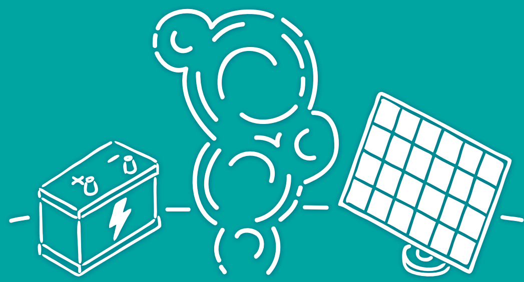
TOP ENERGY®
Te Puna Hihiko

ANNUAL REPORT 2018/19

ENERGY FOR THE FUTURE



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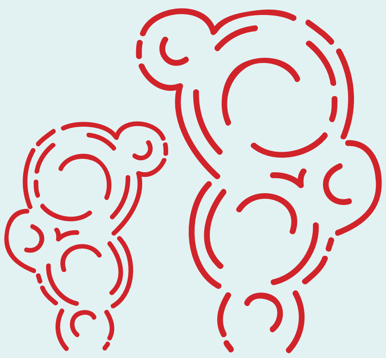
ABOUT

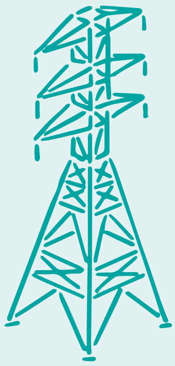
TOP ENERGY

Top Energy is the electricity generation and lines network Group which distributes power to the consumers of the Far North.

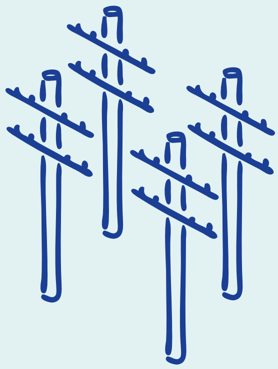
With operations throughout the Far North, the Group is progressive and technically driven with interests in:



ELECTRICITY **GENERATION** THROUGH OUR GEOTHERMAL POWER PLANT



TRANSMISSION AND DISTRIBUTION LINES **NETWORK**



ELECTRICAL RETICULATION **CONTRACTING**

We are one company with a clear vision:
To be a pillar of the Far North community, meeting the energy needs of our consumers.

32K

Top Energy is owned by the Top Energy Consumer Trust, on behalf of 32,000 power consumers connected to the company's network.

500m

The Group manages assets of more than $500 million.

150

The Group employs over 150 staff.

CHAIRMAN'S REPORT

'OUR **MOST SUCCESSFUL YEAR** SO FAR'

I am pleased to report that the 2019 financial year was the most successful year since the inception of Top Energy in 1992.

Our successes spanned three key areas of profitability, service and the Ngawha expansion.

Firstly, the Top Energy Group achieved an EBITDAF result of $44.2m, $3.7m above budget; **secondly**, network reliability, which is a key measure of the quality of service to consumers, was significantly better than target; and **thirdly**, we successfully progressed the Ngawha Expansion project through most of the major risks areas, without any major difficulties or significantly increased costs.

BUSINESS PERFORMANCE

$44.2m
EBITDAF

$32.5m
NET OPERATING CASH INFLOW

0
LTIs

Our overall business performance was excellent with the total Group exceeding its profit, growth in shareholder funds, and service level measures that were set in the Statement of Corporate Intent. These measures are agreed with the shareholder at the start of each financial year.

Net cash inflow from operating activities of $32.5m was $4.0m higher than the previous year and represents a very strong operating performance for the Group.

During the year we negotiated a new funding facility with our bankers. The new $355m facility has capacity for us to complete the Ngawha expansion, and at balance date we had drawn down $212.7m. The funding headroom is sufficient to complete the expansion project and meet other funding requirements that the Group has over the coming years.

When undertaking a significant expansion project, as we are with the new 31.5MW power station at Ngawha, management of cashflows is a major focus for both the Board and senior management. The cash reporting set out in the Consolidated cash flow statement clearly shows that the Group's cash position is sound. With most of the substantive contracts finalised with fixed price delivery, our exposure to unexpected increased costs claims is limited.

As we move forward through the plant construction phase of the project, our strong focus on our cash position will continue. The Board acknowledges that the Ngawha project is putting pressure on the resources of the Group, however we are confident that the cash generation following commissioning of the plant will be substantial and will be managed well within our risk tolerances.

As mentioned, earnings before Interest, Tax, Depreciation, Amortisation and Fair Value Movements (EBITDAF) was $44.2m, $10.0m higher than last year. However, below EBITDAF, a number of non-cash items have been brought to account, the most significant of which is the fair value losses on financial assets.

Both interest rates and electricity offtake prices have moved since we entered into fixed interest rates and electricity offtake contracts, and the fair value adjustments reflect the present value of the change in prices. The result of these non-cash adjustments of $34.5m is that we are reporting an after-tax loss for the year of $10.7m. Further detail of this issue is described below.

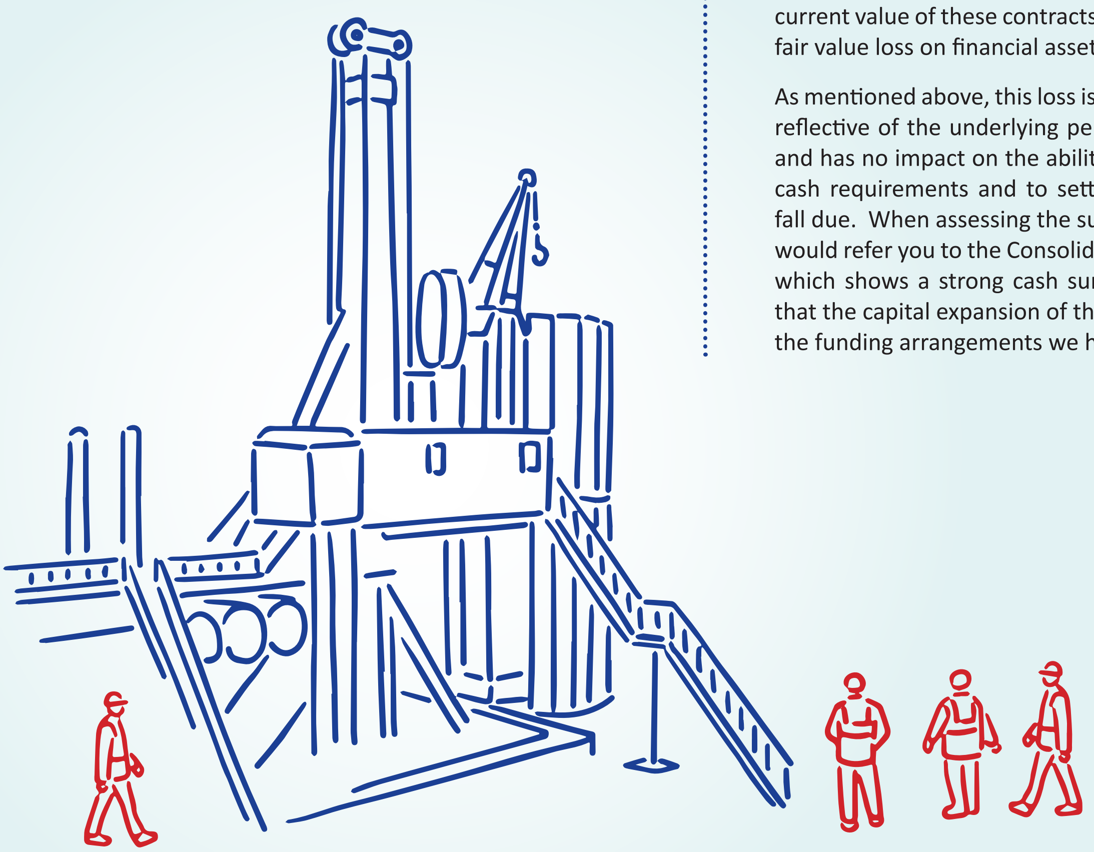
Left: Directors and Trustees are shown the Ngawha expansion project site by members of the management team.

NGAWHA EXPANSION PROJECT (OEC4)

The 2018/19 financial year has been dominated by the generation expansion project at Ngawha. The year started with civil works, preparing the site for the well drilling rig to be delivered and set up.

The Icelandic Drilling rig was in place by May 2018 and started to drill the first of three production wells. The wells drilled produced varying results but the final outcome was production flow that exceeded the volumes we required for the expected outputs. In addition, the enthalpy of the fluid was better than expected. The result is an increase in expected plant net output from 25MW to 31.5MW. We have also completed three re-injection wells and, again, the result has been capacity in excess of our immediate needs. At financial year end, the civil works for the plant platform are progressing well, after which the plant contractor Ormat will take over the site to build the power station itself.

The future price path for electricity has been particularly volatile during the last six months of the year. However, we still believe that the prices assumed in the project business case will be achieved, but we do note that there are both downside and upside risks.



FAIR VALUE GAINS AND LOSSES

Prudent risk management requires that an appropriate level of forward cover is obtained for each of the main risk areas of electricity price fluctuations and interest rate movements. Our funding obligations also require us to enter into derivative contracts to protect the business from unfavourable movements in these areas. Accounting reporting standards require us to calculate and report any gains or losses that arise from entering into these contracts.

These gains or losses are not cash transactions, but reflect what might have occurred if we had not entered into the transactions. Our business case supporting the Ngawha expansion, where nearly all of these issues arise, continues to be favourable following our hedging of these electricity price and interest rate risks.

These gains or losses reflect only the opportunity gains or losses from prudent risk management, which will change over time as markets move. All of this risk management was undertaken in compliance with, and is continuously monitored under, our Treasury and Electricity Trading policies.

As interest rates have generally tended to fall and electricity prices have increased during the course of the year, the financial reporting requirement to "mark to market" the current value of these contracts has produced a significant fair value loss on financial assets.

As mentioned above, this loss is a non-cash item and is not reflective of the underlying performance of the business and has no impact on the ability of the Group to meet its cash requirements and to settle our obligations as they fall due. When assessing the sustainability of the Group, I would refer you to the Consolidated Cash Flow Statement, which shows a strong cash surplus from operations and that the capital expansion of the business continues using the funding arrangements we have in place.

HEALTH AND SAFETY

It is very pleasing to record, for a second successive year, the Group has achieved a year with no lost time injuries (LTIs) to any of our team.

Of equal note is the safety record at our Ngawha generation plant where there have been no LTIs during the last 10 years.

TOP ENERGY GROUP	NGAWHA GENERATION PLANT
0 LTIs IN LAST **2 YEARS**	0 LTIs IN LAST **10 YEARS**

INDUSTRY ISSUES

The Ministry of Business, Innovation and Employment (MBIE) launched a review of electricity pricing during the year. Submissions were made extensively from across the industry and a draft report was released at the beginning of 2019.

Further submissions have been made by industry representatives and the public and a final report is expected in late June. The proposals contained in the draft report do not represent any substantial changes or risks to the Group.

We believe that a significant omission in the draft report was any consideration of a change to the Electricity Industry Act 2010 provisions setting the maximum level of generation that can be embedded by a lines company within its distribution system.

We believe that raising this limit would reduce costs for Top Energy's consumers as it would allow us to fully embed the Ngawha expansion project.

STRATEGY AND PLANS

A major responsibility of the Directors and the company is to consider what future issues can be reasonably expected to arise and how these should be managed.

Later in this report we have detailed how we are addressing this matter, along with how the Board are discharging their other responsibilities and I would commend this review to you.

THANK YOU

In last year's report I noted the significant effort made by the management team, staff and my fellow Directors. This last year has allowed no let up in the amount of work required nor the complexity of the issues which have had to be dealt with.

Again, I want to record my thanks to all our team for their efforts and also my congratulations on the excellent results achieved.

Richard Krogh
Chairman

‘BUILDING CONFIDENCE WITHIN OUR FAR NORTH COMMUNITY’

In this section, we describe our approach to governance and discuss two key issues that the Board is currently focused on: delivering the benefits from the Ngawha expansion and adapting to technology change.

CORPORATE GOVERNANCE CODE

The Board recognises that the community expect the highest standards of both personal conduct and quality governance, where Directors bring a wealth of appropriate experience in governing an organisation with assets of more than $500m.

The Board operates under a Corporate Governance Code, which includes a Code of Ethics. The Corporate Governance Code provides principles and standards that cover the following:

- The role of the Board and the Chair
- Responsibilities of the Directors, including independence and conflicts of interest
- Composition of the Board
- Committees of the Board
- External audit, reporting and disclosure
- Remuneration policy
- Delegation of authority

The Code of Ethics included in the Corporate Governance Code links directly to Top Energy’s values, which set the standards for all staff, managers and directors.

AUDIT AND RISK COMMITTEE

The Board operates an Audit and Risk committee, which allows detailed consideration of audit, financial reporting and risk matters.

The committee operates under a charter that is approved by the Board and outlines the duties, authority, responsibilities and relationship with the Board.

At Top Energy, corporate governance comprises the principles, practices and processes that determine how our business is directed and controlled.

Good corporate governance builds confidence within our community and with our shareholders the Top Energy Consumer Trust, that the business is being managed prudently.

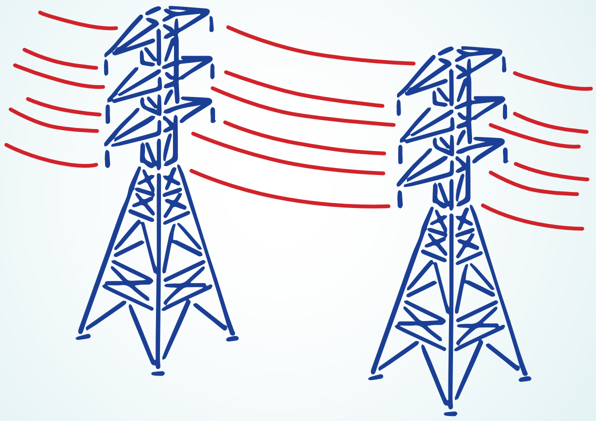
STATEMENT OF CORPORATE INTENT

To ensure that the direction and objectives of Top Energy are consistent with the expectations of the Top Energy Consumer Trust, the company prepares a Statement of Corporate Intent (SCI) each year. It contains the primary objectives of the company and performance measures, and is reviewed by the trust.

Each year Top Energy reports on its performance against the objectives and measures in the SCI in its annual report.

In 2018 the SCI was comprehensively reviewed to more clearly communicate Top Energy's objectives. It now includes our safety, service, financial, environment, social, cultural and economic objectives. We expect to develop the SCI further over the coming years.

The Board has a key role in ensuring that Top Energy achieves the objectives and measures contained in the SCI.

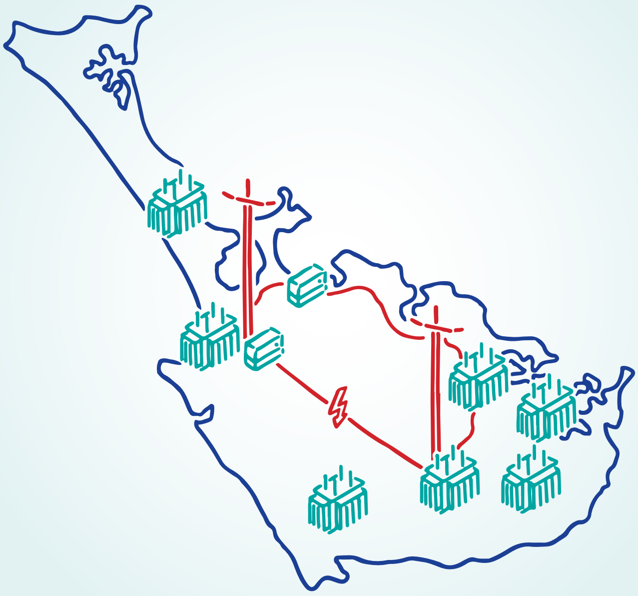


ENVIRONMENT

The placing of power poles, conductors and cables across the landscape inevitably has a detrimental impact on the environment. Some of our equipment, such as transformers, contain oil and other contaminants. The Far North is mostly long and narrow and, as such, is made up of a lot of coastline, which the community treasures and wants to keep as pristine as possible.

In recognition of the possible risks to this environment, the Group has a very strong culture of working with the Far North District Council and organisations such as Heritage New Zealand and local iwi to identify environmentally sensitive locations and culturally sensitive features.

The Ngawha power station uses n-pentane as its motive fuel. This is a highly explosive material, so the facility is classified as a major hazard facility. In recognition of this classification, we submitted a safety case to WorkSafe NZ setting out all the identified risks associated with the plant, how they are monitored and what steps would be taken, should an event occur.



SOCIAL

As one of the largest employers in the Far North, the Group is very conscious of our responsibility to act fairly in relation to everyone in the district. We have been improving our service level performance, but work remains to be done.

We believe businesses would be created or relocated to the district if the power supply were more dependable. Achieving this is part of our long-term goals, but we have a number of projects underway that will greatly improve the reliability of the power supply.

We have been working for a number of years to obtain land rights to build a second 110kV line between Kaikohe and Kaitaia. We are close to having these rights in place but are currently held up by a small number of landowners who will not agree to the proposal. Legal approaches have had to be used to resolve these situations, but these take a very long time.

In the meantime, we have installed or are about to install a number of diesel generator sets, which have increased the reliability of supply to the people of the Far North.

We support a number of community activities, and some are set out later in this report.

Richard Woodman Chairman of the Ngāwhā Marae Trustees Komiti views the ancient Kauri log uncovered at Top Energy's Ngāwhā geothermal power station site.

CULTURAL

Over a number of years, the Group has developed close and mutually beneficial relationships with local Māori groups and their representatives. As noted above, the construction of new power lines, or the maintenance of existing lines, often involves identification of important cultural sites.

Working with representatives of the groups representing relevant local hapū and iwi allows us to resolve any difficulties.

The development of the Ngawha power generation facilities, over 25 years, has involved developing close relationships with a number of the iwi, hapū and Māori Trusts with an interest in the Ngawha area.

Former President of Engineering New Zealand Dean Kimpton and Top Energy Chief Executive Russell Shaw.

APPOINTMENT OF DIRECTORS

Directors are appointed by the shareholder, the Top Energy Consumer Trust. The constitution of Top Energy provides that directors are usually appointed for a period of two years, after which they may be re-appointed if the shareholder wishes to do so.

However, after seven years, their re-appointment is considered annually. The constitution does not provide for a maximum term for any individual, but the shareholder prefers to apply a maximum period of around ten years.

As the circumstances of the Group and the industry change, the requirements for director experience and qualifications also change. The directors of the Boards of Top Energy and Ngawha Generation, together with their extensive experience, are shown in the following section.

It is not only the capabilities and experience of directors that is vital to the success of our Group. Day-to-day management of the business is delivered by the executive team and staff, and these are led by our Chief Executive, Russell Shaw (above, right).

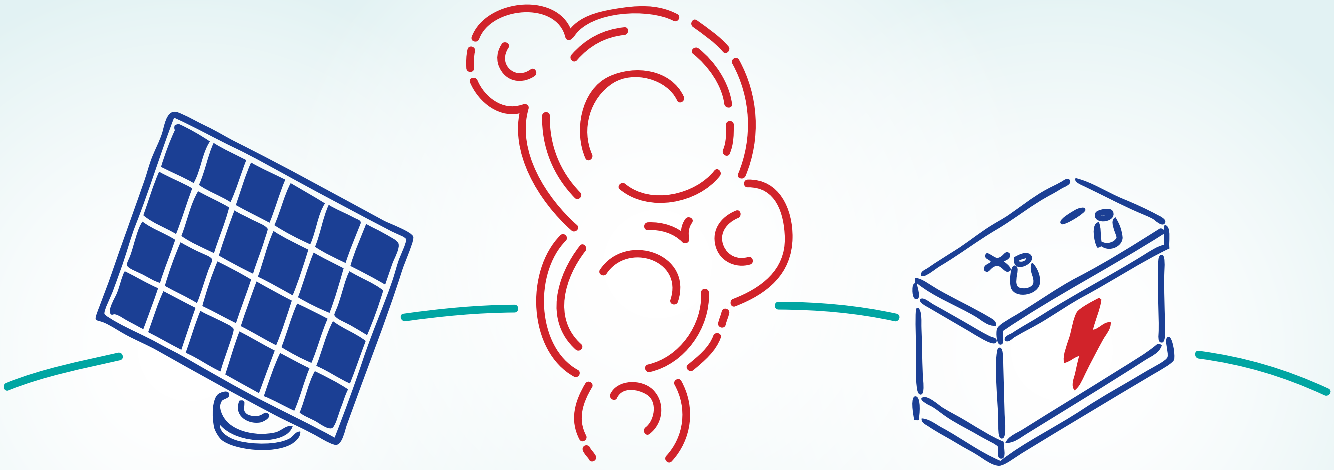
In March 2019, Russell was made a Fellow of Engineering New Zealand. This honour was in recognition of the expertise and leadership he has shown over the last decade.

DELIVERING THE BENEFITS FROM THE NGAWHA EXPANSION TO CONSUMERS

As we move forward with the Ngawha generation expansion, the Board has begun detailed evaluations of how the value that accrues from this project should be utilised for the benefit of the people of the Far North.

Our ability to deliver benefits to the Far North must be weighed against our competing priority of reducing the level of debt incurred by the company to undertake the Ngawha expansion. The level of debt at which we will operate as the expanded plant begins full production will have to be our priority over the next few years. Our modelling shows that debt levels will reduce quite rapidly, and the plans that follow this initial period create some really exciting opportunities.

The project cashflows are expected to allow us to construct the next and final stage of generation at Ngawha (OEC5). However, while exploiting the resource to its maximum will add value to the Group's assets, directors will also be considering our ability to increase the level of consumer discounts, which will effectively reduce network tariffs to consumers. Significant reductions in these charges may be possible in the future, and these reductions would have major impacts on the living costs of Far North power consumers.



ADAPTING TO **TECHNOLOGICAL CHANGE**

The electricity industry is faced with a number of very complex issues, not least of which is new and developing technologies. The industry had seen little change or innovation for decades; however, in the last five years, a number of new technologies have become mainstream. As innovators and entrepreneurs apply themselves to offering new products and services to the market, organisations involved in the generation, transportation and delivery of energy to end consumers are faced with greater uncertainty than ever before.

In the Far North, we have more than 700 solar photovoltaic (PV) installations. Those installations are producing more than 10% of the electricity demand at midday in the middle of summer. Some consumers are also installing batteries as part of their PV system.

Top Energy must ensure the integrity and robustness of our electricity distribution system and enable it to connect these and other new technologies that may evolve. We must also provide information, including pricing signals, so that those who choose to invest in these new systems can make informed investment decisions. Our prices must be fair and reasonable to all power consumers. To achieve this, we are working with the Electricity Authority and the wider industry to develop and implement new prices. These are beginning to be implemented and will be increasingly rolled out from 1 April 2020.

The advent of electric vehicles (EVs) is highly topical. Having recently reached 13,000 EVs on the road across the country, the impact on our industry is modest at best. Whether the predicted growth in EV numbers will continue is uncertain. Recent discussions have suggested that the main motive fuel for the transport fleet is more likely to be diesel hybrids, although the use of hydrogen is also under consideration. Where the energy source for road vehicles is delivered (i.e. at the home or at a service station) will have material impacts on the capital investment.

Monitoring the evolution of this technology and overseeing the prudent development of the distribution network and network control systems is a key focus of the Board and management. We are seeking to invest early enough to allow consumers to benefit from their investment in new technologies but late enough that we do not unnecessarily over-invest before the change occurs.

TOP ENERGY **DIRECTORS**

Richard Krogh

Richard Krogh was appointed as Chair 1 March 2018. Richard is a chartered professional director, holding directorships in a number of energy related organisations including First Gas Ltd and Gas Services NZ Ltd, as well as being the Deputy Chair of the Port of Taranaki Limited.

Richard is an electrical engineer and was previously the Chief Executive of Powerco Limited, New Zealand's second largest lines company. Richard has also served as the chair of the Electricity Networks Association, and was a member of the expert advisory panel that assisted with the review of the regulatory control provisions of the Commerce Act.

Simon Young

Simon is a director of Opunake Hydro and is also a director of the Lines Company Ltd. Simon has been a director since June 2014.

Greg Steed

Greg is a qualified CA, has been a director since October 2011 and was appointed Chairman of the Audit & Risk Committee in May 2014.

Greg's past experience includes a number of senior finance and management roles as well as being a previous Chair of the NZ Shippers Council.

David Sullivan

David was appointed to the Top Energy board in August 2018 and in December 2018 was also appointed to the Ngawha Generation Ltd board.

David is a qualified Chartered Accountant (CA), with many years of experience in director and senior executive finance roles, across a number of large and often listed companies, including chairing of the Audit Committee of a substantial finance company.

Paul White

Paul is a consultant providing a range of management, organisational and Maori development services. He is Chairman of Te Rarawa's farming company.

Previously Paul was CEO of the Ngai Tahu Development Corporation and has held other directorships, including with Housing New Zealand.

Paul has been a director since May 2010.

Dr Robert Kirkpatrick

Ngawha Generation Ltd

Robert is the independent director on the Ngawha Generation Ltd Board. He teaches Engineering and Business at Auckland University, including design to chemical engineers. Robert also conducts his own consulting practice, reflecting his more than 40 years experience in the refining and petrochemical industries.

CEO'S REPORT

'A **SUCCESSFUL, BUSY** AND **CHALLENGING** YEAR'

I am very pleased to report that there were no lost time injuries during this last financial year. ***This is the second year running that we have achieved this record.***

This is an excellent result; it is just reward for our staff who are the core to us achieving these results.

The levels of service provided to our consumers have been excellent this year.

Our service levels are regulated by the Commerce Commission using SAIDI (system average interruption duration index) and SAIFI (system average interruption frequency index) measures. These are measures of the average duration and frequency of interruptions for the year (with a lower number meaning there was less time without supply of electricity).

For the 2019 financial year we achieved a SAIDI of 352 minutes per customer, which was well below our regulated SAIDI target of 436. Similarly, the SAIFI result was 3.6 interruptions per customer (on average), which was well below our regulated target of 5.4.

While I note that we have had fewer severe storms than we have experienced in the past, it is still an excellent result when it is remembered that we have now ceased using live line techniques for maintenance.

We sold the dairy farm operated by Grazing North Ltd, during the year. It had been expected to sell the operation at 31 May 2018, the end of the farming year. However, delays in reaching final agreement with the purchaser Far North Holdings Ltd, meant that the sale finally occurred in November 2018.

We continue to support Far North Holdings Ltd in the plans to develop the site as an energy park, focused on creating new business and employment opportunities for the mid North.

The EBITDAF result for the year has also been outstanding, not only exceeding the previous years result by more than $10m but also our budget by 9.1%. Consumption was 330.6 GWh, an increase of 1.5% over the previous year. New connections for the year were 456, less than last year but still indicating strong growth.

Average temperatures were very close to the 10 year averages except during the period December 2018 to February 2019.

The expansion project at Ngawha has continued to be the major focus during the year.

The production and re-injection wells drilled have proven to be well in excess of our immediate requirements. The heat contained in the fluid has meant that we will produce 31.5MW from the volume of fluid we have resource consents to take.

The existing Ngawha operations have had an excellent year. Despite identifying and repairing corrosion in a small amount of fluid pipe works, requiring an extended outage for some of the units, our revenue exceeded last year by $1.3m and budget by 11%.

There has been considerable volatility in the electricity price market, particularly during the last six months of the year, and this created opportunities for us to achieve higher prices than budget, from time to time.

The Ngawha generation plant releases CO^2, and our carbon costs increased over the year in line with the transitional requirements of the ETS Scheme, which require us to surrender 1 NZU for every 1.2 tonnes of carbon rather than for every 1.5 tonnes, as was the case last year.

During this last year we launched a wellness programme, to build on the excellent health and safety successes achieved in recent years. This programme has been well received by staff, with many enjoying the comradery as well as the health benefits they are achieving.

As the Chairman has noted, it has been another busy and challenging year and I want to thank all our staff for their support and commitment as we move into challenging times for our industry.

Russell Shaw
Chief Executive

Chief Executive Russell Shaw as frontsman for the 'Energy of the Future' promotional campaign.

TOP ENERGY GROUP

FINANCIAL SUMMARY

Operationally, the Group performed extremely well, with EBITDAF improving significantly by $10.0m, (+29.3%) from 2018 and exceeding the year's targets.

Revenue growth of 11.6% ($7.9m) was achieved with continuing strong performance from the network and generation areas of the Group. Network revenue grew $5.5m, with overall electricity consumption growing by 1.5%. Capital Contributions, which relate to network extensions driven by customer requirements, grew by $1.6m, reflecting the subdivision and agricultural growth seen in the east and northern areas of the network.

Generation revenue improved by $1.3m, benefiting from over 96% plant availability and the volatile wholesale electricity market which saw higher spot prices in the second half of the year. Contracting revenue was up $0.5m, the growth linked to the new network connections referred to under Capital Contributions.

A 6.2% decrease in operating expenses was largely the result of the tree harvesting costs incurred in 2018. Employee expenses reduced due to less overtime and settlement of last year's higher annual leave provision, as we finalised annual leave calculations under the Holidays Act. Transmission charges were also marginally lower. Other expenses were impacted by higher carbon costs, as the government's ETS transitional arrangements are phased out.

Depreciation costs increased by $0.5m, of which $0.3m was attributed to our ongoing Network investment, with over $16m of new distribution assets commissioned.

Interest expense decreased 5.8%, however, our total interest costs increased by 26.4% as a result of an increase in capitalised interest as we continue the significant investment in the Ngawha expansion. Debt increased by $57.6m during the period, with new five-year funding facilities in place that will be sufficient for Group requirements.

As mentioned in the Chairman's report, a large negative fair-value adjustment on financial assets of $34.5m was recorded reflecting the Group's hedging strategy. Low interest rates and high energy prices have assisted in a strong operational result however they have caused an unfavourable non-cash position when valuing hedges at balance date.

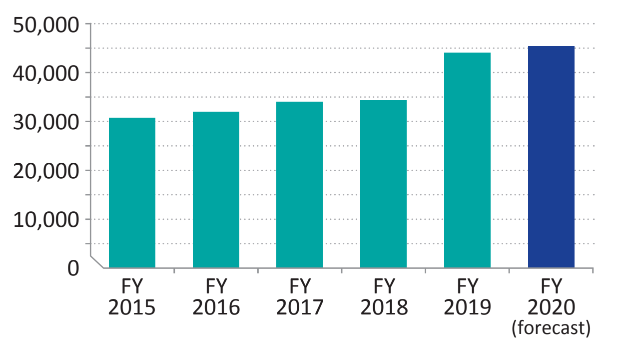
Discontinued operations reflect the sale of the dairy farm as the land was no longer required for the development of geothermal generation.

The generation assets were revalued during the year, ensuring that they remain at fair value with the volatile movements seen in the market. A post tax valuation gain of $14.9m is recorded and increases the revaluation reserve.

Overall, total equity increased by $4.2m, a combination of the loss for the year of $10.7m and the $14.9m of other comprehensive income.

It is anticipated that EBITDAF for 2020 will grow by 3%, driven by the Network's regulated price path and continued volatility in the wholesale electricity market affecting the Ngawha results.

EBITDAF ($'000)



11.6% REVENUE GROWTH

$1.3m GENERATION REVENUE GROWTH

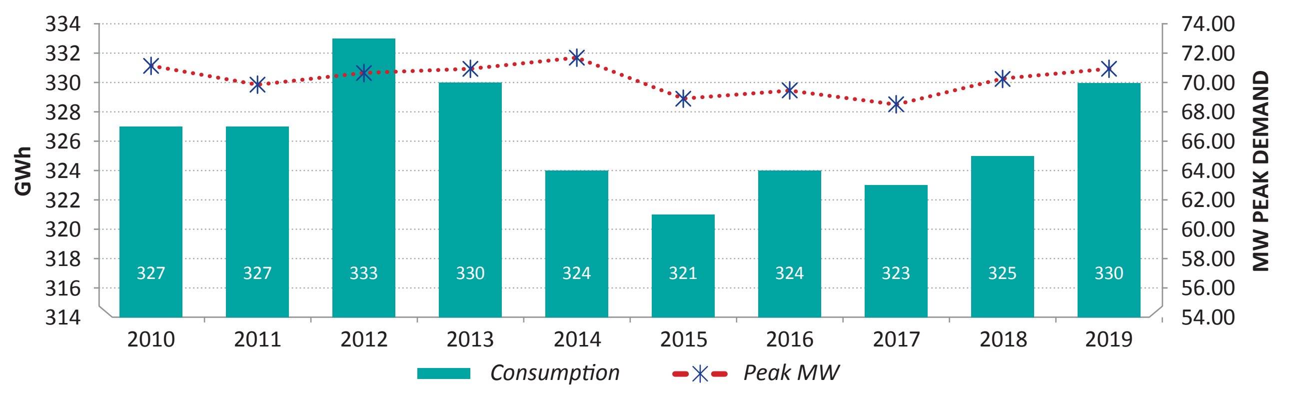
$5.5m NETWORK REVENUE GROWTH

29.3% INCREASE IN EBITDAF

-6.2% OPERATING EXPENSES

1.5% NETWORK CONSUMPTION INCREASE

Total energy sold 2010 to 2019



During 2019, we experienced increased Network consumption of 1.5%, following the 0.8% increase in 2018. Consistent with last year, growth was seen across the residential (1.8%) and commercial (8.0%) consumer groups, with only the large industry category being lower than last year (-6.2%) arising from our largest industrial user announcing a change to its shift patterns. Peak Demand increased by a modest 0.9% after a step change of 2.2% last year, following several years of flat demand.

Average temperatures were 0.3 degrees higher than the 10-year average, although marginally (0.1 degrees) cooler than last year. Good progress has been made on our future pricing strategy with a residential time of use trial being available from 1 April 2019. Consultation with consumers will continue as we implement further pricing changes to transition to cost reflective pricing.

Report on performance indicators contained within the Statement of Corporate Intent *(SCI)*

	Actual *31.03.2019*	Target *31.03.2019*	Actual *31.03.2018*
FINANCIAL PERFORMANCE TARGETS			
Group			
Net profit after tax as a percentage of average shareholder's funds	11.6%	10.9%	7.3%
Ratio of shareholder's funds to total assets	1:2:63	1:2:51	1:2.39
Network business			
Profit before finance and tax as a percentage of total tangible assets	9.5%	7.2%	6.2%
Net profit after tax as a percentage of average shareholder's funds	12.2%	7.9%	6.4%
Generation business			
Profit before finance and tax as a percentage of total tangible assets	6.4%	6.6%	7.6%
Net profit after tax as a percentage of average shareholder's funds	16.1%	22.4%	9.3%

(i) The above performance targets and actual results 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).
(ii) Group results include Network (Top Energy), Generation (Ngawha) and all other major activities carried out by the Group. Network Business plus Generation Business will not add to the Group due to the immaterial amounts from other minor activities.
(iii) 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 determined 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.

	Actual 31.03.2019	Target 31.03.2019	Actual 31.03.2018
NETWORK QUALITY STANDARDS*			
System Average Interruption Duration Index (SAIDI). The average duration of high voltage outages (including planned) per customer (minutes)	352	390	483
System Average Interruption Frequency Index (SAIFI). The average number of outages (including planned) per year for any customer	3.6	4.9	4.9

** Above items are measured using the reporting requirements of the Commerce Commission.*

	Actual 31.03.2019	Target 31.03.2019	Actual 31.03.2018
SAFETY CULTURE			
Total Recordable Injury Frequency Rate (TRIFR)	2.1	3.6	1.5

OWNERSHIP : The company is owned by the Top Energy Consumer Trust. The income and capital beneficiaries of the Trust are the people connected to the Company's network.

OUR NETWORK

‘WE ARE PREPARING FOR THE FUTURE’

As a community-owned company, we are very mindful that our investment programme must continue to deliver good value to the people of the Far North.

Top Energy has a long-term strategy to create a self-reliant and sustainable energy network and power supply in the Far North.

The expansion of the Ngawha geothermal power station is a key element in this strategy, as are our investigations into alternative sources of generation located closer to our customers

ENERGY OF THE FUTURE

During the last year, we have focused on building an electricity network that keeps pace with technological developments and can meet changing consumer behaviour and expectations.

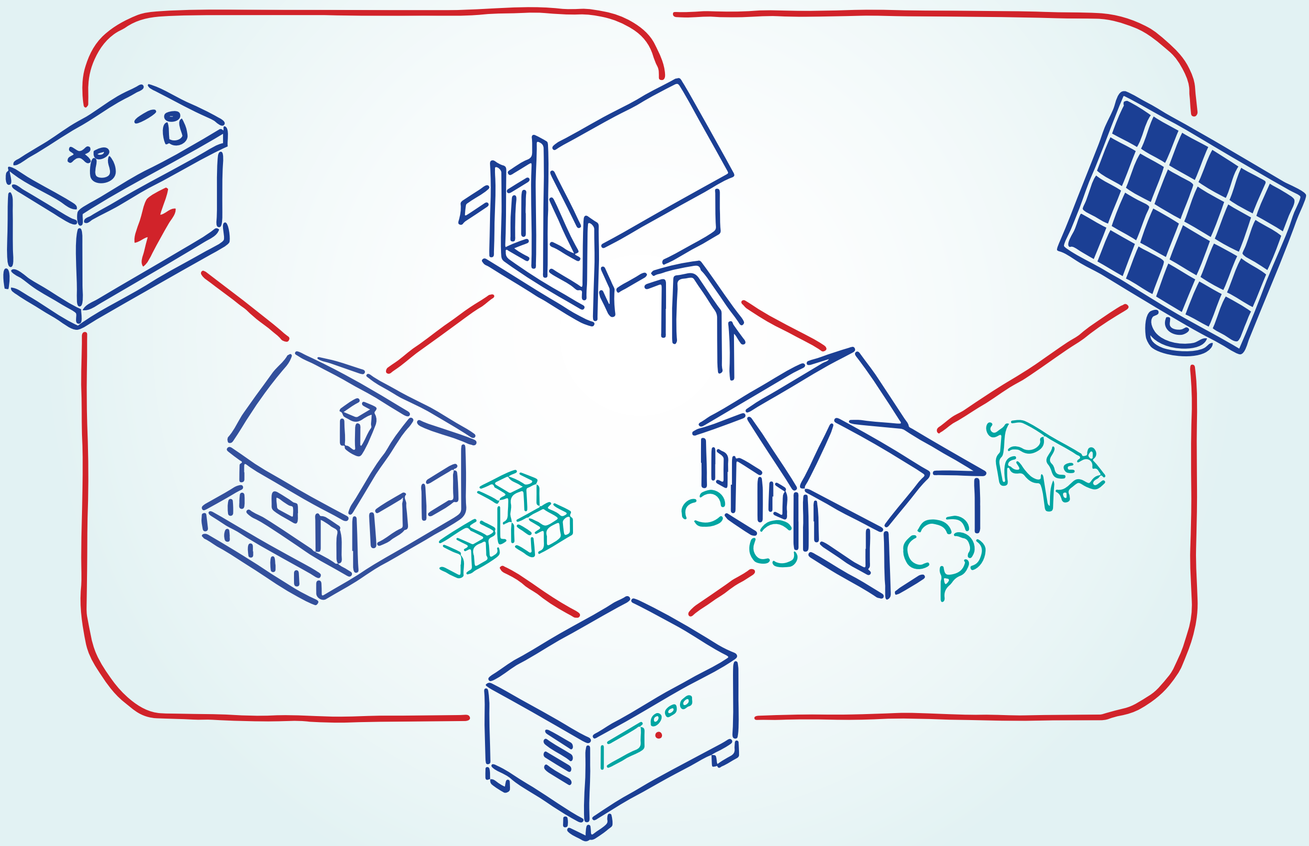
This can be a challenge, especially as approximately one-third of the network is uneconomic to run. Traditionally, network investment has centred on fixed assets, such as lines and poles, which have a lifespan of 50 years or more.

Because our network is remote, largely rural and dependent on a single high-voltage line from Maungatapere, we cannot always provide a reliable supply to all parts of our community.

While we work through our plans to build a second supply line between Kerikeri and Kaitaia, we are also investigating options that provide flexibility in how our network is managed and that provide benefits to our customers.

Solar power, battery storage and diesel generators allow greater flexibility in how we manage our network. By combining these technologies to create micro-grids, we can boost local power supplies without needing to invest in the replacement of costly and uneconomic lines and poles. We can then pass these savings on to our consumers.

Presently, more than 700 homes and businesses have solar panels, which are already meeting more than 10% of our daytime summer load.



OUR NETWORK

‘ENSURING A **RELIABLE POWER SUPPLY** FOR THE FAR NORTH’

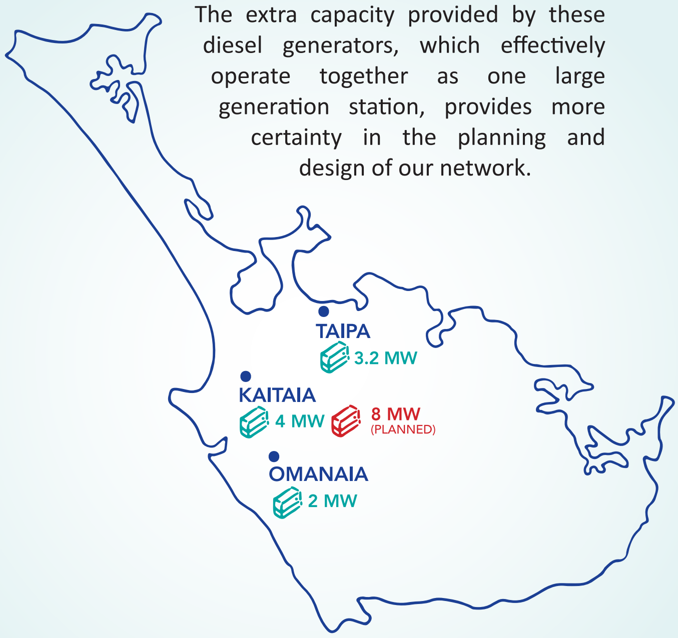
Here’s what we are doing to ensure our community always has access to a reliable power supply...

BACK UP GENERATION

Resource consents were approved this year for the creation of a generator park in Kaitaia, which will add 8MW of back-up generation to our network. This is in addition to the existing 3.2MW at Taipa and the 4MW located next to the Kaitaia substation.

Diesel generators at Omanaia will provide a back-up supply to consumers in South Hokianga while major refurbishment of the incoming 33kV sub-transmission line, scheduled for completion in 2020, is undertaken. After December, these generators will be moved to Kaitaia when required to support the 110kV planned outage. They will continue to be moved as required to deliver the optimum coverage for unplanned outages.

The extra capacity provided by these diesel generators, which effectively operate together as one large generation station, provides more certainty in the planning and design of our network.



REDUCING THE IMPACT OF POWER OUTAGES

In November 2018, back-up diesel generators in Kaitaia and Taipa reduced the impact of a nine-hour outage that was required for maintenance on the main supply line to Kaitaia.

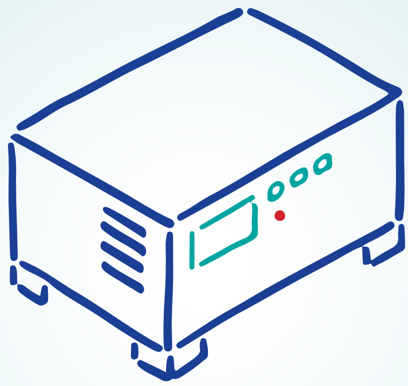
Historically, over 10,000 consumers would be without power during the annual shutdown. Combined, the two generation sources provided 6.2MW of alternative power, which reduced the scale of the outage to 4,850 customers.

This approach offers clear customer benefits as the generators provide back-up power while essential maintenance on the network is undertaken. As this work can no longer be completed using live line practices, diesel generators are a viable outage-management tool, at least in the short term.

As we increase the capacity of our back-up generation, we expect the annual Kaitaia outage to become a thing of the past for most customers.

HIGH-VOLTAGE OUTAGE

- 2,000 CUSTOMERS WERE SUPPLIED FROM DIESEL GENERATORS IN KAITAIA
- 4,000 CUSTOMERS WERE SUPPLIED FROM DIESEL GENERATORS IN TAIPA, MANGONUI AND ORURU



In the past, the Taipa generators have covered unplanned outages for short durations about three times per year.

In the last three years, while we rebuilt the 33kV line to Taipa, this increased to 13 times per year for about eight hours each time.

We expect this to reduce to three times or fewer now that the line work is complete.

KEEPING LINES CLEAR OF TREES

Trees are the number one cause of outages on the electricity network and can create several public safety hazards.

Trees, shelterbelts, bamboo and other vegetation that grows too close to power lines can lead to electrocution, electric shock, power voltage fluctuations, appliance damage, power cuts and the risk of fire.

During the past year, we invested over $1.7m in our vegetation management programme. This is a cost ultimately borne by power consumers.

This year, our programme focused on clearing vegetation in the areas of the network that create the highest outage levels. Our staff are available to advise tree owners of their responsibilities and to ensure tree-cutting work is safe and effective.

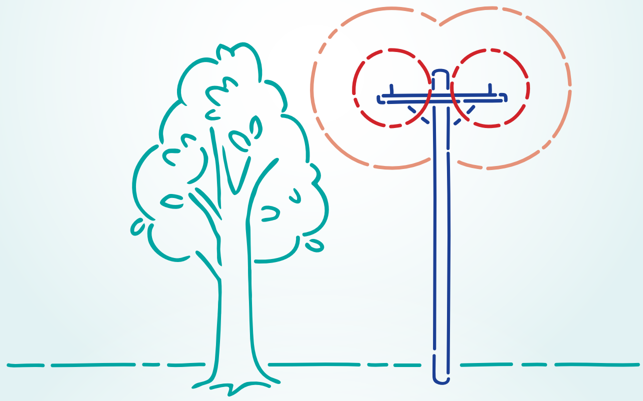
IF YOU SEE A TREE BURNING OR CONTACTING POWER LINES, PLEASE CALL 0800 867 363.

THESE TREES NEED THE SPECIFIC AND URGENT ATTENTION OF TOP ENERGY.

For safety reasons, the law requires tree owners to prevent trees and other vegetation from growing too close to power lines. In the interests of power supply security for its customers, Top Energy actively helps with tree management, particularly where there are high risk safety issues.

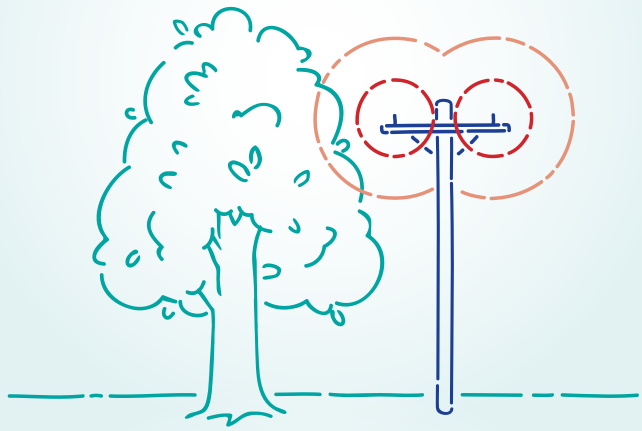
Under the Electricity (Hazards from Trees) Regulations 2003, electricity lines companies are responsible for the first cut of trees that are interfering with electricity lines. If the first cut does not involve removal of the tree, subsequent cuts are the tree owner's responsibility.

POWER LINE VEGETATION CLEARANCES



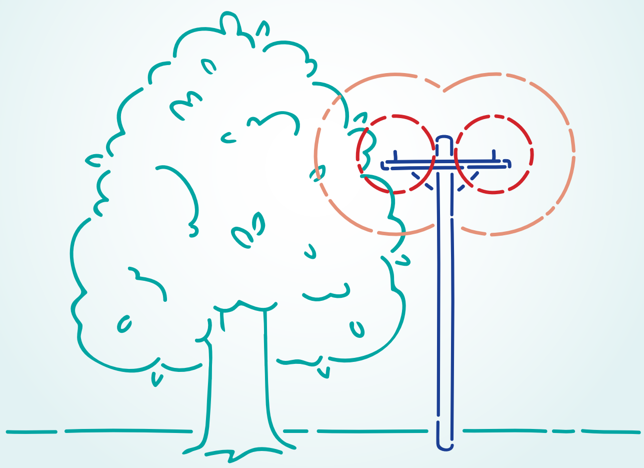
TREE OUTSIDE NOTICE ZONE

(Risk Warning Notice)



TREE INSIDE NOTICE ZONE

(Hazard Warning Notice)



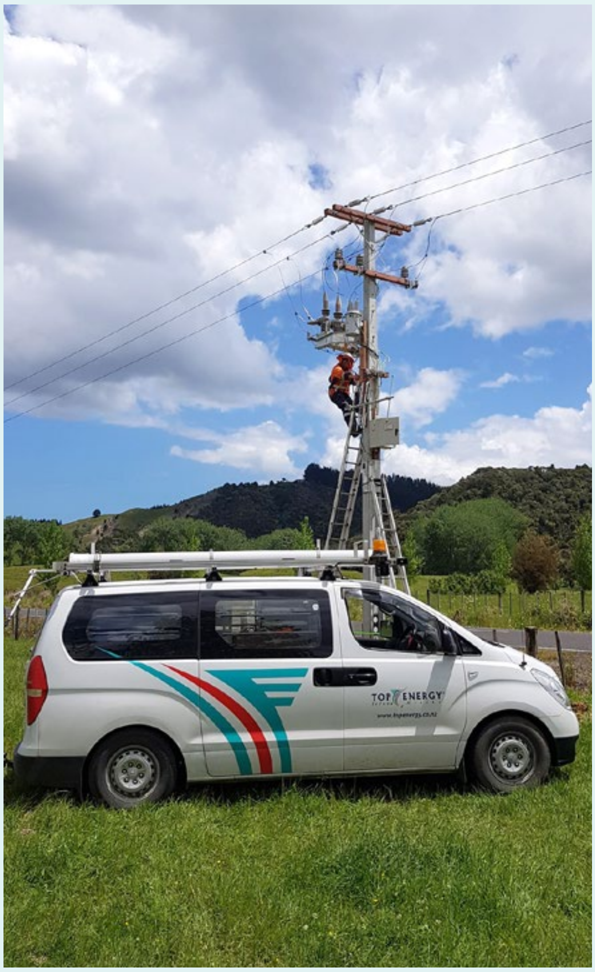
TREE INSIDE GROWTH LIMIT ZONE

(Cut or Trim Notice)

UPGRADES AND MAINTENANCE

During the past year, our capital works programme delivered a number of key projects and upgrades to improve the security of supply and customer experience.

- Upgrades to the protection systems on the 33kV sub-transmission network were completed. These allow sub-transmission assets to operate in parallel, which means consumers are not affected when supply needs to be routed around sub-transmission network assets that have faulted. This has improved the reliability of the supply to Okahu Rd, Kaikohe, Kerikeri, Waipapa, Haruru, Kawakawa and Moerewa
- A new underground 11kV cable was installed between Paihia and Opua. This will form part of a planned second 11kV feeder to supply the Russell peninsula
- A full rebuild of the Moerewa substation was completed, involving the installation of new 33kV and 11kV indoor switchboards to replace the old outdoor switchgear and the installation of two new 3/5MVA transformers
- Refurbishment of the 33kV line supplying Pukenui was completed during 2019 and refurbishment of the 33kV line supplying Taipa continues, with stage 3 due for completion by the end of FYE2019 and stage 4 now in progress.



OUR NETWORK

- LARGELY REMOTE AND RURAL
- MORE THAN 4,000KM OF LINES
- 32,000 CUSTOMER CONNECTIONS
- AN AVERAGE OF 8 CONSUMERS PER KILOMETRE OF LINE COMPARED TO A NATIONAL AVERAGE OF 12
- DEPENDENT ON A SINGLE HIGH-VOLTAGE TRANSMISSION LINE FROM MAUNGATAPERE

CONTRACTING

'BUILDING RESILIENCE AND RELIABILITY INTO OUR NETWORK'

Over the last year, Contracting have completed some large construction projects...

IMPROVING THE POWER SUPPLY TO SOUTHERN HOKIANGA

The first phase in the refurbishment of the Omanaia substation to improve the reliability of the power supply to parts of the Hokianga was completed during the year. The work, which is part of the company's ten-year $260m investment programme, involved extending the substation switch room. This will reduce the duration and scale of outages as supply can be back fed from other parts of the network while crews isolate and restore power.

Switchgear is used to de-energize equipment, reducing the impact on and inconvenience to customers while work is carried out and downstream faults are cleared.

The second phase of works got underway over the summer, with refurbishment of the substation yard and reconfiguration of the high-voltage 33kV lines. The impact of these works was managed by installing two 1MW diesel generators so that power could be maintained to 1,600 customers on the south-west side of the Hokianga.

The upgrade of the Omanaia substation will improve the power supply to southern Hokianga.

Our in-house contracting team provides vegetation management, construction and maintenance services to deliver a safe and reliable electricity network.

Over the last year, the contracting team have been involved in several asset upgrades as part of the company's investment programme to improve services to our customers in the Far North.

BRIEFS

KAEO SUPPLY SECURED

The new Kaeo substation to boost the reliability of power supply to customers in the coast belt north of Waipapa was completed in March 2018.

POLE REPLACEMENT

As part of our regular inspection programme, we replaced 68 wooden poles between April 2018 and March 2019. We will progressively replace wooden poles on the network over the next ten years.

Pole replacement – Te Tio Rd, Umawera

TAIPA FEEDER REBUILD

Stage two of the Taipa 33kV line upgrade was completed with the replacement of cross-arms and insulators. Stage three involves more cross-arm and insulator replacements and will get underway later this year.

PUKENUI 33KV POLE REPLACEMENTS

Stage seven was completed except for two sites that we were unable to access.

MOEREWA–HARURU LINE STEEL TOWER REPLACEMENTS

Our network includes 3,014 sub-transmission poles, of which 92% are concrete, 5% are wood and 3% are steel. Replacement of the steel structures installed between 1977 and 1980 on the Moerewa–Haruru line is underway; they will be replaced with concrete poles and steel cross-arms.

UNDERGROUNDING THE LINE

Undergrounding of the 11kV overhead line along the Ahipara foreshore was completed in March 2019.

FIBRE INSTALLATION

We completed the Wairoa–Waipapa fibre-optic installation, which has improved the remote monitoring and control of our network. This was part of Top Energy's programme to install a supervisory control and data acquisition (SCADA) network between our 33kV substations.

33KV CROSS-ARM AND POLE REPLACEMENTS – OMANIA

With the installation of the generator sets at Omania completed, work will be undertaken this year on the single 33kV circuit feeding the substation. This work will involve replacing poles and cross-arms.

‘PRODUCING A **RELIABLE SUPPLY OF ELECTRICITY** FOR THE FAR NORTH’

The power station at Ngawha consistently produces up to 70% of the total electricity consumed over a year in the Far North.

96.31%
ACTUAL AVAILABILITY

3,872
DAYS WITH NO LTIs

REGULATIONS

At the beginning of the last financial year, we lodged our safety case for the existing plants with Worksafe NZ. We continue to work with Worksafe to have our submission reviewed and accepted.

Amendments will be required once the new geothermal power station OEC4 is commissioned, and preparations for this are being worked on now.

SAFETY NUMBER ONE

We maintained our excellent safety record, with power station staff achieving 3,872 days with no lost time injuries (LTIs). This supports the safety culture of the Top Energy Group, which celebrated two years without a single LTI. But, in the case of the power station, this has been the case for the last ten years.

Once again, Ngawha operations maintained its accreditation under the Public Safety Management Systems (NZS 7901:2008) and the Quality Management Systems (ISO 9001:2015).

GETTING ON WITH THE JOB

While the major Ngawha expansion is progressing, the team at the existing power station has ensured that the day-to-day operation runs smoothly. Typically, the Ngawha power station runs to a monthly target of 98.8% availability. The exception is in October when the annual shutdown occurs for routine maintenance and checks.

It is not unusual for this monthly level of availability to be exceeded, and we achieved 100% availability on at least two occasions throughout the year.

The last financial year was no exception, with 96.31% actual availability. The stations are considered to be base-load generators, which means that they run all the time.

As a result, the station consistently produces up to 70% of the total electricity consumed over a year in the Far North. This result is testament to the reliability of the plant and the skill of our operators.

The commissioning of OEC4 in 2020 will more than double the output from the generation facilities.

PROJECT AND SHUTDOWNS

Our annual shutdown in October involved an inspection of the network of pipelines that transport the geothermal steam and water to the station and back to the re-injection wells.

Our first two turbines were installed in 1998, so much of the pipework feeding those units has been in use for 20 years. A degree of corrosion has occurred in these pipelines, which is accounted for in the design, but—after 20 years of continuous leak-free operation—it was time to replace some sections of cross-country pipework, so the shutdown took longer than usual.

The process was labour intensive, with a full contingent of station staff working around the clock and supported by up to 60 external contractors. After independent inspection and certification, the pipe system was returned to service.

ENVIRONMENTAL STEWARDSHIP

Top Energy is committed to minimising the impact of our operations on the surrounding wetlands. Our six-monthly environmental monitoring includes cultural indicators as part of the resource consent conditions for the expansion of the power station. We are working with a Kaitiaki advisor to help us understand the broader health and wellbeing of the environment in which we operate. They provide valuable local knowledge and insight that complements the routine scientific testing and sampling.

The wetlands surrounding the power station are ecologically diverse, and it is not unusual to find rare flora and fauna such as the threatened Northland mudfish and the at-risk orchid Caladenia alata.

PROTECTING

- MUDFISH
- ORCHIDS
- NATIVE BUSH
- WATER QUALITY

Mudfish found and carefully relocated in the wetland waterway surrounding the power station

NGAWHA GEOTHERMAL GENERATION – EXPANSION PROJECT

‘CREATING AN **AFFORDABLE AND RELIABLE** ELECTRICITY SYSTEM FOR THE FAR NORTH’

We are on track to commission a 31.5MW geothermal power station at Ngawha by the end of October 2020 – eight months earlier than planned.

The Ngawha geothermal power expansion is the lynchpin in Top Energy’s overall energy strategy. The company intends to minimise the total delivered cost of electricity to its customers and provide a more reliable and environmentally sustainable network.

Once the expansion is completed, the generation assets at Ngawha will produce a total of 57MW from the geothermal resource, with the opportunity to grow this to 88MW by 2025.

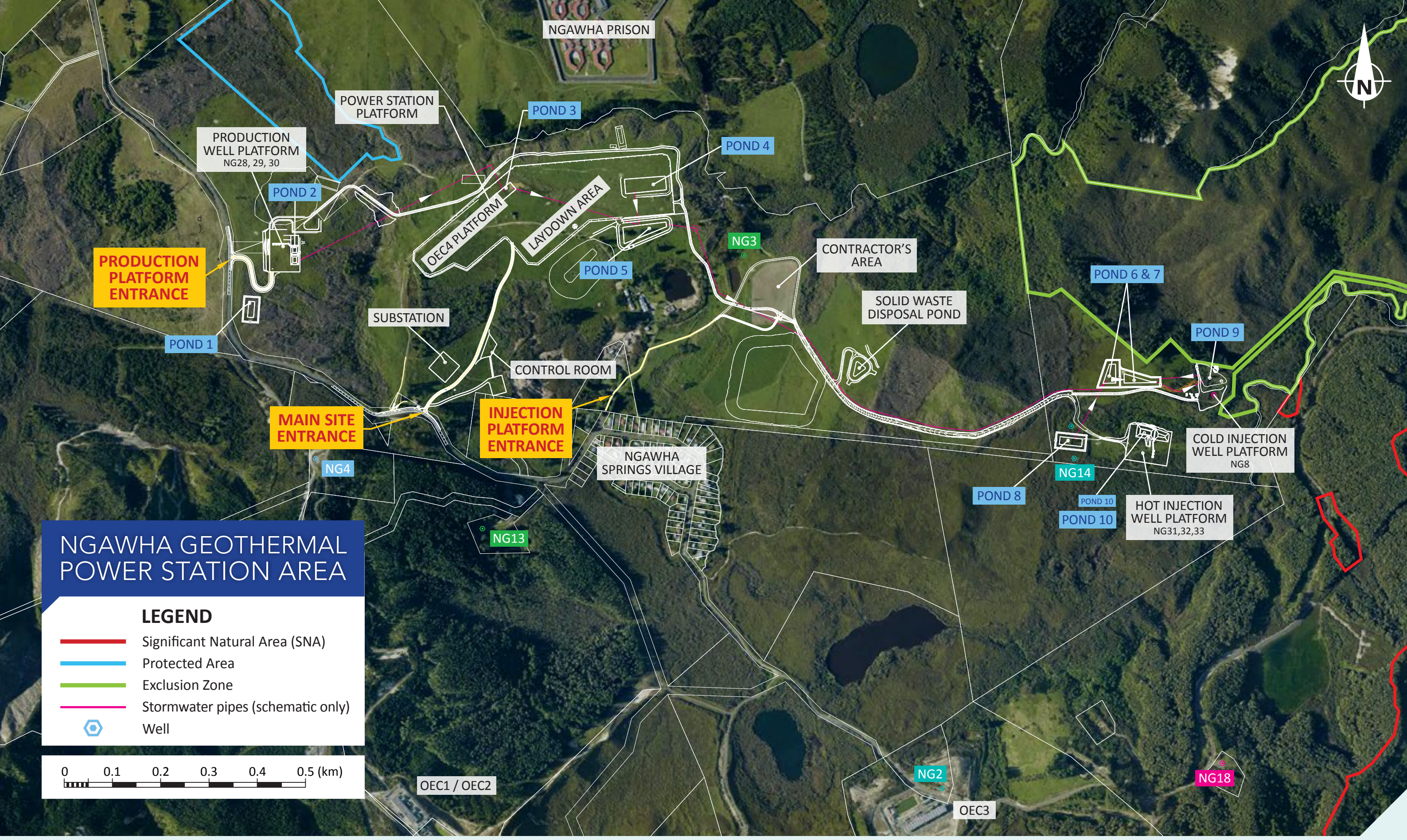
This will mean that power will be exported from the region 100% of the time, and the Far North will be self-sufficient for its electricity needs.

EXPANSION PROGRESS

Following on from the civil works over the 2017/2018 summer period, which saw the construction of the platforms for the production and injection wells, the focus these past 12 months has been preparation of the power station platform, stormwater ponds and internal roadways across the site.

Excellent progress has been made with over 930,000m^3 of soil moved over a working area of 36ha.

The three production wells were tested in September and October 2018 by releasing geothermal fluid to the surface. This involved venting each well through a silencer, and the huge clouds of steam produced a great show. The liquid that came from the well was captured in ponds then pumped back into the reservoir through an injection well.



MAY 2018

Drilling of the production wells got underway.

JANUARY 2019

Drilling of the three production and three injection wells was wrapped up at the end of January 2019.

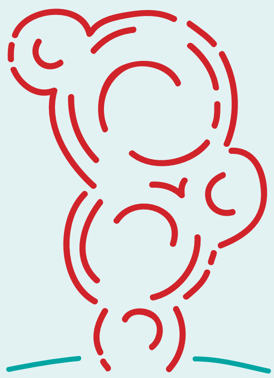
FEBRUARY 2019

Iceland Drilling Ltd, who had undertaken the drilling and testing works, dismantled the drilling rig and decamped its operation.

2018 — 2019 — 2020

SEPTEMBER 2018

- Preliminary tests indicated good temperatures in the three production wells that had been drilled to depths ranging from 1,350 to 1,750m.
- Output testing proved the wells could provide enough geothermal fluid at the required temperature and pressure to power the station.
- Top Energy Board and Trust have confidence in the project and instruct Ormat Technologies Inc. – the contracted Israeli geothermal plant company – to begin detailed design and off-shore fabrication of the power station components. The components are expected to arrive on site between October and December 2019.



‘WE ARE **COMMITTED TO SAFETY AND EFFICIENCY**’

We acknowledge the tremendous efforts and service from our people to our Group and, through that, to the Far North community.

SAFETY – ZERO LOST TIME INJURIES

For the second year running, our staff have achieved zero lost time injuries. This is a fantastic achievement and testament to our focus on living up to our value of safety and ensuring that every day we get home safely. To celebrate this achievement, all staff were given an extra day of leave to spend some time with their family and friends.

HEALTH, SAFETY AND WELFARE COMMITTEE

Following the introduction of the Health and Safety at Work Act 2015, the Health, Safety & Welfare Committee has been meeting monthly to encourage worker engagement in workplace health and safety and drive continuous improvement.

The Ngawha expansion project has seen a significant focus on contractor management, working with these key business partners to ensure safety is top of mind across everyone working for the Group.

As some of the activities undertaken to date (e.g. well drilling, large scale civil works), are not part of our normal operations, strong relationships have been developed to maintain our number one priority – safety.

FATIGUE MANAGEMENT

Fatigue is more than feeling tired or drowsy. In a work context, fatigue is a state of mental and/or physical exhaustion that reduces a person’s ability to perform work safely and effectively.

It can reduce a person’s capability to such an extent that it impairs their strength, speed, reaction time, coordination, decision making or balance. Given the everyday challenges

We are strongly committed to a staff culture that focuses on safety and efficiency across all activities in which we are engaged.

of our work and the impact of unexpected weather events, we have made significant effort to continue improving our awareness of fatigue as part of ensuring that our people remain safe and return home each day.

This year, we developed an online fatigue assessment form and are trialling real-time reporting using hand-held devices to capture the actual hours field staff work.

WELLBEING

Employee wellbeing continues to be a focus for our staff through the provision of annual wellness checks, flu vaccinations, employee assistance programmes, medical insurance and participation in sporting events.

Last year we launched 'Tracksuit-Inc', a wellness programme in which 58% of staff now participate; to date, 25 family members have also joined. Over the past year, staff have enjoyed competing in global challenges to promote teamwork and help them make more informed health choices.

Family Feud

Teams of four competed in quick-fire response challenges by answering a series of pre-determined survey questions. There were no right or wrong answers, just the most popular. Points were allocated based on the popularity of the answers. The competition enabled staff to break their routines, move more and have some fun.

Shift Down Under

The competition was designed to encourage staff to move more each day, learn something new and have fun. Teams vied for the top position by entering their step counts for the day and completed quizzes based on activities such as the Virtual Tour of True-blue Australia: Become a MasterChef in Melbourne, Take in the Sights of Uluru and See the Coral and Sea Life at Great Barrier Reef.

Sugar Crush

Sugar is increasingly prevalent in our modern diets and it is doing an untold amount of damage to the health and well-being of our population.

Over a two-week period of activities, this programme helped staff understand the effects a high-sugar diet could have on their health and the health of their families.

LONG SERVICE RECOGNITION

Three employees were recognised for achieving significant long service milestones, accumulating 80 years of experience between them.

Gordon Ramsay and Richard Hodge have both provided 30 years' service to the company and Caroline Pusch has provided 20 years' service – outstanding achievements!

Gordon Ramsay

Richard Hodge

Caroline Pusch

REWARD AND RECOGNITION

Launched in 2013, the very successful 'Applaud' programme empowers managers to formally recognise, encourage and reward high performance by individuals and teams that demonstrate our values. There are three categories: Display, Achieve and Exceed.

Last year 100 staff were acknowledged for displaying positive actions/behaviours, 45 for successfully achieving stretch targets and 29 for exceeding expectations to make outstanding contributions to the business.

Some examples of these include:

Going above and beyond her job, always being happy to help and a having positive attitude

Delivering excellent customer service

Displaying very good safety behaviours in a fault situation

For displaying exceptional safety standards during the process of re-livening the Ngawha weir supply

Consistently promoting Top Energy in a positive manner in the wider community

Regularly exceeding expectations with regard to faults, isolation and repairs

STAFF DEVELOPMENT

We are committed to upskilling our staff and supporting them with their continuing professional development. In the last year, staff have completed a range of industry qualifications:

- Level 3 National Certificate in Electricity Supply (Electrical) Electricity Supply Electrician
- Level 4 National Certificate in Electricity Supply (Electrical) with strand in Electricity Supply Electrician

A number of other staff have also continued their multi-year training towards their industry qualifications:

- Level 2 Introduction to Electricity Supply
- Level 4 New Zealand Certificate in Electricity Supply (Line Mechanic Distribution)
- Level 6 New Zealand Diploma in Infrastructure Asset Management

Participants included industry trainees as well as experienced staff seeking to develop their existing skills and pursue other opportunities across the company.

Three staff members are currently working towards a Graduate Diploma in Business Studies.

Managers across the business also attended three workshops conducted by the Auckland University of Business School. These workshops were aimed at upskilling our managers in the following areas:

- Creating and leading highly effective teams
- Business acumen
- Change management

The business also encourages employees to look at internal opportunities. The following two examples are of employees who have been promoted internally:

Taryn Collins

Taryn joined Top Energy as a Property Administrator in 2012. She was in her early 20s and straight out of university, having recently graduated from the University of Waikato with a Bachelor of Management Studies, majoring in Marketing and Strategic Management.

Taryn quickly became the 'go to' person for all things property related – her can-do attitude and positive presence saw her finding solutions for property issues across the company. From the start of her employment, Taryn showed an interest in moving forward with her career, particularly around the complex issues relating to Māori land.

Her role began to grow from general administration to learning more about land acquisition and the Resource Management Act, while also managing a greater diversity of properties with the changes at Ngawha and the acquisition of a dairy farm by Grazing North.

When a vacancy arose as Property Advisor, Taryn was successful in securing the role and is now working through a development plan to ensure she keeps developing her knowledge in all areas of the property sector.

In the seven years that she has been with Top Energy, Taryn has gone from being a new university graduate with little business experience to a knowledgeable Property Advisor, while also fitting in marriage and a baby along the way. We look forward to Taryn continuing to grow with the business.

Troy Alderton

Troy grew up in the Far North; after leaving school, he qualified as an arborist and spent several years working both overseas and in Auckland. In 2010, he decided to return home with his young family and was offered the role of Vegetation Control Advisor at Top Energy.

After a short time in the field, Troy quickly demonstrated his leadership potential and within six months was appointed to the role of Vegetation Control Team Leader. Although his background was solely in vegetation, Troy worked hard to expand his knowledge to the broader electricity industry as well as taking every opportunity to learn more about all aspects of leading a team.

When the temporary position of Field Operations Manager became available, Troy successfully took on the role. His appointment became permanent in 2017 and since then Troy has gone from strength to strength in all aspects of management within the Contracting division.

In 2019, Troy commenced study for a Postgraduate Diploma in Business Studies from Massey University, adding academic backing to his broad practical knowledge.

'WE WANT THE FAR NORTH TO FLOURISH'

As a community-owned business, it is a privilege for Top Energy to assist in supporting local businesses to achieve success and growth.

BUSINESS DEVELOPMENT FUND

Last year, we received 19 applications to our business development fund from outstanding businesses and entrepreneurs creating opportunities for local employment, training and economic growth in the Far North. The entries were of such high calibre that it was very difficult to choose the winners.

We continue to be encouraged by people's commitment to making the most of the talent and potential available in the Far North region.

ABOUT OUR FUND

- $30K TWICE YEARLY
- TO BUSINESS IDEAS OR INITIATIVES AIMED AT GROWING AND DIVERSIFYING THE FAR NORTH ECONOMY
- TO A SINGLE STAND-OUT IDEA OR IN SMALLER AMOUNTS TO SEVERAL INITIATIVES

THE 2018 WINNERS

OC Tenders

OC Tenders manufactures lightweight offshore cruising tenders from their Haruru Falls factory in the Bay of Islands. Utilising high-tech materials, they have created a cruising tender that is dry, stable, suitable for most cruising needs and easy to maintain and repair.

Owners Karin and Russell Carlyon have used their grant to apply new technology to their manufacturing process to increase production capacity by an expected 57% in the first year alone, to a peak of 155 boats annually.

wwww.octenders.co.nz

Photo: Owner Karin Carlyon proudly displays cruising tenders made in the Bay of Islands

K4 Cultured Foods

K4 Cultured Foods produces premium-quality, live-probiotic ferments, including green tea kombucha, cultured turmeric and a variety of other live ferments, at the K4 Brewery in Haruru, Bay of Islands.

Founder Kaye van der Straten and her partner Freddy Lööv will use their grant to

- increase the number of Northland employees from one part-time role occupied by Master of Fermentation Pete Lindgren-Streicher to 3.5 full-time staff by 2019,
- purchase bottling plant machinery locally and complete the K4 Brewery building refit work with a Kerikeri-based construction company and
- market the K4 Brewery as a Northland food & beverage tourism destination.

www.k4you.nz

Green Footed Kiwi

Green Footed Kiwi offers camping, accommodation, walking and cycling activities and venue hire. Set in 200 acres of bush in Trefoil Park, Kaikohe, it is in the process of being transformed into a self-sufficient permaculture paradise and tourist destination.

Owner Jennifer Ives used her grant to upgrade the driveway, opening the space up for other opportunities, such as a regular rural farmers market, music festivals or use as a major events venue.

www.greenfootedkiwi.co.nz

‘WE WANT **YOUNG PEOPLE TO REACH THEIR POTENTIAL’**

We are one of the largest businesses based in the region and uniquely placed to help our young people excel.

ENGINEERING SCHOLARSHIP PROGRAMME

This year’s winner, Kerikeri High School student Lucia Avery, is a determined, stand-out all-rounder excited by problem solving who has a desire to make positive changes within the environment and society. Her application was impressive, and she demonstrated an ease and composure belying her young age during the interview.

She wishes to work in a field where natural resources are preserved for future generations using sustainable energy sources and eco-friendly material alternatives.

Lucia is now undertaking her degree at Canterbury.

ABOUT OUR SCHOLARSHIP

- $8,000 PER YEAR OF STUDY, FOR A MAXIMUM OF FOUR YEARS
- FOR FAR NORTH STUDENTS WHO WISH TO STUDY AN ENGINEERING (HONOURS) DEGREE
- INDIVIDUALS MUST HAVE ALREADY ACHIEVED AN EXCELLENT ACADEMIC RECORD

R. TUCKER THOMPSON TE TAI TOKERAU TALL SHIP CHALLENGE

Kristy Buchanan and Prairie Herk from Taipa Area School demonstrated they have what it takes in terms of leadership, creativity, initiative and, of course, teamwork to be winners of this year's challenge.

The five-day voyage is in its ninth year and pits teams of two students from six Northland high schools to compete in a variety of tasks ranging from physical challenges to tests of creativity, skill, leadership and teamwork

Kirsty Buchanan, Prairie Herk, R.Tucker Thompson captain Tim Grant, Northpower network's general manager Josie Boyd

YOUNG ENTREPRENEUR SCHEME (YES), NORTHLAND

Top Energy YES Northland Company of the year was Eco Wave, a team of four students from Whangārei Girls High School. Built on an innovative response to the very topical issue of single-use plastic bags, their company designed and produced a key chain holder that contains a reusable shopping bag. They also won an award for Excellence in Business Management. Participants in the scheme earn real money, pay real tax and hopefully make profits.

ABOUT THE SCHEME

- A YEAR-LONG, EXPERIENTIAL BUSINESS LEARNING PROGRAMME
- OPEN TO YEAR 11 THROUGH 13 STUDENTS
- PART OF THE BROADER ENTERPRISE FOR EDUCATION (E4E) PROGRAMME SUPPORTED BY ENTERPRISE NORTHLAND
- IN PARTNERSHIP WITH THE LION FOUNDATION

Photo: Chief Executive Russell Shaw with Whangarei Girl Highschool students, Stephanie Turner, Deja Tuhoro, Ariana Martin

FAR NORTH SCIENCE & TECHNOLOGY FAIR

Kerikeri High School student Sophie Piesse won a Northland Regional Council award at the Far North Science and Technology Fair this year with her research into an environmentally friendly way of fighting ragwort, a pest plant that is poisonous to beef and dairy cattle.

The level of quality and innovation shown by our budding scientists in the North, despite our relative isolation from tertiary institutes, mentors and resources, makes our sponsorship a real pleasure.

ABOUT THE FAIR

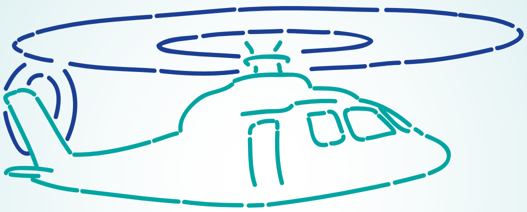
- OPEN TO YEAR 7 THROUGH 13 STUDENTS
- COVERS ANY AREA OF SCIENCE OR TECHNOLOGY
- CHALLENGES IMAGINATION AND ENCOURAGES DEVELOPMENT OF INVESTIGATIVE AND PROBLEM-SOLVING SKILLS

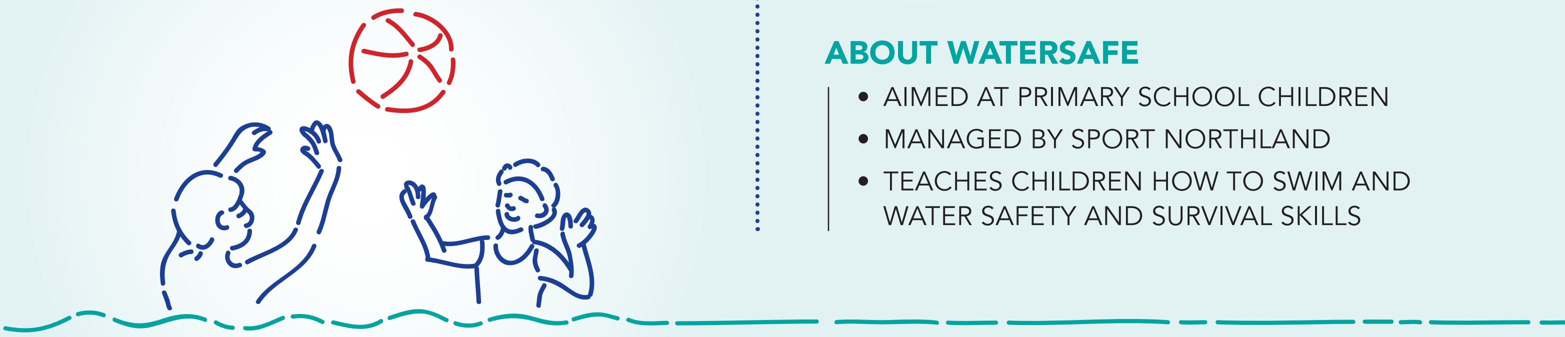
Photo: Kerikeri High School student Sophie Piesse

OUR COMMUNITY

‘WE WANT PEOPLE TO BE SAFE’

Supporting our community to stay safe is a core part of our sponsorship programme.





WATERSAFE

Northland’s beautiful coastal and marine environment can be perilous for those lacking confidence around water, particularly our children. Water safety programmes save lives. They alert us to risks around water and ensure our children are taught what to do if they get into difficulty. Our sponsorship of the WaterSafe programme has helped the Far North community keep children safe around water for over 20 years.

Key facts

230 teachers received dry-land sessions

172 teachers received professional development poolside

3,763 students were enrolled in the programme

12,928 swimmer lessons were delivered

3,464 dryland lessons delivered

194 students received boat education certificates

16,392 **total swimming lessons** were given for the 2017/18 season

277,135 **The running total of swimmer lessons the inception of the programme**

ABOUT WATERSAFE

- AIMED AT PRIMARY SCHOOL CHILDREN
- MANAGED BY SPORT NORTHLAND
- TEACHES CHILDREN HOW TO SWIM AND WATER SAFETY AND SURVIVAL SKILLS

HEALTHY HOMES TAI TOKERAU

Top Energy continues its support of Healthy Homes – Northland's biggest installer of the Warm Up New Zealand, Healthy Homes insulation programme.

Since early 2008, Healthy Homes has retrofitted insulation into over 5,000 Northland homes. The majority of these homes have been insulated for free thanks to partnerships with a range of supportive third-party funders.

ABOUT HEALTHY HOMES

- JOINT VENTURE BETWEEN THE COMMUNITY BUSINESS AND ENVIRONMENT CENTRE (CBEC) AND HE IWI KOTAHI TATOU TRUST (HE IWI)
- NOT-FOR-PROFIT CHARITABLE ENTERPRISE
- COMMUNITY OWNED

NORTHLAND RESCUE HELICOPTERS

Attending an emergency in Northland can be hampered by difficult terrain and poor access. Many of our roads are unsealed, and people live over a widespread area, making Northland's Rescue Helicopter service so essential.

Top Energy is proud to continue its joint sponsorship of the Northland Rescue Helicopters (NRHs) with fellow lines company, Northpower. Together, we help provide a service of enormous benefit to Northland communities.

Key facts

999 missions from April 2018 to March 2019

287 missions in the first 3 months of 2019

$385K raised in the 2018 annual appeal

The generosity of Northlanders has helped NRH to update their Sikorsky aircraft and continue to keep this essential emergency service flying.

NORTHLAND RESCUE HELICOPTERS

- SPONSORED BY NORTHPOWER AND TOP ENERGY
- PUBLIC DONATIONS ARE MATCHED DOLLAR FOR DOLLAR UP TO $150,000
- PROVIDES A DEDICATED EMERGENCY RESCUE HELICOPTER SERVICE FOR THE PEOPLE OF NORTHLAND

OUR COMMUNITY

‘**WE ARE ACTIVE** IN THE COMMUNITY’

We regularly attend the region’s agriculture and pastoral shows with a team of staff volunteers to highlight many of the activities we are involved in. Our most popular activity is the cherry picker rides for kids.

These community events are a great opportunity to talk about safety around our network and the issues caused when trees get into the lines. We received great responses from people at shows at Waimate North, Kaitaia and Kaikohe.

THE KAITAIA SHOW

THE NORTH HOKIANGA AGRICULTURAL & PASTORAL SHOW
AT BROADWOOD

THE BAY OF ISLANDS PASTORAL & INDUSTRIAL SHOW AT WAIMATE NORTH

FAR NORTH DISTRICT

THE KAIKOHE AGRICULTURAL, PASTORAL & HORTICULTURAL

TOP ENERGY GROUP

FINANCIAL STATEMENTS

FINANCIAL REPORT FOR THE **YEAR ENDED 31 MARCH 2019**

DIRECTORS' STATEMENT

The Directors present the annual report of the Top Energy Limited Group, incorporating the financial statements and the auditor's report, for the year ended 31 March 2019.

With the agreement of the shareholder, the Group has taken advantage of the reporting concessions available to it under section 211(3) of the Companies Act 1993.

The Board of Directors of the Company authorised the financial statements presented on pages 43 to 80 for issue on 11 June 2019.

For and on behalf of the Board.

R Krogh
Director

G Steed
Director

11 June 2019

Consolidated statement of comprehensive income

For the year ended 31 March 2019

	Notes	2019 $'000	2018 $'000
Operating revenue	4	75,989	68,069
Operating expenses	5	(31,740)	(33,849)
Earnings before interest, tax, depreciation, amortisation and fair value movements of financial assets (EBITDAF)		**44,249**	**34,220**
Depreciation and amortisation	5	(17,412)	(16,856)
Finance costs		(7,878)	(8,367)
Earnings before tax and fair value movements of financial assets (EBTF)		**18,959**	**8,997**
Fair value gains (losses) on financial assets	6	(34,536)	(1,538)
Profit (loss) before income tax		**(15,577)**	**7,459**
Income tax credit (expense) from continuing operations	7	5,152	(1,760)
Profit (loss) from continuing operations		(10,425)	5,699
Profit (loss) from discontinued operations	8	(244)	20
Profit (loss) for the year		**(10,669)**	**5,719**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Gain on revaluation of generation plant	17	20,667	–
Income tax relating to revaluation of non current assets	7	(5,787)	–
		14,880	**–**
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of financial assets at fair value through other comprehensive income		–	(24)
		–	**(24)**
Other comprehensive income (losses) for the year, net of tax		**14,880**	**(24)**
Total comprehensive income for the year		**4,211**	**5,695**
Profit (loss) is attributable to:			
Equity holders of Top Energy Limited		(10,669)	5,719
		(10,669)	**5,719**
Total comprehensive income for the year is attributable to:			
Equity holders of Top Energy Limited		4,211	5,695
		4,211	**5,695**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 31 March 2019

	Notes	**2019** *$'000*	2018 *$'000*
ASSETS			
Current assets			
Cash and cash equivalents	*9*	203	150
Trade and other receivables	*10*	8,643	7,915
Inventories	*11*	1,411	1,512
Current tax benefit	*12*	2	27
Financial assets at fair value through other comprehensive income	*13*	–	830
Intangible assets	*14*	151	361
Derivative financial instruments	*15*	2,647	1,999
Non current assets classified as held for sale	*16*	–	4,170
Total current assets		**13,057**	**16,964**
Non-current assets			
Property, plant and equipment	*17*	499,730	402,536
Intangible assets	*18*	11,967	10,746
Derivative financial instruments	*15*	12	558
Deferred tax assets		–	36
Total non-current assets		**511,709**	**413,876**
TOTAL ASSETS		**524,766**	**430,840**
LIABILITIES			
Current liabilities			
Trade and other payables	*19*	13,896	13,863
Interest bearing liabilities	*20*	1,582	1,688
Current tax liabilities	*21*	372	1,470
Derivative financial instruments	*15*	9,824	879
Provisions	*22*	379	384
Total current liabilities		**26,053**	**18,284**
Non-current liabilities			
Interest bearing liabilities	*23*	212,710	155,100
Derivative financial instruments	*15*	36,775	11,082
Deferred tax liabilities	*24*	47,330	48,664
Total non-current liabilities		**296,815**	**214,846**
TOTAL LIABILITIES		**322,868**	**233,130**
NET ASSETS		**201,898**	**197,710**
EQUITY			
Contributed equity	*26*	25,267	25,267
Reserves	*27*	78,886	63,894
Retained earnings	*27*	97,745	108,549
TOTAL EQUITY		**201,898**	**197,710**

The above statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 31 March 2019

CONSOLIDATED ONLY	Notes	Share capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance as at 1 April 2018		**25,267**	**63,894**	**108,549**	**197,710**
Comprehensive income					
Profit for the year		–	–	(10,669)	(10,669)
Gain on revaluation of generation plant	*17*	–	20,667	–	20,667
Fair value gain (loss) on financial assets at fair value through other comprehensive income, net of tax	*27*	–	112	–	112
Income tax relating to components of other comprehensive income	*7*	–	(5,787)	–	(5,787)
Total comprehensive income		**–**	**14,992**	**(10,669)**	**4,323**
Transactions with owners					
Dividends	*28*	–	–	(135)	(135)
Total transactions with owners		**–**	**–**	**(135)**	**(135)**
Balance as at 31 March 2019		**25,267**	**78,886**	**97,745**	**201,898**
Balance as at 1 April 2017		**25,267**	**67,212**	**99,666**	**192,145**
Comprehensive income					
Profit for the year		–	–	5,719	5,719
Fair value gain (loss) on financial assets at fair value through other comprehensive income, net of tax	*27*	–	(24)	–	(24)
Depreciation on revalued assets transferred to retained earnings	*27*	–	(3,294)	3,294	–
Total comprehensive income		**–**	**(3,318)**	**9,013**	**5,695**
Transactions with owners					
Dividends	*28*	–	–	(130)	(130)
Total transactions with owners		**–**	**–**	**(130)**	**(130)**
Balance as at 31 March 2018		**25,267**	**63,894**	**108,549**	**197,710**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated cash flow statement

For the year ended 31 March 2019

	Notes	**2019** $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers (exclusive of goods and services tax)		75,111	68,951
Payments to suppliers and employees (exclusive of goods and services tax)		(31,689)	(29,469)
		43,422	**39,482**
Interest received		18	4
Interest paid		(7,878)	(8,367)
Income taxes paid		(3,075)	(2,631)
Net cash inflow from operating activities	*36*	**32,487**	**28,488**
Cash flows from investing activities			
Purchases of property, plant and equipment		(96,692)	(41,208)
Proceeds from sale of property, plant and equipment		6,198	918
Disposals of biological assets		–	682
Disposal (Purchase) of financial assets at fair value through other comprehensive income		691	(135)
Increase / (repayment) of loan from parent		23	(22)
Net cash inflow / (outflow) from investing activities		**(89,780)**	**(39,765)**
Cash flows from financing activities			
Proceeds from (repayment of) borrowings		57,610	11,340
Dividends paid to the Group's shareholders	*28*	(135)	(130)
Net cash inflow / (outflow) from financing activities		**57,475**	**11,210**
Net increase (decrease) in cash and cash equivalents		182	(67)
Cash at bank and on hand at the beginning of the financial year		16	83
Cash and cash equivalents at end of year	*9*	**198**	**16**

The above cash flow statement should be read in conjunction with the accompanying notes.

1 : General information

Top Energy Limited (the Company) provides electricity line function, electrical construction and other services. The Company and its subsidiaries (together, the Group) operate geothermal power stations, sell electricity on the wholesale market and to energy retailers in New Zealand.

The Company is a limited liability company incorporated and domiciled in New Zealand. Its registered office is at Level 2, John Butler Centre, 60 Kerikeri Road, Kerikeri. The Company is not listed on any stock exchange.

These financial statements were approved for issue by the Board of Directors on 11 June 2019.

2 : Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, 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.

Going Concern

These financial statements have been prepared on a going concern basis. Whilst the Group recorded a loss after tax of $10.7m, the result has been driven by a fair value loss on derivatives of $34.5m, covering interest rate swaps and electricity contract for differences. The Group intends to hold these derivatives to maturity as they are economic hedges and provide certainty to the underlying energy prices and interest rates.

The Group's ability to continue as a going concern has also been assessed by evaluating the following:

- The actual operational result for the period at an EBITDAF level was extremely strong and exceeded prior year results and current year target expectations;
- Cashflow from operating activities remains strong and has improved significantly over the period;
- 10-year forecasts have been reviewed including relevant sensitivity analysis;
- The balance sheet for the period, which currently shows a net working capital deficit is driven by the high trade payables associated with the Ngawha expansion and the fair value loss on financial assets;
- The Group is forecast to operate within the conditions of its banking facilities as disclosed in note 23(b);
- Funding facility limits are sufficient to cover the higher trade payables and the capital commitments, typical of a large construction project with the Ngawha expansion.

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 Fair Value through Other Comprehensive Income 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 2018.

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.

All financial information has been rounded to the nearest thousand dollars, unless otherwise stated.

(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 2019 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) Biological assets

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.

(e) 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.

(f) 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.

(g) Contract work in progress

Contract work in progress is stated at the aggregate of contract costs incurred to date less recognised losses. 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 income has been received in respect of contract work and the work has not been completed by the reporting date, the total of such held on account are included in trade payables. This accounting treatment was applied within this reporting period, and adopted in respect of the comparative period presented in these financial statements. This has resulted in $1,210,000 progress billings previously recognised as a credit within note 11 to be reclassified as Revenue received in advance within note 19.

(h) Derivatives and hedging activities

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 group applies economic hedging, but doesn't apply hedge accounting. The resulting gain or loss is recognised in profit or loss.

(i) 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.

(j) 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.

(k) Fair value estimation

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

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and Fair Value through Other Comprehensive Income 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.

(l) Financial Assets at Fair Value through Other Comprehensive

Fair Value through Other Comprehensive Income financial assets, comprising marketable equity securities, are initially recognised at fair value plus transaction costs. After initial recognition, Fair Value through Other Comprehensive Income investments are carried at fair value.

All of the Group's Fair Value through Other Comprehensive Income investments are traded in active markets and accordingly, fair value is determined by reference to Stock Exchange quoted bid prices.

Unrealised gains and losses arising from changes in fair value are recognised through other comprehensive income. When securities classified as Fair Value through Other Comprehensive Income are sold or impaired, the cumulative gain or loss previously recognised in reserves is not recycled through the profit or loss component of the statement of comprehensive income, but directly though retained earnings.

Fair Value through Other Comprehensive Income investments are classified as non current assets, unless they are expected to be realised within twelve months of the balance date. The Group intended to sell its holding of Fonterra Co-operative Group shares to the purchaser of other non-current assets currently held for sale by a Group company. Consequently, at the 31 March 2018 reporting date, those Fair Value through Other Comprehensive Income investments have been classified as current assets, and were subsequently sold during the reporting year ended 31 March 2019.

(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 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 less any obligation being settled using the fixed price option. 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) Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

– those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
– those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset.

There are three measurement categories into which the Group classifies its debt instruments:

- *Amortised cost:*
  Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- *Fair value through other comprehensive income (FVOCI):*
  Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains and losses and impairment expenses in other expenses.
- *Fair value through profit or loss:*
  Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of profit or loss within other gains/(losses) in the period in which it arises.

Equity instruments
The Group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in other gain/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iii) Impairment
The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the group applies the simplified approach permitted by NZ IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(iv) Accounting policies applied prior to 1 April 2018
The Group has applied NZ IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

(v) Classification
Until 31 March 2018, the group classified its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(vi) Reclassification
The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(vii) 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 expected to be settled within 12 months, otherwise they are classified as non-current.

(viii) 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. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statements of financial position note 2(f) and note 2(aa).

(ix) 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 group's available-for-sale financial assets were re-classified as current on the basis that they were intended to be sold, and were subsequently sold during the reporting year ended 31 March 2019.

(x) Recognition and derecognition
Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(xi) Measurement
At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

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 are recognised as follows:

– for 'financial assets at fair value through profit or loss' – in profit or loss within other income or other expenses
– for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security are recognised in profit or loss and other changes in the carrying amount are recognised in other comprehensive income
– for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/(losses). Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognised in the statement of profit or loss as part of revenue from continuing operations.

Details on how the fair value of financial instruments is determined are disclosed in note 2(k).

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

(xii) Impairment
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. 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 considered an indicator that the assets are impaired.

Assets carried at amortised cost
For loans and receivables, 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 profit or loss. 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 the consolidated income statement.

Impairment testing of trade receivables is described in note 2(aa).

Assets classified as available for sale
If there is objective evidence of impairment 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.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(xiii) Income recognition

Interest income
Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividends
Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

(u) 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.

(v) 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.

(w) 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 2019 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.

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, as follows:

Straight Line basis	*Years*
Distribution system	15-60
Generation plant	5-50
Resource consents	35-41
Plant and equipment	3-20
Freehold buildings	50
Freehold building fit-outs	5-10
Diminishing Value basis	*Rate*
Motor vehicles	20%

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.

(x) Provisions

Provisions are recognised when all of the following conditions are met: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

(y) 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. There has been no impact from NZ IFRS 15 adoption. The Group expects that all contracts as of 31 March 2018 will be recognised during the 2019 financial year. The Group did not apply any of the practical expedients available in NZ IFRS 15.

Revenue is recognised as follows:

(i) Electricity line revenue and Electricity sales 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. The right to payment corresponds directly with the pattern of distribution and electricity consumption. Electricity line revenue is based on actual and assessed meter readings and includes an allowance for unread meters at the reporting date, as this is the most faithful measure of consumption. Revenue is recognised over time as the customer receives and consumes the benefits on an ongoing basis.

Electricity sales income is recognised as electricity generated and sold by reference to the quantity delivered as measured in kilowatt hours. Revenue is recognised over time as the customer receives and consumes the benefits on an ongoing basis.

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, as this is the most faithful measure of consumption. Occasionally, historical electricity usage data is not consistent and subsequent adjustments are made. These adjustments are immaterial compared with total network revenue.

(ii) 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. Revenue is recognised at a point in time being the date of completion which is when the business has the right for payment of the work, and the time that the customer takes over control of the asset.

(iii) Contracting Services

Contract Services, when received in advance, are held as payments on account (as a liability in the balance sheet) and released once the relevant job/contract has been completed. As the customer cannot consume any benefit until all components are completed, revenue is recognised at a point in time being the date of completion, which is when the business has the right for payment of the work, and the time that the customer takes over control of the asset.

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.

(iv) Other revenue

Other revenue has consisted predominantly of sales of biological assets. Revenue is recognised when the Group finalises a contract for sale with the purchaser over time as the customer receives and consumers the benefits of the task being completed as it is being performed. Other revenue also includes the rendering of services, where revenue recognised in the accounting period in which it arises. Typically, this will be on completion of the underlying transaction.

(z) 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 were 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, or the cost of the fixed price option.

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

(aa) Trade and other receivables

Trade receivables are amounts due from customers for services supplied or goods sold in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'other expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the consolidated income statement.

(ab) Changes in accounting policies

All accounting policies have been applied on a basis consistent with those applied during the previous reporting period.

(ac) Adoption status of relevant new financial reporting standards and interpretations

Standards, interpretations and amendments to published standards that came into effect during the reporting year

In the current year, the Group has applied NZ IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which came into effect from the accounting period beginning 1 April 2018. NZ IFRS 15 introduced a 5 step approach to revenue recognition and more prescriptive guidance to deal with specific scenarios. The Group's accounting policies for its revenue streams are disclosed in detail in note 2(y) above. The timing of its recognition of revenues arising from its contracts with customers has not been affected by the introduction of NZ IFRS 15 Revenue from Contracts with Customers, therefore apart from providing more extensive disclosures for the Group's revenue transactions, the application of NZ IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group.

In the current year, the Group has applied NZ IFRS 9 Financial Instruments, which came into effect from the accounting period beginning 1 April 2018. NZ IFRS 9 introduced new requirements for the classification and measurement of financial assets and financial liabilities, and Impairment of financial assets. The Group has elected not to restate comparative information resulting in the impact of application of NZ IFRS 9 to ordinarily be adjusted directly to the opening equity. The adoption of NZ IFRS 9 has not resulted in any adjustments directly to the opening equity. A detailed accounting policy is disclosed within note 2(t).

All mandatory Standards, Amendments and Interpretations have been adopted in the current accounting period. None has had a material impact on these financial statements.

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

There are a number of Standards, Amendments and Interpretations which have been approved. The Group expects to adopt these when they become mandatory.

The Group is currently assessing the expected impact of NZ IFRS 16 Leases, which will apply from the accounting period beginning 1 April 2019. It is estimated that the premises leases will result in a right of use asset of $5,805,000, and a corresponding lease liability of equal value. An additional depreciation expense of $542,000 is expected in the first year, in addition to $334,000 of interest implicit in the annual lease payments. This will replace the $724,000 of operational lease payments that are currently expensed under the current NZ IAS 17 Leases standard.

3 : Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as forward foreign exchange contracts, interest rate swaps and electricity Contract For Differences (CFDs) to hedge certain risk exposures. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

Risk management is carried out by senior management under policies approved by the Board of Directors. Management identifies and evaluates relevant financial risks and acts to manage these where possible within the parameters set out by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk
Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

During the reporting periods ending 31 March 2018 and 31 March 2019 the Group had entered into contracts to acquire materials and equipment that are denominated in US dollars. In order to limit the effect of currency exposure, prior to the reporting dates the Group entered into a series of forward foreign currency contracts for amounts equal to its total US dollar exposure. At the current reporting date, the Group had a total of US$21,055,000 (2018: US$32,585,000) of forward foreign currency contracts, to manage exposure relating to the expansion of the Ngawha generation plant. The values of these contracts were translated into New Zealand dollars at the exchange rate applying on 31 March 2019 and adjusted for credit risk. This has created an unrealised profit for the period which has been credited to profit or loss and included in the statement of financial position.

Of the foreign currency contracts in force at 31 March 2019, US$21,055,000 mature prior to the Group's next annual reporting date (2018: US$12,810,000).

(ii) Cash flow and fair value interest rate risk
The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Throughout the years ended 31 March 2019 and 2018, the Group's borrowings at variable rate were denominated in New Zealand dollars.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

Generally, the Group raises long term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts, calculated by reference to the agreed notional principal amounts.

Interest rate risk arises in respect of the portion of the Group's borrowings that is not covered by interest rate swaps. The element of Group borrowings at the reporting dates presented in these financial statements is sufficiently small such that, if interest rates had changed by +/- 1% (=100bp) from the average period rate of 5.98% (2018: 2.7%) with all other variables held constant, the effect on post-tax profit for the year in respect of that element of total borrowings would have been immaterial.

If the above sensitivity calculation were applied to the total of interest rate swaps entered into by the Group at the reporting date, the effect of a change of +/- 1% (=100bp) in the floating rate element of those swaps would result in a reduction / increase in the fair value derivative loss recognised at the reporting date of +$20,953,000/ -$23,167,000 respectively (2018: +$12,997,000/ -$14,449,000).

(iii) Energy market risk
The Group has entered into a Power Purchase Agreement (PPA), effective from 1 July 2017, to sell 100% of the electricity generated from the Ngawha plant. Under the PPA, physical ownership of the energy is transferred from Ngawha Generation Ltd to the counterparty. In return, 100% of the generation spot revenue is paid to Ngawha Generation Ltd along with the settlement amount of any hedges. The hedges are in the form of electricity Contract For Differences (CFDs), which have been accounted for separately as derivatives.

(iv) Contracting Construction Risk
The Group has entered into several significant construction contracts as part of the Ngawha expansion project. To manage the risk of non-performance under these contracts, a dedicated Project Director has been appointed along with specialists in each of the contract areas.

The remaining material contracts are fixed price contracts which protects the Group against cost escalations. A detailed design process is undertaken prior to construction which mitigates against unforeseen work and variation requests. In the event of variations, these are managed through a structured contract change process. In addition, most contracts are either subject to retentions or performance bonds and liquidated damages are payable for non-performance to the agreed delivery dates.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum Standard & Poor's credit rating of 'A' (or equivalent) are accepted. If customers are independently rated, these ratings are used.

Otherwise, if there is no independent rating, management assesses the credit quality of the customer, taking into account its financial position, past experience and any other relevant factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. Customers' credit limits are regularly monitored by management.

Two customers comprised 55% of the Group's total trade accounts receivable as at 31 March 2019 (2018: 50% of the Group's total trade accounts receivable). Subsequent to the reporting dates, the amounts then due were cleared. The Group does not expect the non-performance of any material obligations as at the reporting date.

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises on derivative financial instruments with unrealised gains. At 31 March 2019 there were unrealised gains on forward foreign currency contracts of $1,408,000 (2018: $863,000) and unrealised losses on electricity CFDs totalling $16,225,000 (2018: Gain of $1,346,000). There were no unrealised gains on interest rate swaps at 31 March 2019 (2018: none).

The Group undertakes all of its transactions in foreign exchange and interest rate contracts with trading banks that are registered with the Reserve Bank of New Zealand.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group's management aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Group's liquidity requirements on the basis of expected cash flow.

The table below analyses the Group's financial liabilities, excluding derivative financial instruments (which are shown separately), into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest to maturity.

	Less than 1 year *$'000*	**Between 1 & 2 years** *$'000*	**Between 2 & 5 years** *$'000*	**Over 5 years** *$'000*
At 31 March 2019				
Bank overdrafts and loans	8,911	8,907	235,719	–
Other loans	1,643	–	–	–
Trade and other payables	13,895	–	–	–
At 31 March 2018				
Bank overdrafts and loans	4,890	33,965	128,809	–
Other loans	1,639	–	–	–
Trade and other payables	12,652	–	–	–

The table below analyses the Group's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For the purposes of calculating the undiscounted contractual cashflows on the interest rate swaps, it has been assumed that the base rate driving the floating portion will remain the same throughout the term of each contract.

		Less than 1 year *$'000*	**Between 1 & 2 years** *$'000*	**Between 2 & 5 years** *$'000*	**Over 5 years** *$'000*
At 31 March 2019					
Forward foreign exchange contracts	– inflow	–	–	–	–
	– outflow	28,505	–	–	–
Interest rate swaps	– inflow	–	–	–	–
	– outflow	(7,158)	(6,412)	(16,456)	(18,776)
Electricity CFDs	– inflow	375	–	13	–
	– outflow	(9,408)	(4,039)	(3,320)	–
At 31 March 2018					
Interest rate swaps	– inflow	–	–	–	–
	– outflow	(5,860)	(5,296)	(12,165)	(14,509)
Electricity CFDs	– inflow	1,636	70	–	–
	– outflow	–	(185)	(173)	–

Cash flow forecasting is performed in aggregate by the Group. The Group monitors rolling forecasts of its liquidity requirements, to ensure it has sufficient cash to meet its operational needs whilst maintaining sufficient headroom on its undrawn committed borrowing facilities at all times, so that the Group does not breach its borrowing limits or covenants (as applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, where applicable, external regulatory or legal requirements (for example, currency restrictions).

(d) Fair value estimation

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 the relevant reporting date. Quoted market prices or dealer quotes for similar instruments are used as the basis for valuing interest rate swaps, electricity CFDs and forward foreign exchange contracts. Additional credit and debit value adjustments are made to the market prices in order to arrive at fair values as defined by NZ IFRS 13 Fair Value Measurement. The Group employs specialist independent valuers to calculate these valuations.

The carrying value, less impairment provision, of trade receivables and payables is a reasonable approximation of their fair values due to the short-term nature of trade receivables. 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.

The Group applies the provisions of NZ IFRS 7 Financial Instruments: Disclosures for financial instruments that are measured in the statement of financial position at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The fair value of financial instruments traded in active markets 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. These instruments are included in level 1. Instruments included in level 1 comprise equity investments quoted on a recognised stock exchange that are classified as trading securities or Fair Value through Other Comprehensive Income.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.

The following table presents the Group's assets and liabilities that are measured at fair value. Refer to note 17 for disclosures of generation plant that is measured at fair value.

	Level 1 *$'000*	Level 2 *$'000*	Level 3 *$'000*	Total balance *$'000*
At 31 March 2019				
Assets				
Financial assets at fair value through profit or loss				
– Trading derivatives - electricity CFDs	–	387	–	387
– Trading derivatives - forward FX contracts	–	2,272	–	2,272
Total assets	**–**	**2,659**	**–**	**2,659**
Liabilities				
Financial liabilities at fair value through profit or loss				
– Trading derivatives - interest rate swaps	–	29,987	–	29,987
– Trading derivatives - electricity CFDs	–	16,612	–	16,612
Total liabilities	**–**	**46,599**	**–**	**46,599**
At 31 March 2018				
Assets				
Financial assets at fair value through profit or loss				
– Trading derivatives - electricity CFDs	–	1,693	–	1,693
– Trading derivatives - forward FX contracts	–	864	–	864
Financial assets at fair value through other comprehensive income				
– Equity securities	830	–	–	830
Total assets	**830**	**2,557**	**–**	**3,387**
Liabilities				
Financial liabilities at fair value through profit or loss				
– Trading derivatives - interest rate swaps	–	11,614	–	11,614
– Trading derivatives - electricity CFDs	–	347	–	347
Total liabilities	**–**	**11,961**	**–**	**11,961**

There were no transfers between levels 1,2 and 3 during the above years.

(e) Financial instruments by category

FINANCIAL ASSETS as per balance sheet	Amortised cost $'000	Assets at fair value through profit or loss $'000	Financial assets at fair value through other comprehensive income $'000	Other $'000	Total $'000
At 31 March 2019					
Derivative financial instruments - electricity CFDs	–	387	–	–	387
Derivative financial instruments - forward FX contracts	–	2,272	–	–	2,272
Trade and other receivables	8,314	–	–	–	8,314
Other financial assets	–	–	–	2,026	2,026
Cash and cash equivalents	201	–	–	–	201
	8,515	**2,659**	**–**	**2,026**	**13,200**
At 31 March 2018					
Financial assets at fair value through other comprehensive income	–	–	830	–	830
Derivative financial instruments - electricity CFDs	–	1,693	–	–	1,693
Derivative financial instruments - forward FX contracts	–	864	–	–	864
Trade and other receivables	6,879	–	–	–	6,879
Other financial assets	–	–	–	2,257	2,257
Cash and cash equivalents	150	–	–	–	150
	7,029	**2,557**	**830**	**2,257**	**12,673**

FINANCIAL LIABILITIES as per balance sheet	Financial liabilities at fair value through profit or loss $'000	Financial liabilities at amortised cost $'000	Total $'000
At 31 March 2019			
Borrowings	–	214,287	214,287
Derivative financial instruments - interest rate swaps	29,987	–	29,987
Derivative financial instruments - electricity CFDs	16,612	–	16,612
Trade and other payables	–	9,996	9,996
	46,599	**224,283**	**270,882**
At 31 March 2018			
Borrowings	–	156,788	156,788
Derivative financial instruments - interest rate swaps	11,614	–	11,614
Derivative financial instruments - electricity CFDs	347	–	347
Trade and other payables	–	9,794	9,794
	11,961	**166,582**	**178,543**

4 : Revenue

From continuing operations	**2019** $'000	2018 $'000
Electricity line revenue	56,579	50,906
Network line charge discount	(5,386)	(5,245)
Capital contributions	2,848	1,205
Electricity sales	18,767	17,494
Contracting services	2,907	2,445
Other revenue	274	1,264
Total revenue from continuing operations	**75,989**	**68,069**

Details of revenue from discontinued operations, comprising the Dairy Farm operations of Grazing North Ltd during the year ended 31 March 2019, are included in the disclosures at note 8.

5 : Expenses

	2019 $'000	2018 $'000
Expenses, excluding depreciation, amortisation and finance costs, included in the Statement of Comprehensive Income classified by nature		
Raw materials and consumables used	2,673	4,463
Employee benefits expense	13,305	14,469
Other expenses	10,672	9,359
Transmission charges	5,090	5,156
Impairment charges	–	402
	31,740	**33,849**
Profit before income tax includes the following specific expenses:		
Depreciation		
Distribution system	7,868	7,564
Generation plant	7,462	7,472
Resource consents	171	167
Plant and equipment	861	725
Vehicles	660	630
Buildings	155	99
Total depreciation	**17,177**	**16,657**
Amortisation		
Software	235	199
Total amortisation	**235**	**199**
Total depreciation and amortisation	**17,412**	**16,856**
Net loss (gain) on disposal of property, plant and equipment	**(517)**	**118**
Rental expense relating to operating leases		
Minimum lease payments	1,143	1,070
Employee benefit expense		
Wages and salaries, including restructuring costs and termination benefits	12,457	13,660
ACC levies and employee medical insurance	416	404
Pension costs - defined contribution plans	432	405
	13,305	**14,469**

Auditors' fees

The following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

	2019 $'000	2018 $'000
Audit services		
Audit of the financial statements - Deloitte Limited	127	123
Total remuneration for audit services	**127**	**123**
Audit of regulatory statements - Deloitte Limited	60	59
Total remuneration for assurance services	**187**	**182**

6 : Fair value gains / (losses) on financial assets

	2019 $'000	2018 $'000
Net (loss) gain on interest rate swaps	(18,373)	(1,936)
Net (loss) gain on electricity Contract For Differences	(17,571)	(465)
Net gain on forward foreign currency contracts	1,408	863
	(34,536)	**(1,538)**

7 : Income tax expense

(a) Income tax expense

	2019 *$'000*	2018 *$'000*
Current tax		
Current tax on profits for the year	2,294	3,478
Adjustments in respect of prior years	(278)	11
Total current tax	**2,016**	**3,489**
Deferred tax		
Origination and reversal of temporary differences	(1,583)	(1,698)
Exclude: element arising on fixed asset revaluation	(5,786)	–
Under (over) provided in prior years	285	(15)
Total deferred tax	**(7,084)**	**(1,713)**
Income tax expense / (benefit)	**(5,068)**	**1,776**
Income tax expense is attributable to:		
Profit/(Loss) from continuing operations	(5,152)	1,760
Profit/(Loss) from discontinued operations	84	16
Aggregate income tax expense	**(5,068)**	**1,776**
Deferred income tax expense (benefit) included in income tax expense comprises:		
(Increase) decrease in deferred tax assets	(9,709)	(970)
Increase (decrease) in deferred tax liabilities (note 24)	2,625	(743)
	(7,084)	**(1,713)**

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2019 *$'000*	2018 *$'000*
Profit/(Loss) from continuing operations before income tax expense	(15,577)	7,459
Profit/(Loss) from discontinued operations before income tax expense	(160)	36
	(15,737)	**7,495**
Tax at the New Zealand tax rate of 28% (2018: 28%)	(4,406)	2,099
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenditure	3	18
Income not subject to tax	(673)	(337)
Other reconciling items		
Adjustment in respect of prior years	8	(4)
Income tax expense	**(5,068)**	**1,776**

(c) Tax charge relating to components of other comprehensive income

The tax charge relating to components of other comprehensive income is as follows:

	Before tax $'000	Tax (expense) / benefit $'000	After tax $'000
31 March 2019			
Fair value gains:			
Revaluation of generation plant	20,667	(5,787)	14,880
Other comprehensive income	**20,667**	**(5,787)**	**14,880**
31 March 2018			
Fair value gains:			
Changes in fair value of Fair Value through Other Comprehensive Income financial assets	(24)	–	(24)
Other comprehensive income	**(24)**	**–**	**(24)**

8 : Discontinued operations

(a) Summary of discontinued operations

Whilst it was owned by the Group, Grazing North Ltd operated a dairy farming business. The directors decided to dispose of the farms assets in order for the Group to concentrate on its core business activities. The farm's assets were subsequently sold during the reporting year ended 31 March 2019.

On 26 February 2019 Grazing North Limited was amalgamated into Top Energy Limited using the short-form amalgamation process under the Companies Act 1993. Until the date of amalgamation, Grazing North Limited had been a wholly owned subsidiary of Top Energy Limited. Grazing North Limited has been removed from the New Zealand register of companies.

(b) Financial performance and cash flow information - Disposal of Grazing North Limited

The trading result of Grazing North Limited has been included in the Group's statement of comprehensive income. Additional detail is provided below. The figures reported for 2019 relate to the 11 months ended on 26 February 2019, being the amalgamation date.

	2019 *$'000*	2018 *$'000*
Summarised statement of comprehensive income		
Revenue	393	995
Expenses	(553)	(959)
Profit/(Loss) before income tax	**(160)**	**36**
Income tax expense (benefit)	(84)	(16)
Profit/(Loss) after income tax of discontinued operations	**(244)**	**20**
Summarised statement of cash flows		
Net cash inflow/(outflow) from operating activities	337	149
Net cash inflow/(outflow) from investing activities	4,861	564
Net cash inflow/(outflow) from financing activities	(5,198)	(713)
Total cash flows	**–**	**–**

(c) Carrying amounts of assets and liabilities at the reporting date - Grazing North Ltd

The carrying amounts of Grazing North Ltd's assets and liabilities at 31 March 2019 have been excluded from the statement of financial position as reported in these financial statements.

The carrying amounts of the Company's net assets on its amalgamation on 26 February 2019 and as consolidated into the Group's financial statements at 31 March 2019 were as follows.

	2019 *$'000*	2018 *$'000*
Assets		
Cash and cash equivalents	–	1
Trade and other receivables	–	124
Fair Value through Other Comprehensive Income financial assets	–	830
Property, plant and equipment	–	4,170
Deferred tax asset	–	36
Other current assets	–	–
Total assets	**–**	**5,161**
Liabilities		
Trade and other payables	–	11
Non-interest bearing liabilities	–	5,198
Other current liabilities	–	29
Total liabilities	**–**	**5,238**
Shareholders' equity		
Contributed equity	–	1
Reserves	–	(122)
Retained earnings	–	34
Net equity	**–**	**(87)**

9 : Current assets – Cash and cash equivalents

	2019 *$'000*	2018 *$'000*
Cash on hand	1	1
Bank balances	2	2
Deposits at call	200	147
	203	**150**

(a) Reconciliation to cash at the reporting date

Cash and cash equivalents include the following for the purposes of the consolidated cash flow statement:

	2019 *$'000*	2018 *$'000*
Balances as above	203	150
Bank overdrafts (note 20)	(5)	(134)
Cash and cash equivalents	**198**	**16**

(b) Deposits at call

The deposits at call represent amounts set aside under the Construction Contracts Amendment Act 2015 to settle retention liabilities at various future dates.

10 : Current assets – Trade and other receivables

	2019 *$'000*	2018 *$'000*
Net trade receivables		
Trade debtors	8,314	7,454
GST receivable	–	214
Provision for doubtful receivables	(397)	(575)
Net trade receivables	**7,917**	**7,093**
Prepayments		
Sundry prepayments	726	734
Accrued income	–	88
	726	**822**
Total current receivables	**8,643**	**7,915**

(a) Impaired receivables

	2019 *$'000*	2018 *$'000*
Movements in the provision for impairment of trade receivables are as follows:		
At 1 April	575	536
Provision for impairment released in the year	(110)	(8)
Charge (credit) to profit and loss during the period	(68)	47
At 31 March	**397**	**575**

The creation and release of the provision for impaired receivables has been included in 'other expenses' in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. The other classes within trade and other receivables do not contain impaired assets.

(b) Foreign exchange and interest rate risk

A summarised analysis of the sensitivity of trade and other receivables to foreign exchange and interest rate risk can be found in note 3.

(c) Fair value and credit risk

Due to the short-term nature of trade receivables, their carrying value is assumed to approximate to their fair value.

11 : Current assets – Inventories

	2019 *$'000*	2018 *$'000*
Raw materials		
Raw materials at cost	1,188	1,267
Contract costs incurred less recognised losses	223	245
	1,411	**1,512**

12 : Current assets – Current tax benefit

	2019 $'000	2018 $'000
Tax benefit of losses	2	27
	2	**27**

13 : Current assets – Fair Value through Other Comprehensive Income financial assets

	2019 $'000	2018 $'000
At 1 April	830	–
Disposals	(691)	–
Reclassification of non-current Fair Value through Other Comprehensive Income financial assets	–	830
Net gains / (losses) transfer from equity	(139)	–
At 31 March	**–**	**830**

The Fair Value through Other Comprehensive Income financial assets at 31 March 2018 comprised of 140,473 shares in Fonterra Co-operative Group Ltd ('Fonterra'). Fonterra's shares are quoted on the New Zealand stock exchange. It is a requirement of the supply contract with Fonterra that the supplier holds sufficient Fonterra shares in order to be able to supply the contracted volume of milk. As a result of the intended sale of the property, plant and equipment disclosed within note 16, these Fair Value through Other Comprehensive Income financial assets were reclassified as current during the period ending 31 March 2018, and subsequently sold during the year ending 31 March 2019.

14 : Current assets – Intangible assets

	2019 $'000	2018 $'000
Emission Trading Scheme Units	151	361
	151	**361**

The Emission Trading Scheme Units have been purchased to settle the Group's liabilities under the Scheme and are held in the Group's account at the Registry. They will be surrendered in the May following the end of the calendar year in which the liability arises.

The Units are held at cost on the grounds that it is not the Group's intention to dispose of them other than in settlement of its ETS liabilities.

The Group entered into forward contracts for the purchase of 150,000 NZUs, with a value of $3,504,000, during the reporting period ended 31 March 2018. Settlement of these contracts is due in April 2021.

The Group entered into two forward contracts for the purchase of 115,000 NZUs, with a value of $3,542,400, during the reporting period ended 31 March 2019. Settlement of these contracts are due in April 2023 and April 2024 for $1,140,000 (38,000 NZUs) and $2,402,400 (77,000 NZUs) respectively.

15 : Derivative financial instruments

	2019 $'000	2018 $'000
Current assets		
Forward foreign exchange contracts - at fair value through profit or loss - see below ((a)(i))	2,272	368
Electricity Contract for Differences - see below ((a)(iii))	375	1,631
Total current derivative financial instrument assets	**2,647**	**1,999**
Non-current assets		
Forward foreign exchange contracts - at fair value through profit or loss - see below ((a)(i))	–	496
Electricity Contract For Differences - see below ((a)(iii))	12	62
Total non-current derivative financial instrument assets	**12**	**558**
Total derivative financial instrument assets	**2,659**	**2,557**
Current liabilities		
Interest rate swaps - at fair value through profit or loss - see below ((a)(ii))	435	879
Electricity Contract For Differences - see below ((iii))	9,389	–
Total current derivative financial instrument liabilities	**9,824**	**879**
Non-current liabilities		
Interest rate swaps - at fair value through profit or loss - see below ((a)(ii))	29,552	10,735
Electricity Contract For Differences - see below ((a)(iii))	7,223	347
Total non-current derivative financial instrument liabilities	**36,775**	**11,082**
Total derivative financial instrument liabilities	**46,599**	**11,961**
Net (liabilities) in relation to derivative financial instruments	**(43,940)**	**(9,404)**

For further information refer to note 2(h)

(a) Instruments used by the Group

(i) Forward foreign exchange contracts

Top Energy Ltd has entered into forward foreign exchange contracts relating to the expansion of the Ngawha Expansion plant. When translated at the closing spot rate on 31st March 2019, the NZ Dollar equivalent of the US Dollar commitment US$21,054,500 (31 March 2018: US$32,585,000) was NZ$31,044,677 (31 March 2018: NZ$44,116,000). The remaining contracts mature during the year ended 31 March 2020.

The difference arising from exchange rate movements, which has been adjusted for the credit risk arising in the Group from these transactions, is included in 'fair value gains and losses on financial assets' in the profit or loss component of the statement of comprehensive income. These contracts are subject to the same risk management policies as all other derivative contracts. See note 3

(ii) Interest rate swaps

Top Energy Ltd has entered into interest rate swap contracts under which it receives interest at variable rates and pays interest at fixed rates in respect of the notional principal amount of each contract. At 31 March 2019 the notional principal amount of current contracts totalled $373,000,000 (31 March 2018: $286,000,000). At 31 March 2019 the Parent had committed to enter into 5 (31 March 2018: 12) contracts, with a total notional principal value of $120,000,000 (2018: $156,000,000), to replace future maturing contracts.

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

(iii) Electricity Contract for Differences

The Group has entered into electricity Contract For Differences (CFDs) under which it receives a fixed amount based on a notional quantity of electricity generation. At 31 March 2019, the notional amount of current contracts totalled $67,927,000 (31 March 2018: $29,256,000). The settlement dates coincide with the dates on which spot prices are receivable on the underlying electricity generation, being 20th of the following month. The contracts are settled on a net basis under a Power Purchase Agreement as described in note 3(a)(iii).

(b) Credit risk exposures

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises on derivative financial instruments with unrealised gains. Details of the Group's exposure to credit risk are given at note 3(b).

16 : Current assets – Non-current assets classified as held for sale

	2019 *$'000*	2018 *$'000*
Land	–	3,210
Buildings	–	700
Plant and equipment	–	260
Total	**–**	**4,170**

The above assets were the subject of a sale and purchase agreement that was being negotiated at the 31 March 2018 reporting date, which were subsequently sold during the period ending 31 March 2019.

A further group of assets, with a carrying value of $402,000 at 31 March 2018, were reclassified as held for sale at that date, at a fair value equal to their contractual disposal price of $1. The purchaser is not a related party to any entity within the Group. This further group of assets is still held for sale as at 31 March 2019.

17 : Non-current assets – Property, plant and equipment

	Distribution system $'000	Capital work in progress $'000	Generation plant $'000	Resource consents $'000	Plant and equipment $'000	Motor vehicles $'000	Freehold land $'000	Buildings $'000	Total $'000
Year ended 31 March 2019									
Opening net book amount	207,666	28,896	145,846	5,501	2,675	2,574	7,602	1,776	402,536
Additions	12,301	81,482	343	231	917	1,041	4	119	96,438
Disposals	(905)	–	–	–	(691)	(577)	(101)	(231)	(2,505)
Transfers and reclassifications	3,979	(5,747)	–	3	10	–	–	–	(1,755)
Depreciation charge	(7,868)	–	(7,462)	(171)	(862)	(660)	–	(154)	(17,177)
Depreciation released on disposals	342	–	–	–	675	494	–	15	1,526
Revaluation of generation plant	–	–	20,667	–	–	–	–	–	20,667
Closing net book amount	**215,515**	**104,631**	**159,394**	**5,564**	**2,724**	**2,872**	**7,505**	**1,525**	**499,730**
At 31 March 2019									
Cost	390,009	104,631	821	6,068	11,806	9,993	7,505	2,345	533,178
Valuation	–	–	158,573	–	–	–	–	–	158,573
Accumulated depreciation	(174,494)	–	–	(504)	(9,082)	(7,121)	–	(820)	(192,021)
Net book amount	**215,515**	**104,631**	**159,394**	**5,564**	**2,724**	**2,872**	**7,505**	**1,525**	**499,730**
At 1 April 2017									
Cost	356,278	9,705	849	5,834	10,561	9,505	12,138	2,876	407,746
Valuation	–	–	152,427	–	–	–	–	–	152,427
Accumulated depreciation	(159,475)	–	–	(167)	(8,297)	(6,647)	–	(633)	(175,219)
Net book amount	**196,803**	**9,705**	**153,276**	**5,667**	**2,264**	**2,858**	**12,138**	**2,243**	**384,954**
Year ended 31 March 2018									
Opening net book amount	196,803	9,705	153,276	5,667	2,264	2,858	12,138	2,243	384,954
Additions	14,547	23,992	42	–	1,298	435	2	344	40,660
Disposals	(196)	–	–	–	(20)	(406)	(527)	(326)	(1,475)
Transfers and reclassifications	4,005	(4,801)	–	1	9	(4)	–	–	(790)
Depreciation charge	(7,564)	–	(7,472)	(167)	(760)	(630)	–	(111)	(16,704)
Impairment charge	–	–	–	–	128	–	(801)	85	(588)
Depreciation released on disposals	71	–	–	–	16	321	–	31	439
Transfer to disposal group classified as held for sale	–	–	–	–	(260)	–	(3,210)	(490)	(3,960)
Closing net book amount	**207,666**	**28,896**	**145,846**	**5,501**	**2,675**	**2,574**	**7,602**	**1,776**	**402,536**
At 31 March 2018									
Cost	374,634	28,896	891	5,834	11,571	9,528	7,602	2,457	441,413
Valuation	–	–	152,427	–	–	–	–	–	152,427
Accumulated depreciation	(166,968)	–	(7,472)	(333)	(8,896)	(6,954)	–	(681)	(191,304)
Net book amount	**207,666**	**28,896**	**145,846**	**5,501**	**2,675**	**2,574**	**7,602**	**1,776**	**402,536**

(a) Critical accounting estimates and assumptions

The Group considers annually whether the carrying values of its property, plant and equipment are supportable, based on their expected value-in-use or fair value as detailed below.

The carrying value of the distribution network at 31 March 2019 did not exceed its Regulatory Asset Basis value as defined in the Electricity Distribution Information Disclosure Determination 2012.

The external valuation of the generation plant was performed as at 31 March 2019 using an approach based principally on discounted predicted future cash flows over a 15 year period to 31 March 2034 using a post tax WACC of 7.5% as a discount rate.

The forecasts included estimates of future revenues, operating costs, capital expenditure, tax depreciation charges, working capital movements and tax payments. For the 2019 valuation, the Low Point valuation was adopted (2017: Mid Point).

In setting the expected useful lives of the assets that comprise the Ngawha power station, it has been assumed that the necessary resource consents, which have a fixed life, will be renewed prior to their expiry. Under the terms of a new resource consent and a subsequent variation issued in June 2017, the consent was granted for 35 years from the date of the variation, so will now expire in June 2052.

(b) Valuation of generation plant

Independent valuations of the Group's generation plant were performed by valuers to determine its fair value as at 31 March 2019. The revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income and is shown in 'reserves' in shareholders equity (note 27).

The carrying amount of the generation plant that would have been recognised at 31 March 2019 had those assets been carried under the cost model is $57,465,000 (31 March 2018: $60,044,000).

(c) Valuation processes of the Group

The Group has engaged external, independent and qualified valuers to determine the fair value of the Group's generation plant assets. As at 31 March 2019, the fair values of the generation plant assets were determined by a specialist team within PricewaterhouseCoopers, Auckland.

The size and nature of the electricity generation plant is such that there have been no directly comparable disposals within New Zealand, consequently the valuations were performed using unobservable inputs. The principal factors as determined by the external valuers are set out in the following table.

(d) Information about fair value measurements using significant unobservable inputs (Level 3)

Description	Fair value at 31 March 2019 *($'000)*	Valuation technique(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Generation plant	158,573	Discounted cash flow	Projected Wholesale Price Path (revenue) taking into consideration ASX futures prices and a combination of short to medium term factors including an assessment of the Long Run Marginal Cost (LRMC) of electricity generation in New Zealand.	The higher the revenue, the higher the fair value.
			Operating Costs, taking into account management's experience and knowledge of the asset's condition and required maintenance plans.	The higher the operating costs, the lower the fair value.
			Capital expenditure, taking into account management's experience and knowledge of the asset's condition.	The higher the capital expenditure, the lower the fair value.
			Weighted average cost of capital, determined using a Capital Asset Pricing Model post tax WACC of 7.5%.	The higher the weighted average cost of capital, the lower the fair value.
			Terminal growth rate.	The higher the terminal growth rate, the higher the fair value.

Sensitivities

The valuation is most sensitive to a change in revenue driven by a change in the wholesale price path and post tax WACC. A 5% movement in revenue and post tax WACC, changes the mid-point valuation by approximately +/- 8% and -7%/+8% respectively. The valuation is moderately sensitive to movements in operating costs.

The average impact on the mid-point valuation of a movement of 5% in operating costs is +/- 3%. The valuation is relatively insensitive to movements in terminal growth rate and capital expenditure.

(e) Capitalised borrowing costs

Capital work in progress during the periods reported above includes capital projects which have an expected cost in excess of $500,000 and a planned duration of longer than three months. Interest on borrowings raised to finance those projects has been capitalised. The amount capitalised by the Group during the year ended 31 March 2019 was $3,059,000 (2018: $289,000).

Interest capitalised was at the average rate of 5.98% for the year ended 31 March 2019 (2018: 2.7%).

18 : Non-current assets – Intangible assets

	Goodwill $'000	Computer software $'000	Easements $'000	Emission Trading Scheme units $'000	Total $'000
Year ended 31 March 2019					
Opening net book amount	811	319	7,720	1,896	10,746
Additions	–	161	93	–	254
Transfers	–	111	1,134	–	1,245
Disposals	–	(22)	–	–	(22)
Reclassification between current and non-current ETS units	–	–	–	(21)	(21)
Amortisation charge (note 5)	–	(235)	–	–	(235)
Closing net book amount	**811**	**334**	**8,947**	**1,875**	**11,967**
At 31 March 2019					
Cost	811	4,870	8,947	1,875	16,503
Accumulated amortisation	–	(4,536)	–	–	(4,536)
Net book amount	**811**	**334**	**8,947**	**1,875**	**11,967**
At 1 April 2017					
Cost	811	4,783	6,408	2,229	14,231
Accumulated amortisation	–	(4,461)	–	–	(4,461)
Net book amount	**811**	**322**	**6,408**	**2,229**	**9,770**
Year ended 31 March 2018					
Opening net book amount	811	322	6,408	2,229	9,770
Additions	–	196	515	–	711
Transfer from Capital works in progress	–	–	797	–	797
Reclassification between current and non-current ETS Units	–	–	–	(333)	(333)
Amortisation charge (note 5)	–	(199)	–	–	(199)
Closing net book amount	**811**	**319**	**7,720**	**1,896**	**10,746**
At 31 March 2018					
Cost	811	4,979	7,720	1,896	15,406
Accumulated amortisation	–	(4,660)	–	–	(4,660)
Net book amount	**811**	**319**	**7,720**	**1,896**	**10,746**

For further details of the Emission Trading Scheme units refer to note 14.

(a) Allocation of goodwill between cash-generating units

Goodwill is allocated to the following of the Group's cash-generating units (CGUs):

	Ngawha Generation Ltd $'000	Total $'000
At 31 March 2019		
Cost at 1 April 2018	811	811
At 31 March 2019	**811**	**811**
At 31 March 2018		
Cost at 1 April 2017	811	811
At 31 March 2018	**811**	**811**

(b) Impairment testing of goodwill

As described in Note 2(q), goodwill is tested at least annually for impairment. An impairment arises where the goodwill's carrying value exceeds its recoverable amount.

Critical accounting estimates and assumptions

The goodwill recoverable amounts are based on value-in-use calculations. Those calculations use cash flow and profit projections based on budgets approved by management to 31 March 2029, and a post-tax discount rate of 7.5% (2018: 8.1%). At 31 March 2019 and 2018 the calculations support the carrying amounts of recorded goodwill. Management believes that any reasonable change in the key assumptions used in the calculations would not cause the current carrying amount to exceed its recoverable amount.

19 : Current liabilities – Trade and other payables

	2019 *$'000*	2018 *$'000*
Trade payables	6,681	7,602
GST payable	187	–
ACC levies, PAYE and other payroll taxes	302	291
Payroll creditors	1,392	1,111
Accruals	3,712	2,858
Revenue received in advance	1,622	2,001
	13,896	**13,863**

Foreign currency risk

The carrying amounts of the Group's trade and other payables are denominated wholly in New Zealand dollars at both reporting dates. Consequently, the Group bears no foreign currency risk in this regard.

20 : Current liabilities – Interest-bearing liabilities

	2019 *$'000*	2018 *$'000*
Bank overdrafts	5	134
Total interest bearing bank borrowings	**5**	**134**
Loan from parent entity	1,577	1,554
Total other interest bearing borrowings	**1,577**	**1,554**
Total current interest bearing borrowings	**1,582**	**1,688**

The Group's borrowings are subject to covenants agreed with its lenders. Details are provided at note 23.

21 : Current liabilities – Current tax liabilities

	2019 *$'000*	2018 *$'000*
Income tax payable	372	1,470
	372	**1,470**

22 : Current liabilities – Provisions

	2019 $'000	2018 $'000
Employee benefits	379	384
	379	**384**

The provision for employee benefits relates to entitlements to retirement gratuity payments under a scheme that ceased to be available to new employees more than 20 years ago. The provision has been calculated as the present value of expected future payments to be made in respect of services provided by eligible employees up to the reporting date, using those employees' current wage and salary levels. The provision represents the full entitlement of those qualifying employees who have reached the age of 50 by the balance date, plus a percentage of the full entitlement of those employees who have not yet attained the qualifying age by the reporting date.

23 : Non-current liabilities – Interest-bearing liabilities

	2019 $'000	2018 $'000
Bank loans	212,710	155,100

(a) Liabilities subject to a negative pledges given over assets

Total liabilities (both current and non-current) in respect of which negative pledges have been given to the Group's bankers by all Group companies are as follows:

	2019 $'000	2018 $'000
Bank overdrafts and bank loans	212,715	155,234
Total liabilities covered by negative pledges	**212,715**	**155,234**

(b) Banking covenants

The facility agreement imposes certain covenants on the "Guaranteeing Group". The Guaranteeing Group comprises all Group companies at 31 March 2019. This includes a negative pledge which states that the Guaranteeing Group will not provide security over 5% or greater of its total tangible assets to a third party in preference to its Lenders, and will ensure that the following financial ratios are met:

(i) total debt will not exceed 60% of the aggregate of the total debt plus shareholders' funds of the Group,

(ii) consolidated EBITDA (earnings before borrowing costs, taxation, depreciation and amortisation, profits and losses derived on the sale of fixed assets or investment, and non-cash unrealised gains or losses from foreign exchange, interest rate swaps, futures and options) will not be less than 2.50:1.00 to net interests costs,

(iii) consolidated tangible assets of the Guaranteeing Group will not be less than 90% of the consolidated tangible assets of the Group,

(iv) consolidated EBITDAF of the Guaranteeing Group will not be less than 90% of the total EBITDAF of the Group.

All of the above covenants were complied with throughout the year.

24 : Non-current liabilities – Deferred tax liabilities

	2019 *$'000*	2018 *$'000*
The balance comprises temporary differences attributable to:		
Property, plant and equipment	60,125	52,316
Intangible assets	(5)	(24)
Financial assets at fair value through profit or loss	(12,303)	(2,875)
Other temporary differences	(487)	(753)
Net deferred tax liabilities	**47,330**	**48,664**
Movements		
Balance at 1 April	48,664	50,341
Charged / (credited) to profit or loss	(7,085)	–
Tax charged/(credited) directly to equity (note 7)	5,787	(1,677)
Disposal of subsidiary	(36)	–
Closing balance at 31 March	**47,330**	**48,664**
Expected maturity of deferred tax liabilities		
Within 12 months	(2,229)	(570)
In excess of 12 months	49,559	49,234
	47,330	**48,664**

The tax rate applied in calculating the deferred tax provision was 28% at 31 March 2019 and 2018.

25 : Imputation credits

	2019 *$'000*	2018 *$'000*
Balances		
Imputation credits available for subsequent reporting periods based on a tax rate of 28% (2018: 28%)	13,663	11,718

The above amounts represent the aggregate balances of the individual entities' imputation accounts as at the end of the reporting period, adjusted for:

a) Imputation credits that will arise from the payment of the amount of the provision for income tax;
b) Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
c) Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

26 : Contributed equity

(a) Share capital

	2019 *Shares 000s*	2018 *Shares 000s*	**2019** *$'000*	2018 *$'000*
Ordinary shares				
Authorised, issued and fully paid	25,000	25,000	25,267	25,267
Total contributed equity			**25,267**	**25,267**

(b) Ordinary shares

The entire share capital of Top Energy Ltd is held by the current Chair of the Trustees of the Top Energy Consumer Trust, for the benefit of those electricity customers who are connected to the Company's distribution network.

(c) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, in order to continue to provide returns for shareholders and to maintain an optimal capital structure to minimise the Group's cost of capital.

In order to maintain or adjust the capital structure, Top Energy Ltd may adjust the amount of dividends paid to its shareholder, may return capital to the shareholder, and may sell assets to reduce debt.

The Group monitors capital on the basis of the equity ratio. This ratio is calculated as net debt divided by total capital.

– Net debt is calculated as total borrowings (including 'borrowings' as shown in the statement of financial position, borrowing related accruals, and Non-performance Bonds) less cash and cash equivalents.

– Total capital is calculated as 'equity' as shown in the statement of financial position (excluding any minority interest) plus net debt. Total capital excludes the valuation of derivatives at the reporting date.

During the years ended 31 March 2019 and 2018 the Group's strategy was to maintain a equity ratio of less than 60%. The equity ratios at 31 March 2019 and 31 March 2018 were as follows:

	2019 *$'000*	2018 *$'000*
Total borrowings	216,272	157,767
Less: cash and cash equivalents (note 9)	(203)	(150)
Net debt	**216,069**	**157,617**
Total equity	**201,898**	**197,711**
Exclude: derivatives at valuation	43,940	9,404
Exclude: Fair Value through Other Comprehensive Income financial assets cumulative valuation movement	–	112
Total capital	**461,907**	**364,844**
Equity ratio	**47%**	**42%**

27 : Reserves and retained earnings

(a) Reserves

	2019 *$'000*	2018 *$'000*
Property, plant and equipment revaluation reserve	78,886	64,006
Financial assets at fair value through other comprehensive income reserve	–	(112)
	78,886	**63,894**
Movements		
Property, plant and equipment revaluation reserve		
Balance at 1 April	64,006	67,300
Revaluation - surplus before tax	20,667	–
Deferred tax on the revaluation surplus	(5,787)	–
Depreciation transfer - gross	–	(4,575)
Deferred tax on the amount released from reserve	–	1,281
Balance at 31 March	**78,886**	**64,006**
Financial assets at fair value through other comprehensive income reserve		
Balance at 1 April	(112)	(88)
Transfer to net profit - gross	112	–
Fair value gain (loss) in the year	–	(24)
Balance at 31 March	**–**	**(112)**

(b) Retained earnings

Movements in retained earnings were as follows:

	2019 *$'000*	2018 *$'000*
Balance at 1 April	108,549	99,666
Net profit for the year	(10,669)	5,719
Dividends	(135)	(130)
Net transfer from revaluation reserve	–	3,294
Balance at 31 March	**97,745**	**108,549**

28 : Dividends

(a) Ordinary shares

	2019 *$'000*	2018 *$'000*
Dividend of 0.54 cents per ordinary share paid on 26 March 2019	135	–
Dividend of 0.52 cents per ordinary share paid on 27 March 2018	–	130
Total dividends provided for or paid	**135**	**130**

(b) Dividend imputation

The dividends paid by Top Energy Ltd on 26 March 2019 and 27 March 2018 were not imputed.

29 : Director disclosures

The following persons were directors of Top Energy Limited during the financial year ended 31 March 2019:

(i) Chairman – non-executive

– Mr Richard Krogh (appointed as Interim Chairman on 28 February 2018, Chairman on 29 May 2018).

(ii) Other non-executive directors

– Mr James Parsons
– Mr David Sullivan
– Mr Gregory Steed
– Mr Paul White
– Mr Simon Young

(iii) Directors of other Group companies

The directors of Top Energy Ltd are also directors of Ngawha Generation Ltd and of Top Energy Ngawha Spa Ltd. Details of the remuneration of each director of the Top Energy Limited Group are set out in the following tables.

The names of those who have served as directors of other Group companies and, where applicable, details of their remuneration, are also given in the tables below.

	Cash salary and fees	Total
Year to 31 March 2019		
Directors of Top Energy Ltd		
– R Krogh	95,860	95,860
– J Parsons (to 26.6.2018)	12,768	12,768
– G Steed	60,107	60,107
– P White	48,750	48,750
– S Young	53,138	53,138
– D Sullivan (Top Energy Ltd from 01.08.2018, Ngawha Generation Ltd from 17.12.2018)	33,963	33,963
Directors of other Group companies		
– S James*	–	–
– R Kirkpatrick	48,750	48,750
– R Shaw*	–	–
– J Moulder (from 1.8.2018 to 6.11.2018)	16,250	16,250
Total	**369,586**	**369,586**
Year to 31 March 2018		
Directors of Top Energy Ltd		
– M Bain (to 28.2.2018)	85,500	85,500
– R Krogh	63,925	63,925
– J Parsons	55,409	55,409
– G Steed	55,409	55,409
– P White	48,475	48,475
– S Young	48,475	48,475
Directors of other Group companies		
– S James*	–	–
– R Kirkpatrick	48,475	48,475
– R Shaw*	–	–
Total	**405,668**	**405,668**

The directors of various subsidiary companies whose names are marked with * are employees of Top Energy Ltd and are remunerated by that company.

(a) Directors' interests in other entities

Each company within the Group maintains a register of its directors' interests in other entities. No director has declared a conflict of interest in respect of their interests in other entities.

30 : Contingencies

As at 31 March 2019 a "Guaranteeing Group" had executed identical security deeds in favour of ANZ Bank New Zealand Limited. The Guaranteeing Group comprises all Group companies. The security arrangement imposes a liability on each subsidiary company within the Group, where each subsidiary is liable to repay all or any part of the guaranteed indebtedness should any of the guaranteeing group fail to meet its obligations under the Facility Agreement. The Security Deed was executed on 28 November 2018 and the Facility Agreement was executed on 19 December 2017.

The Group has provided performance bonds and guarantee bonds to unrelated third parties in respect of the costs of existing and potential future obligations arising from its business activities. It has also received bonds from unrelated third parties in respect of the amounts of retention monies and potential remedial costs arising from any non-performance by those third parties of their obligations. At 31 March 2019 the total value of contingent obligations entered into by the Group was $682,000 (2018: $623,000) and the total value of contingent receivables from third parties was $17,962,000 (2018: $3,135,000).

31 : Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	2019 *$'000*	2018 *$'000*
Property, plant and equipment	35,918	45,234
	35,918	**45,234**

Of the capital commitments, $34,680,000 relate to the Ngawha Generation subsidiary (2018: $42,977,000). The increase is related to the contracts entered into for the expansion of the Ngawha generation plant.

(b) Operating leases

The Top Energy Ltd Group has operating lease commitments for property and office equipment rentals. Operating leases held over properties give the Group the right to renew the lease subject to a redetermination of the lease rental by the lessor. Commitments for aggregate minimum payments under non-cancellable operating leases are as follows:

	2019 *$'000*	2018 *$'000*
Within one year	846	930
Later than one year but not later than five years	2,649	2,541
Later than five years	3,521	3,453
Total	**7,016**	**6,924**

(c) Purchases of Carbon Credits

The Group entered into forward contracts for the purchase of 150,000 NZUs, with a value of $3,504,000, during the reporting period ended 31 March 2018. Settlement of these contracts is due in April 2021.

The Group entered into two forward contracts for the purchase of 115,000 NZUs, with a value of $3,542,400, during the reporting period ended 31 March 2019. Settlement of these contracts are due in April 2023 and April 2024 for $1,140,000 (38,000 NZUs) and $2,402,400 (77,000 NZUs) respectively.

32 : Related party transactions

(a) Parent entity

Top Energy Ltd is wholly owned by the Top Energy Consumer Trust ("the Trust"). During the year, Top Energy Ltd processed transactions on an agency basis on behalf of the Trust in order to settle the latter's routine business dealings.

The Company paid a dividend of $135,000 to the Trust during the year ended 31 March 2019 (2018: $130,000). These dividends were to assist with the Trust's running costs. The Company continued to pay interest to the Trust on the balance of funds loaned, totalling $50,000 in the year ended 31 March 2019 (2018: $40,000).

As at 31 March 2019, a balance of $1,577,000 was owed by the Company to the Trust (31 March 2018: $1,554,000) and this has been included in current liabilities in the statement of financial position. All transactions between the Company and the Trust are made on normal business terms.

(b) Directors

The names of persons who were directors of the company at any time during the financial year are given at note 29.

(c) Key management personnel remuneration

	Short-term benefits *$'000*	Post-employment benefits *$'000*	Other long-term benefits *$'000*	Termination benefits *$'000*	Total *$'000*
Year ended 31 March 2019	**4,584**	**118**	**57**	**–**	**4,759**
Year ended 31 March 2018	4,775	125	88	128	5,116

There were no contracts for share-based payments during the years ended 31 March 2019 and 2018.

(d) Other transactions with key management personnel or entities related to them

During the year ended 31 March 2019 the Group purchased communications consultancy services from Angela Shaw Communications to the value of $4,900. There were no corresponding purchases during the year to 31 March 2018. Angela Shaw Communications is the business vehicle of Mrs Angela Shaw, who is a related party to the Group's Chief Executive, Mr Russell Shaw. There were no other transactions with key management personnel or entities related to them, other than the payment of remuneration, during the year ended 31 March 2019 (2018: none).

(e) Subsidiaries

The Group's interests in its subsidiaries are set out in note 34. All transactions between the Parent and its subsidiaries are made on normal business terms and have been eliminated on consolidation.

(f) Loan from Parent – The Top Energy Consumer Trust

Movements in the loan were as follows:

	2019 *$'000*	2018 *$'000*
Balance due to the Trust at 1 April	1,554	1,576
Loan advanced from (repaid to) the Trust	(27)	(62)
Interest charged by the Trust	50	40
Balance due to the Trust at 31 March	**1,577**	**1,554**

(g) Guarantees

Details of security made by the Group to its lenders are given at note 23.

(h) Terms and conditions

Outstanding balances between Group entities are unsecured and are repayable on demand, or in accordance with loan agreements.

33 : Business combinations

(a) Amalgamation

On 26 February 2019 Grazing North Limited was amalgamated into Top Energy Limited using the short-form amalgamation process under the Companies Act 1993. Until the date of amalgamation, Grazing North Limited had been a wholly owned subsidiary of Top Energy Limited. Grazing North Limited had disposed of its assets and settled its liabilities prior to the amalgamation. Grazing North Limited has been removed from the New Zealand register of companies.

34 : Investments in subsidiaries

The Group had the following subsidiaries at 31 March 2019:

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by the Parent (%)
Ngawha Generation Ltd	New Zealand	Electricity generation	100
Top Energy Ngawha Spa Ltd	New Zealand	Landholding	100

The companies listed above are directly-held subsidiaries of Top Energy Ltd. All subsidiary undertakings are included in the consolidation. The proportions of the voting rights in the subsidiary undertakings held directly by the Parent company do not differ from the proportion of ordinary shares held.

35 : Events occurring after the reporting period

In the opinion of the Directors, there are no events occurring after the reporting date which require disclosure in these financial statements.

36 : Reconciliation of profit after income tax to net cash inflow from operating activities

	2019 *$'000*	2018 *$'000*
Profit for the year	**(10,669)**	**5,719**
Adjustments made for:		
Depreciation and amortisation	17,412	16,903
Impairment of fixed assets	–	588
Net loss (gain) on sale of non-current assets	(517)	118
Fair value (gain) loss on biological assets	–	456
Movement in provision for doubtful debts	(178)	39
Net (gain) loss on sale of financial assets at fair value through other comprehensive income	250	–
Fair value (gains) losses on other financial assets at fair value through profit or loss	34,536	1,536
Changes in working capital:		
Decrease (increase) in trade debtors	(860)	(109)
Decrease (increase) in inventories	101	64
Decrease (increase) in other operating assets	327	76
Increase (decrease) in trade creditors	(474)	3,288
Increase (decrease) in other operating liabilities	717	665
Increase (decrease) in income taxes payable	(1,098)	784
Increase (decrease) in provision for deferred income tax	(7,060)	(1,639)
Net cash inflow from operating activities	**32,487**	**28,488**

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INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF TOP ENERGY LIMITED GROUP'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 31 MARCH 2019

The Auditor-General is the auditor of Top Energy Limited Group (the Group). The Auditor-General has appointed me, Andrew Burgess, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements and the performance information of the Group on his behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 43 to 80, that comprise the statement of financial position as at 31 March 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and

- the performance information of the Group on page 17.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 31 March 2019; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards.

- the performance information of the Group presents fairly, in all material respects, the Group's achievements measured against the performance targets adopted for the year ended 31 March 2019.

Our audit was completed on 11 June 2019. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance;

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to

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continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Chairman's and CEO's Reports, but does not include the financial statements and the performance information, and our auditor's report thereon.

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

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

Independence

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

In addition to the audit we have carried out engagements in the areas of regulatory assurance, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Group.

Andrew Burgess
Deloitte Limited
On behalf of the Auditor-General
Auckland, New Zealand

TOP ENERGY GROUP DIRECTORY

PRINCIPAL BUSINESS

Electricity generation and lines distribution business

DIRECTORS

- Mr Richard Krogh *BE (Hons) CMEngNZ CMInstD – Chairman*
- Mr Gregory Steed *BCom CA MInstD*
- Mr Paul White *BArch DBA MBS*
- Mr Simon Young *BBS MSc Dip Hort Sc M Phil (Econ)*
- Mr David Sullivan *BCom CA*

OFFICERS

- Mr Russell Shaw *B Eng (Hons) MSc C Eng FIET FEngNZ MInstD – Chief Executive*
- Mr Steven James *ACA – General Manager – Corporate Services*
- Mr Paul Doherty *BBS, CA – General Manager – Finance*

REGISTERED OFFICE

Level 2, John Butler Centre, 60 Kerikeri Road, Kerikeri

AUDITOR

Andrew Burgess of Deloitte Limited on behalf of the Auditor General

BANKERS

- Australia and New Zealand Banking Group Ltd., Auckland
- Bank of New Zealand, Kaikohe
- China Construction Bank (New Zealand) Limited, Auckland

WEBSITE ADDRESS

www.topenergy.co.nz

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