Statement of Corporate Intent

For the Year Ending 31 March 2019

Version: Publish

This document is the governing agreement between Top Energy Limited (the Group) and the Top Energy Consumer Trust (the Shareholder). Responsibility for compliance with the content, and the achievement of the Objectives and Performance targets in respect of the financial and service levels set out in this Statement, rests with the Directors of Top Energy Limited.

TOP ENERGY LIMITED

STATEMENT OF CORPORATE INTENT

Contents

1. NATURE AND SCOPE OF ACTIVITIES

The Group operates and maintains the electricity supply network within its area of geographical operation and provides related construction and maintenance services. Through its subsidiaries, the Group also operates an electricity generator, owns a dairy farm which is managed under a 50:50 share milking arrangement and is a landowner. Other activities may be considered if they meet the Objectives of the Group as set out in this Statement of Corporate Intent.

2. OBJECTIVES

The following objectives have been set, taking into consideration their importance to the Group and its stakeholders.

- **A.** To operate a successful business to optimise the long-term value of the Group for its Shareholder
- **B.** To encourage a safety culture where all our employees take responsibility for themselves and others to minimise the risk of injuries to customers, staff, contractors and the public
- **C.** To achieve network quality standards that are acceptable to our consumers
- **D.** To operate in an environmentally sustainable manner, and to be responsive to cultural and social needs of our community
- **E.** To minimise the total delivered cost of electricity to our consumers

For each of these objectives, there are strategies that will be deployed, and performance will be measured through key metrics. These are further detailed in the following sections.

3. STRATEGIES TO DELIVER THE OBJECTIVES

A. Long Term Value

Long Term value can mean many things. The Group has defined the term through three core components:

i. Optimise the long-term value from the Network, which is a balance between network reliability/risk and the cost to consumers.
   - Network returns will be achieved by maximising the regulatory allowance at each 5-year regulatory price reset. Focus is also on maintaining currently connected profitable consumers whilst driving continuous improvement in asset management and operational efficiency. With one third of the network being uneconomic, the strategy is to vigorously assess capital expenditure alternatives to provide the most economic supply utilising the optimal regulated asset base (RAB).

ii. Maximise the long-term value of Ngawha, currently dominated by the near-term development focus of expanding the existing 25 MW plant to 53MW;
   - Managing the drilling and construction risks to ensure that the value created following the commissioning of the new station in 2021 is maximised,
   - The existing plant also provides significant returns and these need to be maximised through achieving the highest wholesale energy prices for all generation and preventing any major events that may impact plant availability.

iii. Minimise financing costs and risk.
   - The ability to secure funding, both at competitive rates and with reasonable risks, is critical for the Group to deliver the objective.

B. Safety Culture

Health and Safety is always the number one priority throughout the Group; ensuring a safe working environment is provided and promoting a health and safety culture as envisaged by the Health and Safety at Work Act 2015.

There has been a significant drive encouraging the reporting of injuries over the past few years, so we can learn from the circumstances and improve in the future. This has been achieved with specific focus by staff on the culture towards safety.

Previously, learnings were taken from incidents that occurred, identifying where something went wrong. With minimal safety incidents now occurring, a move to learning and sharing what is going well will continue to provide learning opportunities that can be shared across the Group. A new safety initiative was rolled out in February 2018 called Safety Differently and will continue through FY2019. The objectives are to transition from a focus on negatives and compliance to positive reinforcement to ensure safety, enabling high performance without unwanted outcomes. We believe that our safety culture is now mature enough and can transition from a heavy compliance approach (Safety I) to a performance improvement approach (Safety II).

In addition, increased focus is being placed on Employee Wellbeing, with a new digital platform being implemented for all staff and their families, with support from Synergy Health. The approach is to increase awareness of one's wellbeing status, providing education on how to improve, providing motivation and encouragement and rewarding improvements achieved.

Public safety is of high importance to the Group with a Safety Management System in place. It is our intention that accreditation against the NZ Standard 7901:2008 is maintained, certified by Telarc.

Ngawha Generation is classified as an upper tier major hazard facility under the Health and Safety at Work Act 2015 (HSWA). A Safety Case, detailing all identified risks and processes and how they are managed, has been developed and submitted to WorkSafe. The Safety Case forms the basis of our operation of the generation plant.

C. Network Quality Standards

Network service quality standards are expected to continue to improve over time as investment in the network addresses the previously worst performing areas. Whilst network reliability is expected to improve from an unplanned outage perspective, recent changes to "live working" practices to eliminate risk under the HSWA, mean that outages may increase due to the requirement to de-energise most work sites.

The core reliability metrics, SAIDI (System Average Interruption Duration Index) and SAIFI (System Average Interruption Frequency Index) should achieve the mean of our peer group of rural networks by 2022.

The Asset Management Plan (AMP) is the defining document for the Group's Network business and sets out the Network strategy and the 10-year capital and maintenance expenditure levels estimated to be required to ensure the Network is managed in a sustainable way and delivers the expected quality standards. The plan also details areas of Network business focus and development and our approach to risk management and contingency planning. A key section of the AMP is how technologies will be embraced to provide the most economical supply, whether that be improving security of supply short term through diesel or bio-diesel generation or providing an alternative supply through remote energy solutions.

The AMP is a public document disclosed on our website and prepared in compliance with Requirement 2.4 of the Electricity Distribution Information Disclosure Determination 2012. The current plan covering the period 1 April 2018 to 31 March 2028 was adopted and published on 27 March 2018.

D. Environmental, Cultural and Social Needs

As the Group is consumer owned, it is highly visible in the community and maintaining public trust is of high importance to the Group.

Whilst the Group becomes most visible during extreme weather events, community presence is maintained through A&P shows where free rides and kids activities are available. Community support is provided through relevant tree trimming, hanging Christmas lights and town flags, with wider financial support being provided for critical activities such as the Electricity Rescue Helicopter and WaterSafe. Financial support is also provided to assist in areas of economic development, including a Business Development Fund, Engineering Scholarships and supporting the Young Enterprise Scheme.

The Group is aware of the impact the presence of the Ngawha generation plant has on the local Ngawha Springs Village and works closely with the village to manage any concerns, as they arise. Sustainability is crucial for the generation plant; therefore, independent monitoring of the geothermal resource, flora, fauna and waterways is undertaken on a routine basis.

As part of the Ngawha Generation resource consent, we undertake cultural monitoring according to a Cultural Monitoring Plan agreed to by the mana whenua hapu. A Kaitiaki Advisor is provided by the Parahirahi Ngawha Waiariki Trust to provide cultural advice to the Peer Review Panel who monitor consent conditions on behalf of the Northern Regional Council. Ngati Rangi Marae Komiti and Ngati Rangi Development Society Incorporated also attend these Peer Review Panel meetings.

E. Total Delivered Cost of Electricity

The Group is conscious of the social and economic challenges across the Far North and is focused on minimising the cost to serve its consumers. Strategies to achieve this are contained within the AMP and include the utilisation of diesel or bio-diesel generators and continuous improvement in asset management, supported by new technology.

In addition, with the current Ngawha expansion plans, the Group is looking at opportunities to reduce future wholesale energy and transmission costs as the Far North becomes more self-sufficient in energy generation.

4. PERFORMANCE METRICS

A. Long Term Value

It has been agreed between the Company and the Trust that the Company will provide various administrative services for the Trust, at no cost to the Trust. These services will include, but will not be limited to, provision of routine secretarial services, administration of the distribution of any dividend paid to the Trust and administration of the periodic Ownership Review. Reflecting the incurrence of these costs, the following financial performance targets have been set.

The Generation Business performance is impacted by the expansion project. The ratio against Total Tangible Assets reduces as we invest in the expansion project prior to commissioning in June 2021. Average Shareholder Funds is higher during the construction phase due to the interest incurred being capitalised and claimed as a tax deduction.

	Actual for Y/E 31 March 18	Budget for Y/E 31 March 19	Target for Y/E 31 March 20	Target for Y/E 31 March 21
Network Business				
Earnings before Interest and Tax as a percentage of Total Tangible Assets	6.2%	7.2%	8.0%	4.2%
Net Profit After Tax, as a Percentage of Average Shareholder Funds	6.4%	7.9%	9.2%	4.1%
Generation Business				
Earnings Before Interest and Tax as a percentage of Total Tangible Assets	7.6%	6.6%	4.8%	4.2%
Net Profit After Tax, as a percentage of Average Shareholder Funds	9.3%	22.4%	16.9%	19.2%
Group				
Net Profit After Tax, as a percentage of Average Shareholder Funds	7.3%	10.9%	10.7%	8.0%
Shareholder's Funds to Total Assets (at year end)	1:2.39	1:2.51	1:2.61	1:2.81

NOTES:

(i) Revenue of the Network business is controlled under the Commerce Act 1986.

(ii) The Group's ability to achieve the profit performance targets agreed above could be materially affected by changes in Government Policies, Legislation and Regulations.

(iii) The above performance targets are before any unrealised gains or losses from derivatives (Ngawha and Group) are taken to account and exclude the effect of any asset revaluations (Ngawha and Group).

(iv) Group results include Network (Top Energy), Generation (Ngawha) and all other minor activities carried out by the Group. Network Business plus Generation Business will not add to the Group b these immaterial amounts.

(v) The ratio of consolidated Shareholder's Funds to Total Assets will not be greater than 1:3.0. This is relevant with the present ownership, but any change in the future may lead to this being reviewed.

(vi) Shareholder's Funds comprise the total issued capital, the balance of undistributed profits and all revenue and capital reserves, excluding any minority interests, excluding any effect of the revaluations. Total Assets of the Group comprise all the tangible and intangible assets of the Group at their current book values as defined in the Group's Statement of Accounting Policies, excluding the effect of any asset revaluations. Therefore, these values will not be the same as disclosed in the Annual Financial Statements.

B. Safety Culture

The key safety metric is the Total Recordable Injury Frequency Rate (TRIFR) which is the total number of recordable injuries multiplied by 200,000, divided by actual annual hours worked. The aim is for zero harm. However, the targets below are set with reference to the EEA Safety Performance Indicators Report for the Electricity Supply Industry. The targets are lower than the benchmarks contained in the report.

	Actual for Y/E 31 March 18	Target for Y/E 31 March 19	Target for Y/E 31 March 20	Target for Y/E 31 March 21
Total Recordable Injury Frequency Rate (TRIFR)	1.5	3.6	3.6	3.6

C. Network Quality Standards

The quality standards have been calculated in line with the requirements of the Electricity Distribution Services Default Price-Quality Path Determination 2015 which came into effect on 1 April 2015.

	Actual for Y/E 31 March 18	Budget for Y/E 31 March 19	Target for Y/E 31 March 20	Target for Y/E 31 March 21
SAIFI System Average Interruption Frequency Index. (Refer Notes (i) to (vi)).	4.9	4.8	4.7	4.6
Regulatory Measures (Refer Note (v)				
Cap	*6.2*	*6.2*	*6.2*	
Target	*5.4*	*5.4*	*5.4*	*Not yet set*
Collar	*4.6*	*4.6*	*4.6*	
SAIDI System Average Interruption Duration Index. (Refer Note (ii) to (iv)).	483 minutes	390 minutes	375 minutes	310 minutes
Regulatory Measures (Refer Note (v)				
Cap	*516*	*516*	*516*	
Target	*435*	*435*	*435*	*Not yet set*
Collar	*354*	*354*	*354*	

NOTES:

(i) SAIFI – the number of outages (including planned) per year for an average customer.

(ii) SAIDI – the number of high voltage outage (including planned) minutes experienced by the average customer.

(iii) Items are measured using the methodology determined by of the Commerce Commission.

(iv) These performance levels do not include any faults arising on the Transpower system.

(v) These measures were set by the Commerce Commission at the commencement of the current regulatory period, being 1 April 2015 to 31 March 2020. A "quality incentive" is receivable by the Company if the annual result is between the target and collar, and a quality disincentive is payable by the Company between the target and cap. If the cap is exceeded, a breach has occurred and could result in an investigation by the Commission. The Commerce Commission has yet to set the targets for the period 31 March 2021 as they relate to the next 5-year regulatory period.

D. Environment, Cultural and Social Needs

As the Group is the holder of significant resource consents, the key metric that will be reported against is compliance with consents and associated undertakings. Any breach of a consent will be disclosed along with impact and remedial actions that are required or have been undertaken to remedy such breach.

	Actual for Y/E 31 March 18	Target for Y/E 31 March 19	Target for Y/E 31 March 20	Target for Y/E 31 March 21
Consent Breaches	0	0	0	0

E. Total Delivered Cost of Electricity

The Group will calculate and monitor the average residential distribution and transmission cost to serve per installation control point ($/ICP).

5. DISTRIBUTION POLICY

Subject to compliance with solvency requirements, the Company will declare an annual dividend to the Trust to cover the operational costs of the Trust, for that preceding period.

Any decision for the Company to pay an additional dividend to the shareholder, for distribution to beneficiaries, will be made by the directors and will reflect the trading performance and the financial position of the Group.

If a dividend is declared, the calculation of any amount to be paid out (the Distribution Amount) will be based on free cash flows, being the amount of the Net Profit After Tax, plus depreciation and any other non-cash items, less capital expenditure.

If a dividend is declared, all of the distribution amount derived from the Group's Network business activities will be distributed in any particular year, after allowing for any requirements the Group's Network business may have for working capital funds to implement the operational plan for the following year(s) and to meet the capital requirements of the AMP and the investment strategy. Of the remaining business activities of the Group, up to 50% of the distribution amount may be paid to the Shareholder.

In the event of a dividend distribution, the Board of Directors will include within the report provided to the shareholder, a statement setting out the amount which this policy would produce as a distribution together with a recommendation as to the Distribution Amount and whether any particular distribution will be by way of dividend or some other means.

The Group presently has no separately identified capital reserves.

It is intended that distributions in relation to any particular financial year ended 31 March will be made as a single payment during the last two months of the same calendar year as the year end.

It is noted that, should the Group overcharge its customers, in total or any particular group or class of customers, it may return such overcharge by way of rebate or discount. Such a rebate or discount is not a distribution of profits, subject to the policy set out in this section.

6. INFORMATION TO BE PROVIDED TO THE SHAREHOLDER

The Group will provide information that meets the requirements of the Companies Act 1993, the Financial Reporting Act 2013 and the Energy Companies Act 1992.

i. A half-year report will be delivered to the Group's shareholder within three months of the end of each half-year. The report will comprise:
    a. A report from the Chairman covering the Operations and achievement against SCI Objectives for the half year period, and
    b. The information required to be included by this Statement of Corporate Intent.

ii. An Annual Report will be delivered to the Group's Shareholder within three months of the end of each financial year and will comprise:
   a. A report from the Chairman covering the Operations and achievement against SCI Objectives for the year, and
   b. audited, Consolidated Financial Statements for the financial year in respect of the Group, and
   c. an auditor's report on the Financial Statements.

   The Group's audited Consolidated Financial Statements will comprise the following:
   - A Report on the Performance Indicators contained within the Statement of Corporate Intent
   - A Statement of Comprehensive Income
   - A Statement of Financial Position
   - A Statement of Changes in Equity
   - A Cash Flow Statement
   - Such other statements as may be necessary to fairly reflect the financial position of the Group.

iii. Any event that is defined as a Major Transaction in the Company's Constitution must be approved by the Shareholder. In addition, the Company will bring to the attention of the Trustees, any transaction or decision that is deemed significant.

   A significant event, is one where the value of the event is 10% or more of;
   - the asset base of the Group, or
   - the revenue derived by the Group, or
   - any other event the Company deems the Trustees may have an interest in,

   The Company will inform the Trustees of such an event in a timely manner.

iv. A draft Statement of Corporate Intent will be delivered to the Group's Shareholder within one month of the end of each financial year.

7. ACCOUNTING POLICIES

The Company's accounting policies will comply with the legal requirements of the Companies Act 1993 and the Financial Reporting Act 2013. From the period commencing 1 April 2007 the financial statements have been prepared in accordance with New Zealand equivalents of the International Financial Reporting Standards (NZ IFRS)

The Accounting Policies to be applied in respect of the year commencing 1 April 2018 are attached as APPENDIX 1.

8. REPORTABLE INTRA-GROUP TRANSACTIONS AND TRANSACTIONS WITH CERTAIN OTHER PARTIES

Transactions between related Companies within the Group and with certain other parties, that are anticipated to occur during the three-year period to 31 March 2021, are set out in APPENDIX 2.

9. PROCEDURES FOR AN INVESTMENT OR ACQUISITION OF SHARES IN A COMPANY OR OTHER ORGANISATIONS

Where a Group company identifies a potential investment or business acquisition, appropriate due diligence work is to be undertaken and a report prepared for consideration by the Directors. Any decision to proceed with the proposed investment or acquisition requires approval by a majority of the Directors.

Investments or acquisitions will be made only when the interest acquired will add value to the Group within a period not exceeding 10 years and should achieve a minimum post tax rate of return at least to maintain or improve the Groups earnings.

APPENDIX 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies are consistently applied unless otherwise stated.

(a) Basis of preparation

Statutory base

Top Energy Limited is registered under the Companies Act 1993.

These financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Companies Act 1993 and the Energy Companies Act 1992.

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for entities that fall within the Tier 1 for-profit category.

Entities reporting

The consolidated financial statements for the 'Group' are for the economic entity comprising Top Energy Limited and all its subsidiary companies.

The Directors have taken advantage of the provisions of the Financial Reporting Act 2013 and the Financial Reporting (Amendments to Other Enactments) Act 2013 and have not provided separate financial statements for the Parent as part of the Group financial statements

All Group companies are designated as profit-oriented entities as defined in External Reporting Board Standard A1: Application of the Accounting Standards Framework.

Historic cost convention

These financial statements have been prepared under the historic cost convention, as modified by the following:

- the revaluation of financial assets and liabilities (including derivative instruments) and investment properties, which are adjusted to fair value through profit or loss; and
- the revaluation of certain classes of property, plant and equipment and available-for-sale financial assets, which are adjusted to fair value through other comprehensive income.

Comparative figures

To ensure consistency with the current period, comparative figures have been restated where appropriate in accordance with NZ IFRS requirements. There have been no material restatements in these financial statements in respect of the year ended 31 March 2017.

Functional and presentation currency

Items included in the financial statements of each Group company’s operations are measured using the currency of the primary economic environment in which it operates (‘the functional currency’). These financial statements are presented in New Zealand dollars, which is the parent entity’s functional and presentation currency.

(b) Accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described in the relevant accounting policies or notes, as appropriate.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including future events, the expected outcomes of which, are believed to be reasonable under the circumstances.

(c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Top Energy Limited (the 'Company' or 'parent entity') as at 31 March 2018 and the results of all subsidiaries for the year then ended. Top Energy Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all 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 Company. They are de-consolidated from the date when control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit or loss component of the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated on consolidation. If applicable, amounts reported by subsidiaries are adjusted to ensure consistency with the Group's accounting policies.

(d) Available for sale investments

Available-for-sale investments, comprising marketable equity securities, are initially recognised at fair value plus transaction costs. After initial recognition, available-for-sale investments are carried at fair value.

All of the Group's available for sale investments are traded in active markets and accordingly, fair value is determined by reference to Stock Exchange quoted bid prices.

Available-for-sale investments are classified as noncurrent assets, unless they are expected to be realised within twelve months of the balance date. Under the terms of a purchase and sale agreement which was finalised shortly after the reporting date, the Group will sell its holding of Fonterra Co-operative Group shares to the purchaser of other non-current assets currently held by a Group company. The sale will be effective on 31 May 2018, at the open market price then prevailing. Consequently, at the 31 March 2018 reporting date, those available-for-sale investments have been classified as current assets.

(e) Biological assets

At the beginning of the current reporting period the Group owned biological assets, comprising a quantity of trees, which were carried in the statement of financial position at fair value less costs to sell. During the reporting year ended 31 March 2018 the Group disposed of all of its biological assets.

(f) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

All other borrowing costs are recognised in the profit or loss component of the statement of comprehensive Income, in the period in which they are incurred.

(g) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and bank overdrafts. These items are readily convertible with known amounts of cash and are subject to an insignificant risk of changes in value.

Bank overdrafts are included within the total of interest bearing liabilities, in current liabilities, in the statement of financial position.

(h) Contract work in progress

Contract work in progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings. Cost includes all expenses directly related to specific contracts and an allocation of general overhead expenses incurred by the relevant Group company's contracting operations.

Where network capital contributions have been received in respect of contract work and the work has not commenced by the reporting date, the total of such contributions held on account are included in trade payables, not deducted from the total value of contract work in progress. This accounting treatment was applied within this reporting period and adopted in respect of the comparative period presented in these financial statements.

(i) Derivatives

Derivatives are recognised initially at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The resulting gain or loss is recognised in profit or loss, as the Group has decided not to apply hedge accounting.

(j) Dividend distributions

Dividend distributions to the Parent Company's shareholder are recognised as a liability in the Group's financial statements in the accounting period in which the distribution is declared by the Directors.

(k) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date, are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service gratuity

The liability for retirement gratuity payments due to eligible long-serving employees is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels and experience of employee departures. Expected future payments are discounted to present value using the rate on New Zealand government bonds.

(iii) Retirement benefit obligations

The Group makes contributions to defined contribution pension schemes on behalf of some employees. The Group’s legal or constructive obligation is limited to these contributions. Contributions are recognised as an expense when employees have rendered service entitling them to the contributions.

(l) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement and for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps and electricity Contract For Differences are calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(m) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss component of the statement of comprehensive income.

(n) Goods and Services Tax (GST)

The statement of comprehensive income and items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(o) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment irrespective of whether any circumstances identifying a possible impairment have been identified. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(p) Income tax

The tax expense or benefit for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in items of other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, as applicable.

The income tax expense or benefit for the period is the total of the current period's taxable income based on the national income tax rate for each jurisdiction plus/minus any prior years' under/over provisions, plus/minus movements in the deferred tax balance, except where the movement in deferred tax is attributable to a movement in reserves.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not offset within the Group as there is currently no legally enforceable right to offset current tax assets against current tax liabilities.

(q) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's (or Company's) share of the net identifiable assets of the acquired business or entity at the date of acquisition. Goodwill on acquisitions of businesses and subsidiaries is included in intangible assets. Goodwill acquired in business combinations is not amortised. Instead, it is tested for impairment annually, or more frequently if circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity disposed of.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Cash Generating Units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (typically, three years).

(iii) Emission Trading Scheme assets

Carbon emission units are recognised at their initial cost less any accumulated impairment losses. For the purpose of impairment testing, carbon emission units are allocated to the cash generating unit to which they relate.

The carrying value of the units, and the value of the liabilities for which they will have to be surrendered, are calculated on a first in first out basis. The total value of units held is allocated between current and non-current intangible assets. The basis of allocation is that the carrying value of units which equals the current amount accrued as an ETS liability is treated as a current intangible asset. The carrying value of all other units is treated as a non-current intangible asset.

(iv) Easements

Easements are perpetual rights over land owned by others. The Group obtains easements in order to protect access to its network assets where these are sited on or pass over privately-owned land.

Easements are deemed to have an indefinite useful life as the grants do not have a maturity date and the Group expects to use and have benefit from each easement indefinitely. Therefore, the Group does not amortise the cost of easements acquired. The Group reviews the carrying value of easements annually for impairment and writes down the carrying value if any are found to be impaired.

(r) Interest bearing liabilities

Interest bearing liabilities are recognised initially at fair value, net of transaction costs incurred, and are subsequently carried at amortised cost.

Borrowings are classified as current liabilities unless the relevant Group company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(s) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of weighted average cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(t) Investment property

The Group has acquired a small number of investment properties which do not currently contribute to the Group's activities and are let to third parties to defray costs.

Investment property is measured initially at cost, including transaction costs. Investment property is carried at fair value, which is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The Group obtains regular open market valuations of the investment properties from suitably qualified independent valuers. Changes in fair values are recorded in the statement of comprehensive income within profit or loss as a constituent of fair value gains or losses on financial assets in the period in which they arise.

Where the Group owns a building that ceases to be used as an owner-occupied property and becomes an investment property, or vice versa, the property is transferred between the respective categories at its fair value. For an investment property whose use changes to being an owner-occupied property, that fair value is treated as deemed cost.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss on derecognition of the property is included in profit or loss in the period in which the property is derecognised.

(u) Investments and other financial assets

Classification

The Group classifies its financial assets into the following categories: at fair value through profit or loss; loans and receivables; and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months, otherwise they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

(iii) Available for sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. At 31 March 2018 the Company's available-for-sale financial assets were re-classified as current on the basis that they are intended to be sold two months after the reporting date.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss component of the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category is presented in the profit and loss component of the statement of comprehensive income within 'other gains/(losses) – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit and loss component of the statement of comprehensive income as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss component of the statement of comprehensive income as 'gains and losses from investment securities'.

Dividends on available-for-sale equity instruments are recognised in the profit and loss component of the statement of comprehensive income as part of other income when the Group's right to receive payments is established.

Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value, using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(ii) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

(v) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss component of the statement of comprehensive income on a straight-line basis over the period of the lease.

(w) Non-current assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the consolidated statement of financial position.

(x) Property, plant and equipment

Property, plant and equipment, including the distribution network

Except for generation assets, all property, plant and equipment is shown at cost, less subsequent depreciation. Cost includes the amounts of revaluation surpluses that arose prior to the Group's transition to NZ IFRS and which were treated as deemed cost at the date of transition.

Generation assets

Effective 31 March 2014, the Group has accounted for its generation assets at fair value. Valuations are undertaken at sufficiently regular intervals so that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Additions made subsequent to a periodic revaluation are carried at cost less accumulated depreciation until the date of the next revaluation of the asset class, at which point they are included in the updated valuation total.

A periodic revaluation of the generation assets was undertaken as at 31 March 2017 and the resulting values have been incorporated into these financial statements.

Other property, plant and equipment

All other property, plant and equipment is stated at historic cost less depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

The Group owns one building that has undergone a change of use from investment property to owner-occupied property. The property was transferred between the respective categories at its fair value, which is treated for accounting purposes as being deemed cost.

Subsequent expenditure

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation

Land is not depreciated.

Fit-outs to leasehold buildings are depreciated on the straight-line basis over the term of the underlying lease. It is assumed that leases will terminate at their next renewal date unless management has already planned to extend the lease beyond that date, in which case the term for depreciation purposes runs to the intended termination date.

Depreciation on other assets is calculated using either the straight line or diminishing value methods to allocate their cost, net of their residual value, over their estimated useful life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the profit or loss component of the statement of comprehensive income.

(z) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of Goods and Services Tax, rebates and discounts and after eliminating all material transactions between members of the Group on consolidation. Revenue is recognised as follows:

(i) Electricity line and generation revenue

Electricity line revenue is recognised in profit or loss on the basis of amounts received and receivable by the Parent for line function services supplied to customers in the ordinary course of business. Electricity line revenue is based on actual and assessed meter readings and includes an allowance for unread meters at the reporting date.

Electricity generation income is recognised as electricity is generated and sold.

Critical judgements in applying this accounting policy

Part of the network charges are based on normalisation, where consumption is estimated by the retailers who supply the consumer, to the end of the billing period based on historical actual electricity usage. Occasionally, historical electricity usage data is not consistent and subsequent adjustments are made. These adjustments are immaterial compared with total network revenue.

(ii) Sales of services and other revenue

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Other revenue is generally recognised in the accounting period in which it arises. Typically, this will be on completion of the underlying transaction.

(iii) Capital contributions

Funds received from customers, as a contribution towards the cost of uneconomic supply facilities, are recognised in profit or loss as soon as any obligations attaching to the contributions have been met. For contributions that are refundable, there is a period of 5 years from the date of receipt (10 years for contributions received prior to 1 September 2011) within which a part or all of the contribution may be refunded to the customer.

(iv) Contracting revenue

Contract revenue and expenses are recognised in accordance with the percentage of completion method unless the outcome of the contract cannot be reliably estimated. Where it is probable that a loss will arise from a contract, the excess of total costs over revenue is recognised as an expense immediately.

Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred.

For fixed price contracts, the stage of completion is measured by reference to costs incurred to date as a percentage of estimated total contract costs for each contract. Revenue from "cost plus" contracts is recognised by reference to the recoverable costs incurred during the reporting period plus the percentage of revenue earned. The percentage of revenue earned is measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

Critical judgements in applying this accounting policy

Use of the percentage-of-completion method requires the Parent to estimate the total cost of the contracts in order to determine the proportion of costs to date to the total costs, which it uses as an approximation of the percentage completed.

(v) Farming income

The Group's entire output of milk is sold under a rolling contract to Fonterra Co-operative Group Ltd ("Fonterra"). Sales are accounted for on the basis of the component elements of the milk collected by Fonterra from the Group's property. Fonterra issues a self-billing invoice for milk collected each calendar month. The Group accrues for any further income receivable based on the difference between the latest indicative price for milk solids published by Fonterra for the season and the lower interim price which Fonterra applies in its monthly self-billing invoices and which Fonterra subsequently adjusts.

Sales of biological assets are recognised when the Group finalises a contract for sale with the purchaser.

(aa) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company or the Group prior to the end of the accounting period and which are unpaid at that date.

Included in trade payables are amounts of contract liabilities. These represent payments received from customers of the Group's Contracting Services division prior to the commencement of the work contracted for. In the event that the customer was to cancel the contract prior to the commencement of work, the advance payment would become repayable to the customer.

Provisions for the Group's obligations under the New Zealand Emissions Trading Scheme are recognised when the Group's liability is incurred under Scheme regulations. The liability is calculated in accordance with the prescribed regulations and is recognised at the cost value of the emission units acquired to meet the obligation.

Carbon emission units are surrendered on a first-in first-out basis.

(ab) Trade and other receivables

Trade receivables are amounts due from customers for services supplied or goods sold in the ordinary course of business.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the value of estimated future cash flows. The amount of the provision, plus any subsequent recovery of amounts previously written off, are recognised in the profit or loss component of the statement of comprehensive income within 'other expenses'.

APPENDIX 2 – RELATED PARTY TRANSACTIONS

Transactions between related companies within the Top Energy Limited Group that are anticipated to occur during the period covered by this Statement of Corporate Intent are set out in the table below.

Provider	Recipient	Description of transaction	Actual value of transactions for the year ended ($'000s)	Budgeted value of transactions for the year ending ($'000s)		
			31 March 18	31 March 19	31 March 20	31 March 21
Top Energy Ltd	Top Energy Consumer Trust	Dividend	130	120	122	125
Top Energy Ltd	Ngawha Generation Ltd	Operating cost	1,488	1,488	1,518	1,548
Top Energy Ltd	Ngawha Generation Ltd	Cost of funding	10,483	9,074	12,492	14,549
Top Energy Ltd	Ngawha Generation Ltd	Injection Charges	74	75	76	77
Top Energy Ltd	Ngawha Generation Ltd	Connection Agreement	64	64	65	67
Top Energy Ltd	Grazing North Ltd	Operating cost	71	0	0	0
Ngawha Generation Ltd	Top Energy Ltd	Electricity Avoided Transmission	3,079	2,810	2,810	2,810
Top Energy Ngawha Spa Ltd	Grazing North Ltd	Land Rental - Grazing	42	0	0	0