tax liability would increase by \$16,369,000 to include the difference in tax base resulting from asset revaluations.

**MEASUREMENT BASE**

The financial information disclosure statements are prepared on the basis of historical cost modified by the revaluation of certain items of property, plant and equipment as identified in specific accounting policies below.

The Lines Company has adopted a policy to apply the avoidable cost allocation methodology (ACAM) described in the Electricity Information Disclosure Handbook 31 March 2004, for the allocation of revenues, costs, assets and liabilities between the regulated businesses and other activities of the company.

The electricity lines business is treated as a separate regulated standalone business.

The costs have been allocated on the following basis:

- Direct allocation of all components of financial statement items which are directly attributable to the specific businesses.
- For any components of financial statement items that are not directly attributable to a specific business:
  - By assessing the proportions of those components which are avoidable and non-avoidable; and

**THE LINES COMPANY LIMITED – LINES BUSINESS ACTIVITY****Notes to the Financial Statements  
For the Year Ended 31 March 2007**

- Allocating those components amongst the businesses on the basis of those proportions using an appropriate cost allocator.

The two main allocators used are employee costs and the book value of property plant and equipment.

All costs not allocated to the standalone electricity lines business, are allocated to other businesses within The Lines Company. Other businesses are not disclosed within these financial information disclosure statements.

Allocators are also utilised to allocate balance sheet assets and liabilities that are not directly attributable to the standalone business (for instance accounts payable related to allocated cost items).

Equity is represented by; the share capital of The Lines Company, the revaluation reserve arising from lines asset revaluations, retained earnings being the earnings of the lines business since its inception.

The value of loans is determined based on the value required to fund the balance sheet of the lines business.

The reporting currency is New Zealand dollars.

**SPECIFIC ACCOUNTING POLICIES**

The specific accounting policies used in the preparation of the financial statements are as follows:

**a. Revenue and Receivables**Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services, including lines charges provided in the normal course of business, net of Goods and Services Tax. Recognition of network revenue is when the billing transactions are applied to network customers' accounts.

Receivables

Receivables are stated at their estimated realisable value.

**b. Property, Plant and Equipment**Initial Recording

All items of property, plant and equipment are initially recognised at cost in the statement of financial position. Cost includes the value of consideration exchanged, or fair value in the case of donated or subsidised assets, and those costs directly attributable to bringing the item to working condition for its intended use.

Revaluation

Land and buildings are revalued to fair value. Valuations are obtained from an independent registered valuer every three years. Valuations may be obtained on a more frequent basis if there is an indication that the fair values have changed materially from the latest valuation. Land and buildings acquired since the last revaluation are recorded at historical cost.

## THE LINES COMPANY LIMITED – LINES BUSINESS ACTIVITY

### Notes to the Financial Statements For the Year Ended 31 March 2007

The distribution system is revalued to fair value based upon Optimised Deprival Value (ODV) in accordance with the timetable set by the Commerce Commission.

Revaluation surpluses are taken directly to the revaluation reserve. Decreases in value are debited directly to the revaluation reserve to the extent that they reverse previous surpluses within the class of asset concerned and are otherwise recognised as an expense in the statement of financial performance.

#### Impairment

All items of property, plant and equipment are assessed for impairment at each reporting date.

Where the carrying amount is assessed to be greater than its recoverable amount, the item is written down. The writedown is recognised in the statement of financial performance.

#### Depreciation

All items of property, plant and equipment, other than land, are depreciated either on a straight line or diminishing value basis, at rates which will write off their cost or revalued amount less estimated residual value, over their expected useful lives.

Assets purchased post 1 April 1999 have been depreciated on a straight-line basis.

Major depreciation rates and methods:

Buildings	40-100 years	Straight Line
Motor Vehicles, plant & equipment	10% to 50%	Diminishing Value or Straight Line
Network plant & equipment	20 - 50 years	Straight Line
Network Lines	1.9% to 10.3%	Straight Line
Land		Is not depreciated

#### **c. Provisions**

All provisions are recorded at the best estimate of the expenditure required to settle the obligation at balance date. Where the effect is material, the expected expenditures are discounted to their present value using pre-tax discount rates.

#### Staff Leave and Gratuity Payments

Provisions for employee entitlements includes accrued wages, bonuses, accrued holiday pay, long service leave, sick leave, trainee bonds and gratuities. Where settlement is greater than one year, the item(s) is discounted using the group's weighted average cost of capital.

#### **d. Dividends**

Dividends are recognised in the financial year in which they are authorised and approved by the Board of Directors.

#### **e. Discount**

As the company has committed itself to crediting a discount to customers before the end of the financial year, and each individual's entitlement has been conveyed to that individual, the full liability for the discount payment is recognised.

#### **f. Inventory**

Inventories are valued at the lower of cost, determined on an average cost basis, or net realisable value.

**THE LINES COMPANY LIMITED – LINES BUSINESS ACTIVITY****Notes to the Financial Statements  
For the Year Ended 31 March 2007****g. Goods & Services Tax**

All amounts in the financial statements have been shown exclusive of Goods and Services Tax, with the exception of Accounts Payable and Accounts Receivable which are shown inclusive of Goods and Services Tax.

**h. Taxation**

The income tax expense recognised for the year is based on the operating surplus before taxation adjusted for permanent differences between accounting and taxable income.

Deferred tax, which is calculated on the comprehensive basis using the liability method, arises from amounts of income or expense recognised for tax purposes in years different from those in which they are dealt with in the financial statements. A debit balance in the deferred taxation account is only carried forward to the extent that there is virtual certainty of its recovery.

Income tax benefits arising from income tax losses are recognised only to the extent of accumulated net credits from timing differences in the deferred taxation account unless there is virtual certainty of their realisation.

**i. Statement of Cash Flows**

The statement of cash flows is prepared exclusive of Goods and Services Tax, which is consistent with the method used in the statement of financial performance. Definitions of the terms used in the statement of cash flows:

Cash includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by the company and the group as part of their day-to-day cash management.

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

Financing activities are those activities relating to changes in the equity and debt capital structure of the company and those activities relating to the cost of servicing the company's equity capital.

**j. Comparative Figures**

Comparative information has not been reclassified, to achieve consistency in disclosure with the current year, which is in accordance with Information Disclosure requirements.

**k. Changes in Accounting Policies**

Accounting policies have been applied on a consistent basis with those of the previous year.

## THE LINES COMPANY LIMITED - LINES BUSINESS ACTIVITY

### NOTE 2 : ASSETS, EQUITY AND LIABILITY DISCLOSURE

Disclosure of information to be disclosed in Financial Statements under regulation 6 of the Electricity (Information Disclosure) Regulations 2004 Schedule 1 Part 2 as amended by the Electricity (Information Disclosure) Amendment Regulations 2000.

#### Statement of Financial Position Disclosure (Schedule 1, Part 2)

	2007 \$000's	2006 \$000's
<b>1 Current assets</b>		
(a) Cash and bank balances	1,067	343
(b) Short term investments	-	-
(c) Inventories	386	329
(d) Accounts receivable	19	448
(e) Other current assets not listed in (a) to (d)	42	63
(f) <b>Total current assets</b>	<u>1,514</u>	<u>1,183</u>
<b>2 Fixed assets</b>		
(a) System fixed assets	102,154	98,940
(b) Consumer billing and information systems	46	26
(c) Motor vehicles	291	250
(d) Office equipment	47	29
(e) Land and buildings	1,025	850
(f) Capital works under construction	-	-
(g) Other fixed assets not listed in (a) to (f)	87	123
(h) <b>Total fixed assets</b>	<u>103,651</u>	<u>100,217</u>
<b>3 Other tangible assets not listed above</b>	-	-
<b>4 Total tangible assets</b>	<u>105,165</u>	<u>101,401</u>
<b>5 Intangible assets</b>		
(a) Goodwill	-	-
(b) Other intangibles not listed in (a)	-	-
(c) <b>Total intangible assets</b>	<u>-</u>	<u>-</u>
<b>6 Total assets</b>	<u>105,165</u>	<u>101,401</u>
<b>7 Current liabilities</b>		
(a) Bank overdraft	-	-
(b) Short-term borrowings	-	-
(c) Payables and accruals	1,217	2,203
(d) Provision for dividend payable	263	132
(e) Provision for income tax	-	-
(f) Other current liabilities not listed in (a) to (e)	2,486	2,503
(g) <b>Total current liabilities</b>	<u>3,966</u>	<u>4,838</u>
<b>8 Non-current liabilities</b>		
(a) Payables and accruals	-	-
(b) Borrowings	32,140	28,570
(c) Deferred tax	7,900	7,504
(d) Other non-current liabilities not listed in (a) to (c)	-	-
(e) <b>Total non-current liabilities</b>	<u>40,040</u>	<u>36,074</u>

**THE LINES COMPANY LIMITED - LINES BUSINESS ACTIVITY**

	2007 \$000's	2006 \$000's
<b>9 Equity</b>		
(a) Shareholders' equity		
(i) Share capital	6,021	6,021
(ii) Retained earnings	12,654	11,983
(iii) Reserves	42,484	42,484
(iv) Total shareholders' equity	<u>61,159</u>	<u>60,489</u>
(b) Minority interests in subsidiaries	-	-
(c) <b>Total equity</b>	<u>61,159</u>	<u>60,489</u>
(d) Capital notes	-	-
(e) <b>Total capital funds</b>	<u>61,159</u>	<u>60,489</u>
<b>10 Total equity and liabilities</b>	<u>105,165</u>	<u>101,401</u>

**Statement of Financial Performance Disclosure (Schedule 1, Part 2)**

**NOTE 3 : OPERATING REVENUE**

<b>11 Operating revenue</b>		
(a) Revenue from line/access charges	21,372	20,846
(b) Revenue from 'other' business (transfer payment)	-	-
(c) Income from interest on bank & short term investments	17	20
(d) AC loss-rental rebates	388	510
(e) Other operating revenue not listed in (a) to (d)	-	-
(f) <b>Total operating revenue</b>	<u>21,776</u>	<u>21,376</u>

**NOTE 4 : OPERATING EXPENDITURE**

<b>12 Operating expenditure</b>		
(a) Transmission costs	4,104	4,083
(b) Transfer payments to the "other" business for:		
(i) Asset maintenance services	1,430	1,492
(ii) Disconnection/reconnection services	22	24
(iii) Meter data	-	-
(iv) Consumer based load control	9	2
(v) Royalty and patent expenses	-	-
(vi) Avoided transmission charges	-	-
(vii) Other	-	-
(viii) Total transfer payments to the "other" business	<u>1,461</u>	<u>1,517</u>
(c) Expenses to entities that are non-related parties for:		
(i) Asset maintenance services	1,093	1,105
(ii) Disconnection/reconnection services	-	-
(iii) Meter data	-	-
(iv) Consumer based load control	11	33
(v) Avoided transmission charges	-	-
(vi) Royalty and patent expenses	-	-
(vii) Total of specified expenses to non-related entities	<u>1,104</u>	<u>1,139</u>
(d) Employee salaries/redundancies	1,540	1,584
(e) Consumer billing and information system	45	81
(f) Depreciation on:		
(i) System fixed assets	4,191	4,011
(ii) Other assets not listed in (i)	146	165
(iii) Total depreciation	<u>4,336</u>	<u>4,176</u>

**THE LINES COMPANY LIMITED - LINES BUSINESS ACTIVITY**

	<b>2007</b>	<b>2006</b>
	<b>\$000's</b>	<b>\$000's</b>
(g) Amortisation of:		
(i) Goodwill	-	-
(ii) Other intangibles	-	-
(iii) Total amortisation of intangibles	<u>-</u>	<u>-</u>
(h) Corporate & administration	138	143
(i) Human resource	41	18
(j) Marketing & advertising	97	43
(k) Merger and acquisition expenses	-	-
(l) Takeover defence expenses	-	-
(m) Research and development expenses	-	-
(n) Consultancy & legal expenses	23	6
(o) Donations	-	-
(p) Directors' fees	153	141
(q) Auditors' fees		
(i) Audit fees paid to principal auditors	116	48
(ii) Audit fees paid to other auditors	-	-
(iii) Fees paid for other services provided by auditors	-	-
(iv) Total auditors' fees	<u>116</u>	<u>48</u>
(r) Cost of offering credit		
(i) Bad debts written off	-	-
(ii) Increase in estimated doubtful debts	-	98
(iii) Total cost of offering credit	<u>-</u>	<u>98</u>
(s) Local authority rates expense	89	98
(t) AC loss-rentals (distribution to customers) expense	349	474
(u) Rebate to consumers due to ownership interest	4,237	4,088
(v) Subvention payments	-	-
(w) Unusual expenses	-	-
(x) Other	375	216
<b>13 Total operating expenditure</b>	<u><u>18,208</u></u>	<u><u>17,954</u></u>
<b>14 Operating surplus before interest and income tax</b>	3,568	3,422
<b>15 Interest expense</b>		
(a) Interest expense on borrowings	1,176	1,106
(b) Financing charges relating to finance leases	-	-
(c) Other interest expense	1,195	927
(d) Total interest expense	<u>2,371</u>	<u>2,033</u>
<b>16 Operating surplus before income tax</b>	1,198	1,389
<b>17 Income tax</b>	395	458
<b>18 Net surplus after tax</b>	<u><u>802</u></u>	<u><u>931</u></u>

**THE LINES COMPANY LIMITED - LINES BUSINESS ACTIVITY**

	2007 \$'000'	2006 \$'000'
<b>NOTE 5 : TAXATION EXPENSE</b>		
Nominal operating surplus before tax	5,435	5,477
Nominal discount paid to customers	(4,237)	(4,088)
Prima facie taxation on operating surplus	1,793	1,807
Prima facie taxation on nominal discount	(1,398)	(1,349)
Net taxation expense	<u>395</u>	<u>458</u>

**NOTE 6 : FIXED ASSETS**

<b>FIXED ASSETS 2006</b>	at cost	at valuation	accumulated depreciation	carrying value
Land and buildings	-	850	-	850
Reticulation system	-	106,744	7,804	98,940
Customer billing and information system	84	-	58	26
Motor vehicles	467	-	217	250
Office equipment	468	-	439	29
Other plant & equipment	192	-	69	123
	<u>1,211</u>	<u>107,594</u>	<u>8,588</u>	<u>100,217</u>

<b>FIXED ASSETS 2007</b>	at cost	at valuation	accumulated depreciation	carrying value
Land and buildings	188	850	13	1,025
Reticulation system	7,405	106,744	11,995	102,154
Customer billing and information system	120	-	75	46
Motor vehicles	511	-	220	291
Office equipment	493	-	445	47
Other plant & equipment	187	-	101	87
	<u>8,904</u>	<u>107,594</u>	<u>12,848</u>	<u>103,651</u>

Land and buildings were valued on 31 March 2006 by Doyle Valuations Ltd (ANZI, SNZPI), an independent valuer with local experience. Summation and income approaches were used for the valuation.

The reticulation system has been valued based on Optimised Deprival Value (ODV) by our electrical engineer and verified by PricewaterhouseCoopers as at 31 March 2004. The valuation method used is depreciated cost, using the assumptions about replacement cost, useful lives and residual values as set in the "Handbook for Optimised Deprival Valuation of System Fixed Assets of Electricity Lines Businesses" issued by the Commerce Commission on the 30 August 2004.

**NOTE 7 : LOANS**

"Other" (The Lines Company Activities)	15,940	12,770
Perpetual	3,000	3,000
Bank of New Zealand loan	13,200	12,800
	<u>32,140</u>	<u>28,570</u>

Bank loans are at floating rates and expose the Group to cashflow interest rate risk. Security held by the bank is a negative pledge deed, where an undertaking has been given that certain actions will not be undertaken and key financial ratios will be maintained. The loan is a committed cash advance facility with an end date of 30 November 2012.

Perpetual loans are subordinated debentures which are unsecured.

The "other" loan is an internal debt between the Electricity Lines Business and the other business activities, both within the Lines Company Limited (the disclosing entity). This represents the internal funding required by the Electricity Lines Business from the other businesses in order to continue its operations.



**THE LINES COMPANY LIMITED - LINES BUSINESS ACTIVITY**

	2007 \$'000'	2006 \$'000'
<b>NOTE 7: LOANS - CONTINUED</b>		
<u>The following interest rates applied at balance date</u>		
"Other" (The Lines Company Activities)	7.00%	7.00%
Perpetual - \$1,000,000 loan	7.62%	7.42%
Perpetual - \$2,000,000 loan	5.00%	5.00%
Bank of New Zealand loan (effective interest rate)	8.18%	9.26%

**NOTE 8 : DEFERRED TAX**

Fixed assets	8,113	7,717
Accruals & provisions	(213)	(213)
	<u>7,900</u>	<u>7,504</u>

**NOTE 9 : SEGMENTAL INFORMATION**

The Lines Company Limited operates predominantly in one geographical segment. It is located in the mid-central North Island in the King Country. The head office is located in Te Kuiti.

**NOTE 10 : CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

At balance date the company had no capital commitments or contingent liabilities (2006:Nil).

**NOTE 11 : CASHFLOW RECONCILIATION WITH NET PROFIT**

Net profit after tax and customer discount	802	931
Add: Non cash items		
Depreciation	4,336	4,176
	<u>5,139</u>	<u>5,107</u>
Add/less: Movements in working capital		
(Increase)/decrease in receivables	429	2,633
(Increase)/decrease in inventory	(57)	384
(Increase)/decrease in work in progress	21	127
Increase/(decrease) in accounts payable	(882)	(2,394)
Increase/(decrease) in provision for discount	(17)	(460)
Increase/(decrease) in other	423	535
	<u>(83)</u>	<u>825</u>
Net cashflows from operating activities	<u>5,056</u>	<u>5,931</u>

**NOTE 12 : EVENTS AFTER BALANCE DATE**

No events have occurred after balance date that could materially affect these financial statements.

**NOTE 13 : FINANCIAL INSTRUMENTS**

The fair values of financial instruments are considered to be not materially different from the carrying values shown in the Financial Statements.

Financial instruments that potentially subject the Company to credit risk principally consist of bank deposits and accounts receivable.

Credit risk in respect of debtors is limited as the major debtors either have high credit rating by recognised international rating agencies or have their debt secured by way of bank guarantee. Other accounts receivable are subject to credit control and are unsecured.

**Borrowing facilities**

The Company has a multi option facility of \$16 million with the Bank of New Zealand.

Interest rate risks are managed by means of fixed interest rate caps and swaps that are applied within predefined limits over core debt, in accordance with Board policy.

## THE LINES COMPANY LIMITED - LINES BUSINESS ACTIVITY

### NOTE 13: FINANCIAL INSTRUMENTS - CONTINUED

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

Notional Amount	Reset Date	Fixed Rate Receivable	Expiry Date
Receive floating - Pay fixed interest swap \$1,000,000	Monthly	6.60%	2 April 2007
Receive floating - Pay fixed interest swap \$1,000,000	Monthly	6.65%	1 April 2008
Receive floating - Pay fixed interest swap \$3,000,000	Monthly	6.70%	1 April 2009

Under interest rate swap contracts the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts.

	2007 \$'000'	2006 \$'000'
<b>NOTE 14 : PROVISION FOR STAFF ENTITLEMENTS</b>		

Employee entitlements	<u>186</u>	<u>158</u>
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The provision for employee entitlements includes accrued wages, bonuses, accrued holiday pay, long service leave, sick leave, trainee bonds and gratuities. Where settlement is greater than one year, the item's is discounted using the group's weighted average cost of capital.

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

### NOTE 15 : ODV RECONCILIATION

System fixed assets at ODV (at end of the previous year)	98,940	97,389
New revaluation of system fixed assets (previous year)	<u>-</u>	<u>-</u>
System fixed assets at ODV (beginning of year)	98,940	97,389
System fixed assets acquired during year at ODV	7,405	5,562
System fixed assets disposed of during year at ODV	-	-
Depreciation on system fixed assets at ODV	(4,191)	(4,011)
Revaluations of systems fixed assets	-	-
System fixed assets at ODV (at end of the current year)	<u>102,154</u>	<u>98,940</u>

As at 31st March 2004 the ODV valuation of the lines business as certified by PricewaterhouseCoopers was \$97,003,343. Included in that valuation was a generator truck with DRC of \$132,322 and strategic stores of \$470,910, which have been accounted for as inventory and plant at their financial value in these accounts.

### NOTE 16 : SHARE CAPITAL

Issued and fully paid (number of shares)	<u>13,163,120</u>	<u>13,163,120</u>
Number of shares held by:		
Waitomo Energy Services Customer Trust	9,872,340	9,872,340
King Country Electric Power Trust	3,290,780	3,290,780
	<u>13,163,120</u>	<u>13,163,120</u>

## THE LINES COMPANY LIMITED - LINES BUSINESS ACTIVITY

	2007 \$000's	2006 \$000's
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### NOTE 17 : RELATED PARTY TRANSACTIONS

- a) The period covered in these statements are 1st April 2006 to 31st March 2007.
- b) There are no outstanding balances and no related party debts have been written off.
- c) There are two related parties to the Electricity Lines Business of The Lines Company Limited, being the contracting division and the revenue collection division. Details of transactions are given below.

#### Contracting division of The Lines Company Limited

Maintenance work is recorded on the basis of material at cost plus 15% and labour & plant at \$75 per hour. Capital expenditure is recorded at ODV values.

Construction of the following types of assets were undertaken for the lines business.

Construction of subtransmission assets	-	-
Construction of zone substations	374	332
Construction of distribution lines and cables	3,251	3,628
Construction of medium voltage switchgear	883	596
Construction of distribution substations	1,228	823
Construction of low voltage reticulation	184	86
Construction of other assets	185	97
Consumer connections & disconnections	22	24
Maintenance of distribution system	1,430	1,492
	7,557	7,077

#### Revenue collection division of The Lines Company Limited

From 1 October 2005, billing and revenue collection is carried out for the Electricity Lines Business by the revenue collection division within The Lines Company Limited. Prior to this date revenue was collected on behalf of The Lines Company by energy retailers, who operated on the network.

For this function a flat monthly fee of \$30,000 is charged to the Electricity Lines Business. This quantum of fee is based on commercial arms length basis, as evidenced by a tendering process for this function, which occurred prior to commencement of direct customer billing.

Billing and collection charges	360	180
	360	180

#### Interest and dividends paid to Waitomo Energy Services Customer Trust

During the year company paid interest (on subordinated debt) and dividends, of the following amounts to it's controlling entity, the Waitomo Energy Services Customer Trust.

Interest paid	76	68
Dividends paid	99	197
	175	266

#### Interest and dividends paid to King Country Electric Power Trust

King Country Electric Power Trust has significant influence over the Group. The following transactions occurred during the year.

Dividends paid	33	66
	33	66

**THE LINES COMPANY LIMITED - LINES BUSINESS ACTIVITY**

Form for the derivation of Financial Performance Measures from Financial Statements - Schedule 1, Part 7

<i>Derivation Table</i>	<i>Input and calculat.</i>	<i>Symbol in form.</i>	<i>ROF</i>	<i>ROE</i>	<i>ROI</i>
Operating surplus before interest and tax (OSBIIT)	3,568				
Interest on cash, bank & short term investments (ISTI)	17				
OSBIIT minus ISTI	3,552	<i>a</i>	3,552		3,552
Net surplus after tax from financial statements	802	<i>n</i>		802	
Amortised goodwill	-	<i>g</i>	-	-	-
Subvention payment	-	<i>s</i>	-	-	-
Depreciation of SFA at BV (x)	4,191				
Depreciation of SFA at ODV (y)	4,191				
ODV depreciation adjustment	-	<i>d</i>	-	-	-
Subvention payment tax adjustment	-	<i>s*t</i>		-	-
Interest tax shield	777	<i>q</i>			777
Revaluations	-	<i>r</i>			-
Income tax	395	<i>p</i>			395
<b>Numerator</b>			<b>3,552</b>	<b>802</b>	<b>2,380</b>
Fixed assets at start of year	100,217				
Fixed assets at year end	103,651				
Net working capital at end of previous financial year	(3,655)				
Net working capital at end of current financial year	(2,452)				
Average total funds employed (ATFE)	98,881	<i>c</i>	98,881		98,881
Total equity at end of previous financial year	60,489				
Total equity at end of current financial year	61,159				
Average total equity	60,824	<i>k</i>		60,824	
Works under construction at end of previous year	-				
Works under construction at end of current year	-				
Average total works under construction	-	<i>e</i>	-	-	-
Revaluations	-	<i>r</i>			
Half of revaluations	-	<i>r/2</i>			-
Intangible assets at end of previous financial year	-				
Intangible assets at end of current financial year	-				
Average total intangible asset	-	<i>m</i>		-	
Subvention payment at end of previous financial year	-				
Subvention payment at end of current financial year	-				
Subvention payment tax adjustment previous year	-				
Subvention payment tax adjustment current year	-				
Average subvention payment and tax adjustment	-	<i>v</i>		-	
System fixed assets at end of previous year at BV	98,940				
System fixed assets at end of current year at BV	102,154				
Average value of system fixed assets at BV	100,547	<i>f</i>	100,547	100,547	100,547
System fixed assets at year beginning at ODV	98,940				
System fixed assets at end of current year at ODV	102,154				
Average value of system fixed assets at ODV	100,547	<i>h</i>	100,547	100,547	100,547
<b>Denominator</b>			<b>98,881</b>	<b>60,824</b>	<b>98,881</b>
<b>Financial performance measure</b>			<b>3.59%</b>	<b>1.32%</b>	<b>2.41%</b>

**THE LINES COMPANY LIMITED - LINES BUSINESS ACTIVITY**

Disclosure of financial performance measures and efficiency performance measures under regulation 14 of the Electricity (Information Disclosure) Regulations 2004 including amendments to 1 April 2007.

	2007	2006	2005	2004
<b>1 Financial performance measures</b>				
(a) Accounting return on funds	3.59%	3.52%	3.54%	3.20%
(b) Accounting return on equity	1.32%	1.54%	1.44%	1.20%
(c) Accounting return on investment	2.41%	2.69%	2.23%	25.14%
<b>2 Efficiency performance measures</b>				
(a) Direct line costs per kilometre	\$842	\$832	\$818	\$582
(b) Indirect line costs per electricity customer.	\$57	\$45	\$45	\$42

Disclosure of energy delivery efficiency performance measures under regulation 20 of the Electricity (Information Disclosure) Regulations 2004 including amendments to 1 April 2007.

<b>1 (a) Load factor</b>	64.35%	65.09%	64.61%	59.77%
(b) Loss ratio	7.00%	7.18%	7.35%	7.34%
(c) Capacity utilisation	25.77%	27.28%	27.60%	29.55%
<b>2 (a) System lengths (kms)</b>				
- 33kV	491.6	501.0	460.5	500.5
- 11kV	3,271.8	3,279.3	3,292.2	3,631.7
- LV	617.9	628.9	623.3	636.0
- Total	<u>4,381.3</u>	<u>4,409.2</u>	<u>4,376.0</u>	<u>4,768.2</u>
<b>(b) Circuit length (overhead) (kms)</b>				
- 33kV	491.3	500.6	460.1	500.2
- 11kV	3,190.5	3,201.0	3,215.0	3,552.7
- LV	457.5	460.0	458.2	471.3
- Total	<u>4,139.3</u>	<u>4,161.6</u>	<u>4,133.3</u>	<u>4,524.2</u>
<b>(c) Circuit length (underground) (kms)</b>				
- 33 kV	0.4	0.3	0.5	0.3
- 11 kV	81.3	78.3	77.2	79.0
- LV	160.3	168.947	165.1	164.7
- Total	<u>242.0</u>	<u>247.6</u>	<u>242.8</u>	<u>244.0</u>
<b>(d) Transformer capacity (kVA)</b>	226,744	204,208	201,408	193,974
<b>(e) Maximum demand (kW)</b>	58,440	55,700	55,580	57,320
<b>(f) Total electricity supplied (kWH)(000's)</b>	329,455	317,610	314,591	300,100
<b>(g) Total electricity conveyed on behalf of other persons.</b>				
Retailer A	28,740	23,954	36,139	16,031
Retailer B	10,928	6,813	3,718	3,002
Retailer C	700	455	815	717
Retailer D	12,709	10,955	14,862	13,947
Retailer E	2,343	3,589		
Retailer F	17,574	20,781	19,973	11,953
Retailer G	0	19,168	12,017	11,876
Retailer H	0	1,475	1,769	2,171
Retailer I	233,400	207,613	202,160	218,381
	<u>306,393</u>	<u>294,803</u>	<u>291,453</u>	<u>278,078</u>
<b>(h) Total customer</b>	23,359	26,181	25,535	25,197

## THE LINES COMPANY LIMITED - LINES BUSINESS ACTIVITY

### Reliability Performance Measures (Regulation 21)

#### 1 Total number of Interruptions according to class

	2007	2006	2005	2004	2003
Planned (Transpower)	0	0	1	3	3
Planned (TLC)	330	257	279	334	659
Unplanned (TLC)	682	395	397	497	587
Unplanned (Transpower)	2	0	8	4	2
Generation (Others)	1	0	0	0	0
Other (Private Lines)	175	38	44	24	0
<b>Total</b>	<b>1190</b>	<b>690</b>	<b>729</b>	<b>862</b>	<b>1251</b>

#### 2 Interruption targets for the following year

#### 3 and for the subsequent four financial years

	2008	2009	2010	2011	2012	Average 2008/12
Planned (TLC)	450	450	450	450	450	450
Unplanned (TLC)	360	348	336	324	312	336

#### 4 Percentage of total number for faults not restored in 3 or 24 hours

#### Unplanned (TLC) faults for 2006/07

	Number	% of Outages
Not restored in 3 hours	414	61%
Not restored in 24 hours	18	3%

#### 5a Total number of faults per 100km of lines for :

	2007	2006	2005	2004
Faults per 100km				
33kV	9.6	9.6	10.5	14.6
11kV	19.4	10.7	9.7	11.7
<b>Total</b>	<b>18.1</b>	<b>10.5</b>	<b>9.8</b>	<b>12.0</b>

#### 5b Target for the following year

#### 5c and the subsequent 4 financial years

	2008	2009	2010	2011	2012	Average 2008/12
Faults per 100km						
33kV	9.0	8.6	8.2	7.8	7.4	8.2
11kV	10.0	9.7	9.4	9.1	8.8	9.4
<b>Total</b>	<b>9.9</b>	<b>9.5</b>	<b>9.2</b>	<b>8.9</b>	<b>8.6</b>	<b>9.2</b>

#### 6a Total number of faults per 100km of underground lines for

	2007	2006	2005	2004
Faults per 100km				
33kV	0.0	0.0	0.0	0.0
11kV	7.4	6.5	6.5	6.9
<b>Total</b>	<b>7.3</b>	<b>6.4</b>	<b>6.4</b>	<b>6.9</b>

#### 6b Target for the following year

#### 6c and the subsequent 4 financial years

	2008	2009	2010	2011	2012	Average 2008/12
Faults per 100km						
33kV	0.0	0.0	0.0	0.0	0.0	0.0
11kV	3.8	2.6	2.6	2.6	2.6	2.8
<b>Total</b>	<b>3.8</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.8</b>

#### 7a Total number of faults per 100km of overhead lines for :

	2007	2006	2005	2004
Faults per 100km				
33kV	9.6	9.6	11.1	14.6
11kV	19.7	10.8	11.1	11.8
<b>Total</b>	<b>18.4</b>	<b>10.6</b>	<b>10.7</b>	<b>12.1</b>

#### 7b Target for the following year

#### 7c and the subsequent 4 financial years

	2008	2009	2010	2011	2012	Average 2008/12
Faults per 100km						
33kV	9.0	8.6	8.2	7.8	7.4	8.2
11kV	10.2	9.8	9.5	9.2	8.9	9.5
<b>Total</b>	<b>10.0</b>	<b>9.7</b>	<b>9.4</b>	<b>9.0</b>	<b>8.7</b>	<b>9.3</b>

## THE LINES COMPANY LIMITED - LINES BUSINESS ACTIVITY

### 8 SAIDI for total of interruptions during :

	2007	2006	2005	2004
SAIDI	368.5	284.9	305.6	400.2

### 9 SAIDI targets for the following year

#### 10 and for the subsequent four financial years

	2008	2009	2010	2011	2012	Average 2008/12
Planned (TLC)	96.8	96.8	96.8	96.8	96.8	96.8
Unplanned (TLC)	203.2	203.2	203.2	203.2	203.2	203.2

### 11 SAIDI according to class

	2007	2006	2005	2004
Planned (Transpower)	0.0	0.0	38.5	7.9
Planned (TLC)	110.3	97.5	79.5	78.2
Unplanned (TLC)	233.0	180.0	146.1	264.4
Unplanned (Transpower)	8.5	0.0	30.0	36.5
Generation (Others)	4.1	0.0	0.0	0.0
Other (Private Lines)	12.6	7.4	11.6	13.2

### 12 SAIFI for total of interruptions during :

	2007	2006	2005	2004
SAIFI	3.63	3.84	4.02	4.96

### 13 SAIFI targets for the following year

#### 14 and for the subsequent four financial years

	2008	2009	2010	2011	2012	Average 2008/12
Planned (TLC)	0.5	0.5	0.5	0.5	0.5	0.5
Unplanned (TLC)	3.4	3.4	3.4	3.4	3.4	3.4

### 15 SAIFI according to class

	2007	2006	2005	2004
Planned (Transpower)	0.00	0.00	0.11	0.38
Planned (TLC)	0.57	0.60	0.43	0.46
Unplanned (TLC)	2.71	3.16	2.52	3.48
Unplanned (Transpower)	0.11	0.00	0.84	0.45
Generation (Others)	0.08	0.00	0.00	0.00
Other (Private Lines)	0.16	0.08	0.12	0.18

### 16 CAIDI for total of interruptions during :

	2007	2006	2005	2004
CAIDI	101.5	74.2	76.1	80.7

### 17 CAIDI targets for the following year

#### 18 and for the subsequent four financial years

	2008	2009	2010	2011	2012	Average 2008/12
Planned (TLC)	184.4	184.4	184.4	184.4	184.4	184.4
Unplanned (TLC)	60.2	60.2	60.2	60.2	60.2	60.2

### 19 CAIDI according to class

	2007	2006	2005	2004
Planned (Transpower)	0.0	0.0	357.0	20.6
Planned (TLC)	193.5	162.5	185.1	169.4
Unplanned (TLC)	86.0	57.0	58.0	76.0
Unplanned (Transpower)	77.1	0.0	35.6	80.5
Generation (Others)	50.9	0.0	0.0	0.0
Other (Private Lines)	78.8	91.9	100.3	72.2