ANNUAL REPORT
2019 / 2020

TOP ENERGY
Te Puna Hihiko

FOR THE FAR NORTH

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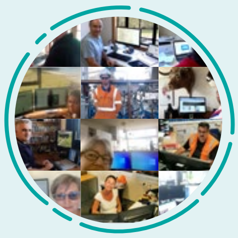


ABOUT **TOP ENERGY**

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.

32 THOUSAND

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

500 MILLION

The Group manages assets of more than $500 million.

150

The Group employs over 150 staff.

'A MOST **SUCCESSFUL AND CHALLENGING** YEAR'

I'll start my report by saying that the year to 31 March 2020 was both successful and challenging for the Top Energy Group.

Taipa 33kV line maintenance

It is pleasing to report that the areas of success included:

SAFETY

The Objective set out in the Statement of Corporate Intent (SCI), to improve the safety culture of the Group, has been met with a result which is quite outstanding, with no lost time injuries (LTIs) across the Group, for the third year running and this includes both our staff and the many external contractors who work for us.

This is the first year we have included our contracting partners in this measure. The SCI information later in the report includes the actual Total Recordable Injury Frequency Rate of 4.4, compared to the target of 3.6, reflecting a small number of mostly moderate medical treatments.

OPERATING EARNINGS

The Group's underlying operating earnings, as measured by EBITDAF, was $47.3m. All of the financial metrics detailed in the SCI were exceeded.

ENVIRONMENTAL, SOCIAL, CULTURAL

This is an area where we have been doing a lot of work and the reporting later in this report outlines our focus on the United Nation's sustainable development goals which we believe are most relevant to us. As well as enhancing our reporting, we have achieved those targets set out in our SCI.

THE NGAWHA EXPANSION PROJECT

This significant Far North project has advanced largely in line with the project plan – right up until the Covid-19 lockdown in the last week of March.

BUSINESS PERFORMANCE

47.3 MILLION	42.8 MILLION	0	17.1 MILLION
EBITDAF	NET OPERATING CASH INFLOW	LOST TIME INJURIES	NETWORK CAPITAL SPEND

Over the past year, the most challenging of the operating areas has been network system reliability (or network quality standards as they are defined in our SCI), where we almost achieved the internal target set at the beginning of the year. Chief Executive Russell Shaw talks about this further in his CEO report. In previous reports I have noted that the Company recognises the challenges that exist in relation to affordability of power for the Far North community. It is our intention to pass to the consumers the benefits that will come from the Ngawha generation project and other industry changes that may occur in the future.

This coming year, we are taking the first step in this journey by increasing the annual rebate to consumers to an average of $250 per residential consumer.

HEALTH & SAFETY

The safety of our staff and the public are always the most important aspect of the Group's activities. Not only did we not have any LTIs in relation to staff during the year, our Ngawha generation business has had no LTIs for the last 11 years. It must also be remembered that this operation is classified by WorkSafe as being a high hazard facility, recognising the potential for significant harm that could arise.

Our staff take all the necessary precautions to ensure the safety of the operations and this is reflected in their safety record. This year was also the first when we tracked any safety events relating to external contractors working for us, and it is pleasing to report that there have also been no LTIs in this group of workers.

FINANCIAL PERFORMANCE

Our operating performance was very pleasing, with an Earnings before Interest, Tax Depreciation, amortisation and Fair Value Movements (EBITDAF) result up 7% on the previous year. This has resulted in our outperforming the long-term value measures agreed with the shareholder in the Statement of Corporate Intent at the start of the financial year.

As we move through the Ngawha expansion project, our management of cash is of vital importance. Cash generated from operations was $8.4m greater than budgeted. Network capital expenditure is determined by our Asset Management Plan and we spent $3.6m more than we had planned, in this area. We remain well within our total debt facility of $355m, with borrowings at 31 March 2020 totalling $286.65m.

COVID-19

The clear and present challenge that emerged at the end of the 2020 financial year is Covid-19. Whilst the essential and regulated nature of much of our business insulated us from the worst economic effects of Covid-19, the lockdown on 25 March 2020 was a major challenge across all parts of the business, in particular for the Ngawha expansion project where all site work was required to cease.

While the performance of the Group for the year has been very pleasing, the impact and uncertainty that Covid-19 has brought to our community, our country and the rest of the world makes forecasting, in the short to medium term, very difficult. The speed with which the business environment is changing means that we will need to keep stakeholders informed of the impacts and our responses to them by other means than this annual report.

This report therefore outlines the information that is relevant to the past year and events immediately post balance date, identifies the major areas of risk which are developing and, where possible, the actions being taken to ensure the business maintains the services it provides to the Far North community.

Geothermal fluid separator vessel installed and connection of steam line in progress

NGAWHA EXPANSION PROJECT (OEC4)

Once again, the last year has been dominated by the project to expand the generation capacity at Ngawha. Much of the year was taken up with civil works, preparing the power station site, and beginning to construct the geothermal pipelines to and from the power station.

Early in the New Year, parts of the plant were shipped from various locations around the world. While the advent of Covid-19 created some uncertainty in relation to some of the later shipments, all essential items have now been received. The focus now is on getting the parts of the plant assembled and the fluid supply and the power delivery lines built.

Unfortunately, the site works ceased during the Level 4 lockdown that commenced in late March, and the final delivery date, previously the end of October 2020, will now be most likely be towards the end of this calendar year.

The impact of the current Covid-19 crisis on wholesale prices has been to lower the short-term prices quite significantly. However, the two major issues that are part of our forward planning for the project are a number of hedge contracts already in place, at prices which are at, or better than, the values we used in the original business case for the project. These will support the business over the next 2-3 years.

Secondly, it is unclear what wholesale prices will do over the next 3-5 years and there may be an upside to the current prices, just as much as there may be further reductions.

FAIR VALUE GAINS AND LOSSES

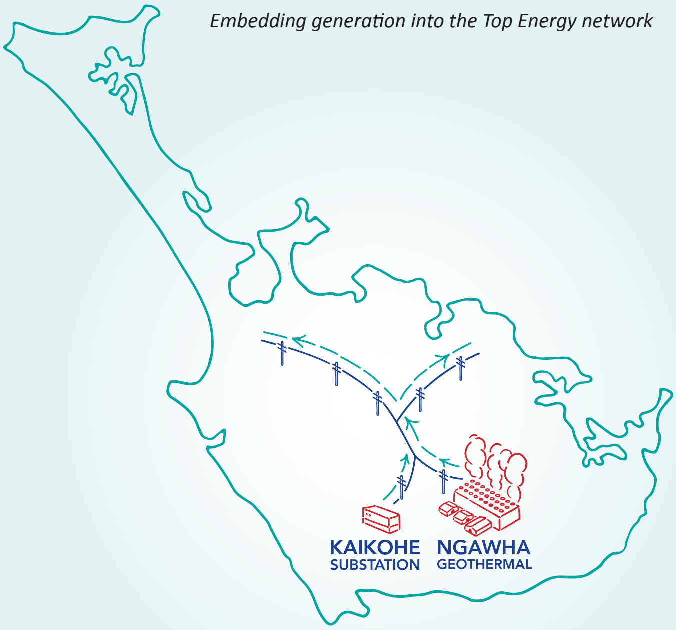
I noted in the previous section the reduction in wholesale prices. This raises the accounting effect of hedging of risks in relation to interest rates and energy prices. These hedges protect the Group from adverse movements in both areas, but any reported gains and losses have no impact on our cash position.

It should be noted that the funding agreements we have in place require a minimum level of interest rate and energy hedges to be entered into. In some cases, Directors consider that a greater level of hedging is prudent, and these decisions are made in the context of the Treasury policy adopted by the Board.

The reduction of interest rates has continued during the year and they remain at historically low levels. The accounting standard requirement that we revalue hedges to current market rates, results in the charge to the Consolidated Statement of Comprehensive Income for fair value gains or losses on financial assets.

In addition, the same requirement for any energy offtake hedges to be revalued also reflects movements during the year. Wholesale prices have been volatile during the year but, at year end, reducing prices have created gains to offset the other hedge contract movements.

Embedding generation into the Top Energy network



The Ngahwa substation site with foundations for 110kV poles

INDUSTRY ISSUES

In last year's report, I noted Top Energy believed it was appropriate that legislation be changed to allow lines companies to own and embed generation to a greater extent than is presently allowed.

Currently, we hold an exemption from those limits, but only to the extent that we are invested in the OEC4 expansion at Ngawha. We, and the rest of the line businesses nationally, have a need to maximise service levels to customers. This is often done using standalone generation capacity.

In the future, if Top Energy were to operate such standby generation, we would breach the legislation and the exemption that we hold. Yet, any inability to run such units would result in significantly increased numbers and lengths of outages for our consumers. We have an application before the Electricity Authority for a further exemption relating to these units. However, after nearly 6 months, the Authority has not made any significant advances in its consideration of it.

At least two years ago, I referred to the intention of the Authority to review the Transmission Pricing Methodology (TPM), which determines how Transpower charge lines companies for the use of the national grid.

Their final determination has been realised immediately prior to writing this report and the result is that Far North power consumers will, from 2023, pay increased transmission charges of about 33%. The Authority estimates that this will increase the power accounts of the average consumer by $20 per year, which they believe is reasonable. The impact on an area of low average incomes and increasing energy poverty is unacceptable and Top Energy will be challenging these increases wherever possible.

LOOKING FORWARD

As I noted earlier, Covid-19 has impacted the Group since the introduction of the Level 4 and Level 3 lockdowns. During Level 4, the Ngawha expansion site was closed down, although the remainder of the business continued to operate, as we are an essential service.

Under Level 3, the Ngawha expansion site was re-opened and contractors quickly re-established their teams. This situation will increase project costs to some degree but well within manageable levels. The disruption to our normal business practices can also be expected to impact on both the efficiency with which we operate and the costs that we incur.

Covid-19 will undoubtably have a major impact on our customers and the Far North communities. Directors remain confident in the ability of the Top Energy Group to continue to provide cost-effective services to the Far North and to fill a significant role in the Far North getting back on its feet, as we move through this crisis, which is affecting us all.

THANK YOU

I want to record my thanks to the management team, the staff and all my fellow directors for all their efforts over the last year.

It was always going to be a challenging year but, as we move forward, the complexities, the time involvement and commitment to serving our Far North community will increase.

Richard Krogh
Chairman

'TO MEET THE **NEEDS OF ELECTRICITY CONSUMERS** WITHIN OUR FAR NORTH COMMUNITY'

In this section we outline our approach to governance, describe the fundamental strategy pillars which guide us and our plans for the Groups broader sustainability plan.

EFFECTIVE GOVERNANCE

Improving the quality of governance is an essential responsibility of directors. In 2018 the Financial Markets Authority (FMA) revised its guidance on corporate governance and published a new handbook. We have used this handbook as the basis for updating our Top Energy Group Corporate Governance Code, which was adopted in September 2019. The Code includes specific documents dealing with:

- Code of Ethics
- Board Charter
- Audit & Risk Committee Charter
- Performance Evaluation policy
- Shareholder Engagement policy
- Risk Management policy
- Remuneration policy

The Code allows for anyone to raise ethical issues with senior board members or the Chief Executive and, if necessary, using the provisions of the Group's Protected Disclosures policy. While the first annual review of the Code is yet to take place, no reports have been received to date in relation to breaches of the Code of Ethics.

The Code also includes a Remuneration policy which applies to directors' fees, senior executive remuneration and reimbursement of expenses. Director fees are published as part of this report and directors are satisfied that the all remuneration paid to senior executives is fair and reasonable, having taken the appropriate external advice.

Directors note that an assessment of the performance of the Board and individual Directors was undertaken by the shareholder during the year and the results have been discussed with all the directors. The annual performance evaluations of the Chief Executive and senior executives were completed as scheduled.

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 our shareholder the Top Energy Consumer Trust, that the business is being managed prudently.

APPOINTMENT OF DIRECTORS

During the last year, a major step was taken to strengthen the governance of each of the two companies that make up the Group. New board structures were implemented to improve rigour around governance and to facilitate greater independent thought and inquiry.

The changes also assist each company to act independently and, as required, by the "arm's length" rules that apply to our ownership and management of the Ngawha power generator.

Previously, all Top Energy Ltd directors were also directors of the subsidiary Ngawha Generation Limited (NGL), along with one independent director on the NGL board. Now there are two independent directors on each Board, with the Group Chair, Chair of the Audit and Risk Committees and one other director common to both boards.

Jason McDonald was appointed to the Top Energy Board, and he and Paul White are the two independent directors. Robert Kirkpatrick has been an independent director on the board of Ngawha Generation for several years and has now been joined by Keith Tempest.

Richard Krogh (Chairman), David Sullivan (Chair, Audit & Risk Committees) and Simon Young are the directors sitting on both boards.

AUDIT AND RISK COMMITTEES

During the year, directors also decided that it is was better for each of the companies to operate separate Audit & Risk Committees (ARC). Again, this approach has been adopted to increase the rigour of governance and to ensure that each Committee focuses on those matters which are relevant to that company.

The Committees are made up of the ARC Chair, the board Chair and one of the independent directors. These two Committees will meet when there is common business to be addressed.

Taipa substation

STATEMENT OF CORPORATE INTENT

The company prepares a Statement of Corporate Intent (SCI) each year. It sets out the objectives of the Company and performance measures for the coming years and is reviewed by, and agreed with, the Trust. Four strategic pillars have been identified to support the objectives set out in our SCI have been developed during the year to address specific areas of action.

Our 4 strategic pillars

VERTICAL INTEGRATION

Investments to focus on risk diversification instead of pure growth

FUTURE INVESTMENT

The desire to create value needs to be balanced against our requirement for financial sustainability

MAINTAINING OUR IDENTITY

It is essential to maintain our identity as a Far North, consumer owned company with links to the economic development in the Far North

TRUSTED SOURCE

Become a trusted source of the truth

SUSTAINABLE DEVELOPMENT GOALS

Our sustainability goals

The work that went into developing our strategic pillars led the business to adopt **8 of the 17 United Nations' Sustainable Development Goals (SDGs)**. Known globally as Agenda 2010, these SDGs bring together the economic, social and environmental dimensions of sustainable development. The 8 SDGs chosen are appropriate to our business, our role within the Far North community and where we can make the greatest impact. They have been linked to our SCI to help anchor our efforts in in this direction, aligning them to our business strategy and ensuring they contribute to the Group's broader sustainability development plan.

1 NO POVERTY

End poverty in all its forms everywhere.

OUR GOAL
To build strong relationships with our community so young people reach their potential, local businesses succeed and the Far North benefits.

7 AFFORDABLE AND CLEAN ENERGY

Ensure access to affordable, reliable, sustainable and modern energy for all.

OUR GOAL
To increase the use of renewable energy sources in support of the Government's 100% renewable targets, for the good of the environment and our business.

8 DECENT WORK AND ECONOMIC GROWTH

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

OUR GOAL
Safety is our No. 1 priority. We are committed to keeping our communities and people safe.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

OUR GOAL
To provide consumers with access to a reliable energy sources that meets their needs.

10 REDUCED INEQUALITIES

Reduce inequality within and among countries.

OUR GOAL
To minimise the cost of serving and supporting consumers in an area which has low socio-demographic and -economic factors.

11 SUSTAINABLE CITIES AND COMMUNITIES

Make cities and human settlements inclusive, safe, resilient and sustainable.

OUR GOAL
To respect our operations that cross land areas and utilise resources treasured by our community.

13 CLIMATE ACTION

Take urgent action to combat climate change and its impacts.

OUR GOAL
To reduce emissions for the good of the environment and our business.

15 LIFE ON LAND

Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

OUR GOAL
To minimise the impact of our operations on surrounding land areas, for the good of the environment and our business.

GROUP DIRECTORS

Richard Krogh

Richard Krogh was appointed as Chair on 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 Chair of Port Taranaki Limited and Chair of PKW Farms GP 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.

David Sullivan

David was appointed to the Top Energy Board in August 2018. In December 2018 he 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. David chairs both Audit and Risk Committees of the Group.

Simon Young

Simon has over 20 years' experience in the New Zealand electricity industry and associated financial markets and is currently a director of The Lines Company, and FCL Metering. He has previously been director of a number of electricity-related public and private companies including listed generator retailer TrustPower. As an executive Simon has been General Manager of Opunake Hydro, Managing Director of Alliant Energy New Zealand Limited and founding Managing Director of Empower Ltd, New Zealand's first independent electricity retailer.

TOP ENERGY DIRECTORS

Jason McDonald

Jason was appointed in June 2019. He is currently an independent consultant, chair of Mevo Limited and director of Orion and Connetics. Jason has previously held senior executive positions in strategy, sales marketing business development roles in Meridian Energy and has experience in New Zealand and international renewable energy projects. He has an electrical engineering degree majoring in power systems.

Paul White

Paul is a consultant providing a range of management, organisational and Māori development services. He is Chairman of Te Rarawa Farming and a director of GNS Science and Te Matapihi. Previously Paul was CEO of the Ngai Tahu Development Corporation and has held other directorships, including with Tai Tokerau Forestry, Canterbury District Health, Housing New Zealand and as the Chair of Te Rarawa's Asset Holding Company. Paul has been a director since May 2010.

NGAWHA GENERATION DIRECTORS

Dr Robert Kirkpatrick

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.

Keith Tempest

Keith Tempest spent 23 years with electricity generator TrustPower Limited resigning as Chief Executive in 2009. He progressed his career as a Professional Director across a range of companies and industries, including Crown Infrastructure Partners limited, Port of Tauranga Limited, Transpower NZ Limited, NZ Bus Limited, UltraFast Fibre Limited and Bay Venues Limited. Keith has been directly involved in large-scale capital infrastructure projects across New Zealand and Australia. He is a Chartered Fellow of the Institute of Directors.

RESPONDING TO COVID-19

As our 2019/20 financial year closed, New Zealand declared a State of National Emergency in response to the Covid-19 pandemic. This unprecedented and historic event has had, and will continue to have, significant impact on everyone in New Zealand and internationally.

Covid-19 has affected our business operations and staff, and our Far North community. As a consumer owned company, we will ensure our responses to the challenges are in the best interests of the Company and people of the Far North.

Since the beginning of Lockdown Level 4, directors of both Top Energy and Ngawha Generation have been meeting regularly, at least every two weeks. In addition to supporting the directors with the provision of information and advice, the management team have been ensuring all staff are as safe as possible and the electricity supply to the Far North, and power generation from Ngawha, are maintained reliably.

This has taken an enormous amount of work and directors wish to acknowledge the dedication of all of Top Energy's staff and the flexibility that they have shown in working through the issues.

At the time of writing, the immediate future is uncertain for our community and country. However, we must acknowledge the courage and determination of the people of New Zealand to keep the level of infection at low and manageable levels. Like the rest of the nation, we are confident that the economy will open up again with no corresponding explosion of new Covid-19 cases.

Managing through this uncertainty is a key focus for directors. Identification of risks, the effect they might have on the business if they materialise, and how we need to eliminate or, at least, manage them, are the basis of the governance practices that we have in place.

Following balance date, the Company has assessed the risks faced by the Group, modeled a number of scenarios and taken considered steps to manage our way through these uncertain times.

Directors are confident that Top Energy will weather this storm and continue to provide the energy-based services that the people of the Far North require and deserve. We have the necessary financial strength, support from our bankers, and a team of highly competent and committed staff and contractors.

'LOOKING TO THE FUTURE **AFTER AN EXCELLENT RESULT** FOR THE YEAR'

After 3 years with no lost time injuries, we can be confident that Top Energy staff have moved the bar up to a new level with their focus on safety.

Thinking and working safely is how we do it now.

7.0%
EBITDAF OVER LAST YEAR

7.6%
NETWORK REVENUE INCREASE

Service Levels

For a number of years, we have been tracking a downwards path for the number of outages our consumers experience each year. In a difficult year, during which we experienced a number of significant storms, we have largely maintained reliability, as measured by SAIDI (system average interruption duration index). The Statement of Corporate Intent targeted another reduction this last year, at 318 minutes per customer; but this proved unattainable at this time. The final result was 366 minutes per customer, an increase of 15 minutes over the previous year.

The Regulator (Commerce Commission) sets a number of targets which lines companies must achieve, to avoid the potential for sizable penalties. In respect of the service we provide, the levels set are a "target", a "collar" and a "cap". The 366 minutes achieved for SAIDI results in our ending just in the good performing range (the collar) and gives us the opportunity to increase our revenue in future years, although there is no obligation on us to do so.

Another service quality measure set by the Commission is SAIFI (system average interruption frequency index) and for that measure we equalled the regulatory collar.

Diesel generator sets and the plan to improve reliability

We have installed a number of diesel generator sets, mainly in and around Kaitaia. These supplement the two units that we have been operating at Taipa for a number of years.

We are continuing to experience delays in obtaining access rights for the new 110 kV line from the Wiroa substation to Kaitaia. These delays mean that the 10,000 consumers in the north of our region are exposed to both unplanned outages and when we turn the power off to carry out planned maintenance work. This is unacceptable, and these new diesel gensets will go a long way to addressing these issues.

The underlying operating performance as measured by EBITDAF for the Group was **7.0% above last year**, an excellent result.

Once again, the **Ngawha operations exceeded budget by nearly $1m** and the level of building activity in the Far North has resulted in **capital contributions of $2m being earned**.

Network revenue increased by 7.6%.

Bonnets Road diesel genset installation

However, for us to be able to operate these units, once the 31.5MW power station at Ngawha comes online, we will require an exemption from the Electricity Authority. Our application for such an exemption has raised complex issues which the Authority wishes to investigate, and this has resulted in a lengthy process for consideration of our application.

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

The past year has been very much focused on preparing the Ngawha site for the construction of the expansion power station and the geothermal fluid pipelines that will take the fluid from the production wells to the station and then onwards to the re-injection wellheads.

For much of this time there have been up to 200 people working on the site. During that time, we have experienced no lost time injuries and only a small number of medical treatments being required. For a project of this size and complexity, this is a very pleasing outcome.

Equipment for the new power station was shipped from various international ports, from the New Year to the end of the financial year and, at the time of writing, has all arrived in New Zealand. The impact of Covid-19 is now the most significant issue which will determine when and at what cost the project is completed. The original delivery date was the end of October 2020. It is now expected that this will be around the end of the 2020 calendar year, which remains significantly ahead of the planned date from the original business case, of the end of June 2021.

The impact of Covid-19 will be the major issue to impact on us for the coming year (and beyond)

The government has already put in place a number of arrangements to support business generally and the electricity industry specifically. In an attempt to avoid failures of energy retailers, particularly smaller retailers, deferral of settlement by some of these has been allowed. The risks of business failures will have to be managed by the Company, along with a multitude of other issues, many of which we may not presently be aware of. Through this time, Top Energy will remain focused on maintaining service delivery, the safety of our staff and the public and supporting the people of the Far North through these extraordinary times.

I want to thank all of our staff for their commitment and support during a challenging but successful year and thank them in advance for their efforts in the coming difficult months.

Russell Shaw
Chief Executive

FINANCIAL **SUMMARY**

The Group has continued to perform very well, with EBITDAF improving by $3.1m (+7.0%) from 2019 and exceeding the year's targets by 4%.

Revenue grew by 2.1% ($1.6m), achieved with the continuing strong performance of the Network, which was up $4.2m, but with overall electricity consumption reducing by 1.6%. Capital Contributions, being the network extensions driven by customer requirements, reduced by $0.8m, following a very strong year last year, and remains high compared to historical trends.

Generation revenue was $1.7m lower, following the prior year which experienced higher spot prices (average of $28/MWh higher), combined with slightly lower plant availability (down 0.5%) at 95.7%, due to the need to replace turbine bearings during the year. Contracting revenue was down $0.1m, closely aligned with the movement in new network connections referred to under Capital Contributions.

A 4.6% decrease in operating expenses was largely driven by Other Expenses with lower carbon costs as we used hedged NZUs purchased in previous years to meet our ETS obligations and the effect of the transition to the new lease standard (NZ IFRS 16), under which most operating leases are now disclosed on the balance sheet. Transmission charges were also marginally lower. Areas of expense which increased included employee expenses and raw materials, due to higher Network maintenance.

Depreciation costs increased by $1.4m, of which $1.0m was attributed to the higher Generation Asset value adopted last year and $0.5m to the new Leased Assets under NZ IFRS 16.

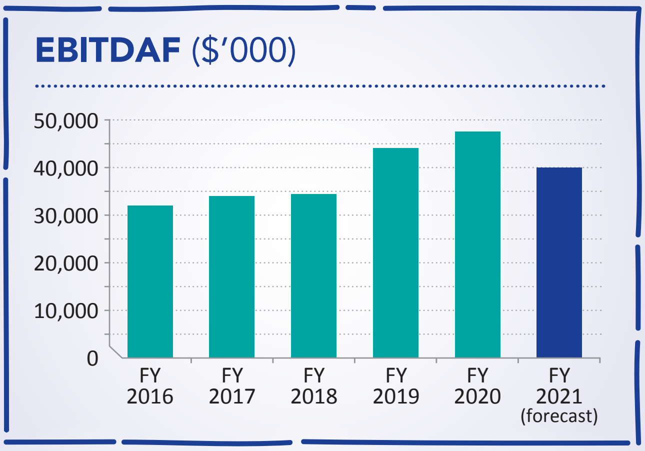
Interest expense decreased 11.9%, benefiting from both lower interest rates and higher network capitalised interest, with 2 significant projects during the year. When including capitalised interest for the network projects and the significant investment in the Ngawha expansion, total interest costs increased by $4.5m. Debt increased by $74.1m during the period, with funding facilities in place that are sufficient for the Group requirements.

The fair value adjustment on financial assets was a loss of $15.3m arising from the Group's hedging strategy. This included the impact of Covid-19 which caused a further eduction in interest rates, partly offset by lower wholesale energy prices, due to the sudden drop in national demand. Energy prices also dropped due to suddenly lower national demand.

Generation assets were revalued as at the reporting date to ensure consideration of the market environment caused by Covid-19. Due to the present uncertainty, a conservative position was adopted, producing a valuation loss, post tax, of $3.3m, with a corresponding decrease in the revaluation reserve.

Overall, total equity increased by $1.8m for the year, the net effect of the profit after tax of $5.1m and the $3.3m revaluation loss.

It is anticipated that EBITDAF for 2021 will reduce by the reduction in the Networks regulated price path which was, predominately driven by the lower Network's regulated price path, which was reset from 1 April 2020, and to a lesser extent, lower wholesale electricity prices for power generated at Ngawha. In addition, following scenario modelling, there are further impacts that could be experienced as a result of Covid-19 which have been considered by the Group.



2.1% REVENUE GROWTH

$1.7 MILLION GENERATION REVENUE LOWER

$4.2 MILLION NETWORK REVENUE GROWTH

7.0% INCREASE IN EBITDAF

-4.6% OPERATING EXPENSES

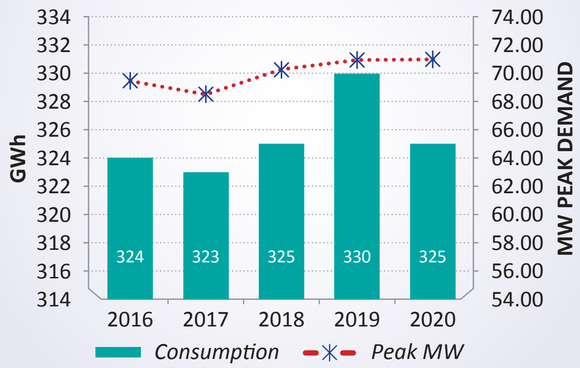
-1.6% NETWORK CONSUMPTION DECREASE

During 2020, we experienced a decrease of 1.6% in Network consumption, following the 1.5% increase in 2019. Growth was seen across the small commercial consumer group (+2.5%) with residential consumption down 1.3% and large industry down 6.6%. Peak Demand was flat after a modest 0.9% increase last year.

On average, temperatures were 0.2 degrees higher than the 10-year average, and 0.3 degrees cooler than last year. Significant progress has been made implementing our future pricing strategy and, following a trial over the past 12 months, time of use pricing is available for all consumers from 1 April 2020.

Our pricing strategy continues to evolve as we incorporate the impact of new technologies and customer behaviours, supported by the expected improvement in smart meter rollout across the Network.

Total energy sold 2016 to 2020



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

	Actual *31.03.2020*	Target *31.03.2020*	Actual *31.03.2019*
FINANCIAL PERFORMANCE TARGETS			
Group			
Net profit after tax as a percentage of average shareholder's funds	11.8%	10.0%	11.6%
Ratio of shareholder's funds to total assets	1:2.9	1:3.1	1:2.6
Network business			
Profit before finance and tax as a percentage of total tangible assets	10.1%	9.1%	9.5%
Net profit after tax as a percentage of average shareholder's funds	12.6%	11.0%	12.2%
Generation business			
Profit before finance and tax as a percentage of total tangible assets	4.1%	3.7%	6.4%
Net profit after tax as a percentage of average shareholder's funds	12.9%	11.5%	16.1%

(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 minor activities carried out by the Group. Network Business plus Generation Business will not add to the Group due to the immaterial amounts from other major 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.

NETWORK QUALITY STANDARDS*			
System Average Interruption Duration Index (SAIDI). *The average duration of high voltage outages (including planned) per customer (minutes)*	366	318	352
System Average Interruption Frequency Index (SAIFI). *The average number of outages (including planned) per year for any customer*	4.5	4.2	3.6
** Above items are measured using the reporting requirements of the Commerce Commission.*			
SAFETY CULTURE			
Total Recordable Injury Frequency Rate (TRIFR)	4.4	3.6	2.1

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.

‘WORKING TOGETHER TO DELIVER POWER TO OUR CUSTOMERS’

Top Energy’s Network team is responsible for managing the network to ensure it is safe and reliable.

This work is supported by our inhouse Contracting team who provide construction, maintenance, and vegetation management services.

A NETWORK THAT DELIVERS TO ITS CUSTOMERS

It has been a busy year with the teams working on several major projects to increase network resilience and reduce outage restoration times for our customers.

Real-time field information improves restoration response. Top Energy has introduced an integrated distribution management system that presents real-time information from the customer, field and network, enabling a more efficient outage restoration response. This complex project has taken 2 years to deliver.

The GE Advanced Distribution Management Solution (ADMS) replaces the traditional Supervisory Control and Data Acquisition (SCADA) systems.

The initial deployment introduces an outage management system for both planned and unplanned outages. The ADMS platform technology has improved the network response by merging real-time network status, asset condition and customer information, making it available to operators through a single graphical interface.

This is an investment in safety, for members of the public, our staff and assets. All actions are automatically validated against safety protocols and business rules. It allows the network new ways to leverage previous investments in field automation and data capture, supporting ongoing reliability initiatives.

The critical nature of this relationship became clearly apparent during the Covid-19 global pandemic New Zealand lockdown that came into effect at 11.59pm on Wednesday 25 March.

As an essential service, our network and contracting teams stayed working together on the frontline to ensure the people of the Far North continued to have electricity during these unprecedented and challenging times.

Generators improve network flexibility and reliability

The generator park at Bonnetts Road, Kaitaia, which was granted resource consent in 2018, is now functioning at 6MW and will increase to 8MW later this year.

Working in combination with the 3MW diesel generation at the Kaitaia depot, it introduces a high degree of flexibility into how the network is managed and provides an additional 12MW of back-up generation to the area. This has been a complex project which has substantially improved the reliability of the power supply to our northern network, supplying over 10,000 customers from Kaitaia to the Cape.

This area is vulnerable to outages as it is supplied from a single, aging high-voltage line from Kaikohe. The conductors will also need replacing around 2030, which will require several weeks of outages unless we have an alternative option.

The extra capacity provided by these diesel generators, which effectively operate together as one large generation station, provide more certainty to how Top Energy plans and designs its network.

Bonnets Road diesel genset installation

Ngawha 110kV interconnection

With the development of the Ngawha Geothermal power station to include a further 31.5 MW of generation to augment the existing Top Energy Network, it has been necessary to construct new infrastructure to connect the generation into the Top Energy distribution system.

This has involved Ngawha Generation constructing a new substation and the building of approximately 5km of new transmission line to connect it to the Kaikohe substation.

Solar uptake

Interest in solar power continues with customers increasing the total generation on the network to 4.4MW, up 1.1MW.

We have also received enquiries for the connection of large solar-generation projects rated at about 20 MW.

Omanaia substation upgrade

Another milestone reached this year was the completion of the upgrade of Omanaia Substation, which includes two diesel generators. This provides a back-up supply to our customers in South Hokianga, while refurbishment of the incoming 33kV sub-transmission line, which is scheduled for completion in 2020, is undertaken.

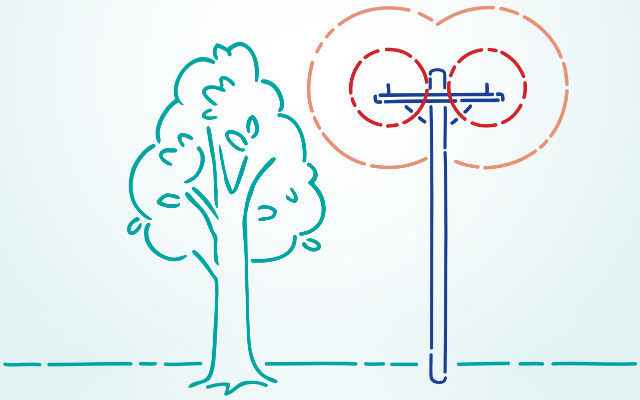
Omanaia 33kV Structure Refurbish (stages 2 & 3)
The single-feed sub-transmission line to Omanaia is being refurbished with new arms and insulators, and suspect poles are being replaced.

Maintaining the network

The distribution system is steadily being refurbished; wooden poles, crossarms, conductor and specific items of plant are being routinely replaced, proactively in planned programmes and reactively as they are inspected and found to be in a poor state.

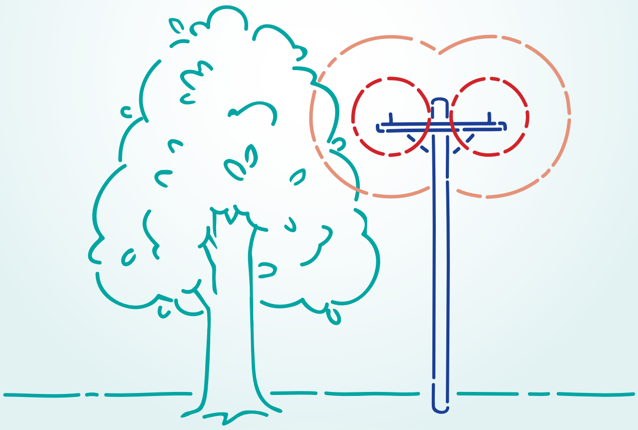
We replaced 40 wooden poles with concrete poles as part of our on-going programme to replace 800 wooden poles.

POWER LINE VEGETATION CLEARANCES



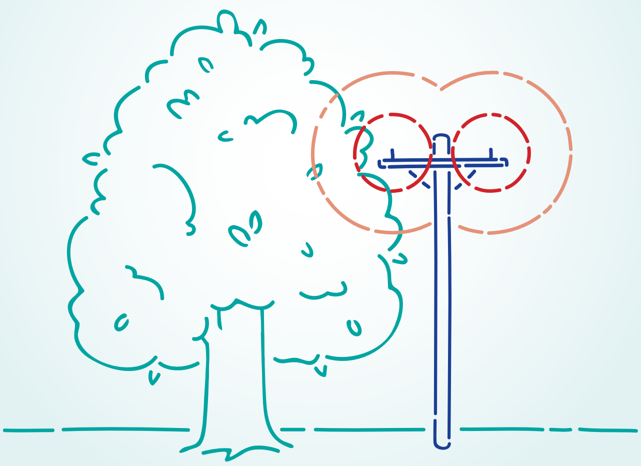
TREE OUTSIDE NOTICE ZONE

(Risk Warning Notice)



TREE INSIDE NOTICE ZONE

(Hazard Warning Notice)



TREE INSIDE GROWTH LIMIT ZONE

(Cut or Trim Notice)

MANAGING TREES AROUND THE NETWORK

Trees are the main cause of power outages on the network and can create 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.

Over the year, we invested over $1.8m in our vegetation management programme. This is a cost ultimately borne by power consumers.

Our staff can advise tree owners of their responsibilities and to ensure tree-cutting work is safe and effective. If you see a tree contacting or burning in power lines, please call 0800 867 363. These trees need Top Energy's specific and urgent attention.

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 the safety issues are high risk.

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.

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

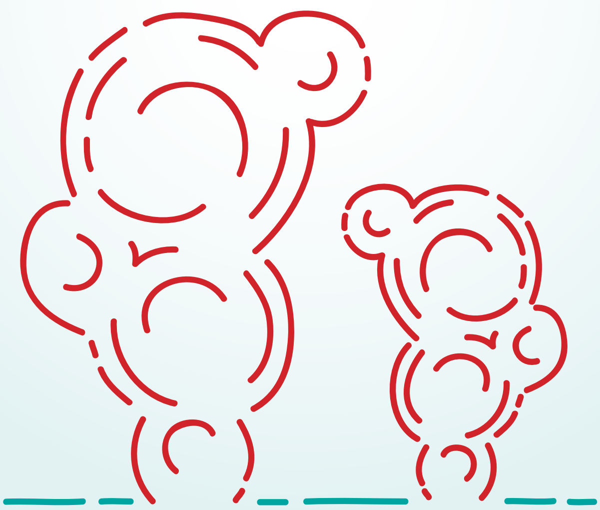
THESE TREES NEED THE SPECIFIC AND URGENT ATTENTION OF TOP ENERGY.

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

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

96%
ACTUAL AVAILABILITY

11
YEARS WITH NO LTIS



REGULATIONS

Our safety case lodged with WorkSafe NZ in the previous financial year for the existing plants and for the expansion upgrade project OEC4, has now been approved.

This helps assure staff, contractors, emergency services and the wider community that the potential for major incidents at the Ngawha power station and expansion project have been systematically assessed, and effective and suitable controls are in place.

SAFETY NUMBER ONE

We continue to maintain our excellent safety record, with power station staff achieving 11 years with no lost time injuries (LTIs).

This supports the safety culture of the Top Energy Group, which celebrated three years without a single LTI.

Once again, Ngawha operations maintained its accreditation under the Public Safety Management Systems (NZS 7901:2008) and the Quality Management Systems (ISO 9001:2016).

The new Ngawha control room

GETTING ON WITH THE JOB

While the major Ngawha expansion is progressing, the team at the existing power station has ensured that the existing day-to-day operation runs smoothly.

Typically, the 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. The stations are considered to be base-load generators, which means that they run continuously, except for planned maintenance periods.

It is not unusual for us to exceed our monthly target and last financial year was no different. Actual availability for the entire year was >96%.

The station has consistently produced up to 70% of the total annual electricity consumed 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. Once online, NGL will provide in excess of 100% of the power required in the Far North for significant periods of time.

PROJECT AND SHUTDOWNS

Our annual shutdown in October involves a number of local contractors and specialists who assist us with our inspection and maintenance activities. During the shutdown this year there were 50 additional personnel onsite.

We have fostered excellent working relationships with our service providers, and we would like to thank them for their efforts and assistance. Supporting a 24/7/365-day operation takes commitment from all of them.

HIGHLIGHTS FOR THE YEAR

New control room

After the blessing and official opening of our new control room on 7 December 2019, staff migrated operations to the new building. A key milestone in the Ngawha expansion programme.

New people

Chris Pickworth

Our new Process Safety Engineer, Chris joined the team in July 2019. Prior to coming on board, he worked with us on the development of the Ngawha safety case.

Fabian Hanik

Fabian joined the team in May 2019 as Assistant Plant Manager. His industry background includes working in a team responsible for over 400MW of geothermal generation in Taupo. He has previously interned for us over a summer while studying for a BEng in Mechanical Engineering at The University of Auckland.

Both Chris and Fabian are part of our plans to scale the team at Ngawha in preparation for the expanded power plant coming online later in 2020.

'CREATING A **RELIABLE AND AFFORDABLE** ELECTRICITY SYSTEM FOR THE FAR NORTH'

The new 31.5MW geothermal power station at Ngawha is a lynchpin in Top Energy's overall energy strategy. It will provide a more reliable and environmentally sustainable network and be a lower cost source of electricity generation.

100
Contractors, subcontractors, and suppliers locally and from outer regions

165 THOUSAND
Hours worked at site in the last 12 months

350 THOUSAND
Hours since the start of the project in October 2017

Security of supply and reliability will be improved for our local consumers, and the region will become less reliant on generation from the south and associated transmission through Auckland.

Once complete, generation capacity at the Ngawha Geothermal Power Station will more than double to 57 Megawatts, with the possibility of growing this to 88MW by 2025.

EXPANSION PROGRESS

Excellent progress was made in the last year. Following successful testing of the geothermal fluid injection wells in early 2019, teams pushed forward on multiple fronts to complete civil works and start construction of the power station, the pipe lines joining the wells to the station, a new control room and substation. By March 2020, up to 200 people were on site on any day.

SAFETY

Site safety and safe working practices were strengthened, with the large numbers of people on site at any one time, and the often high-risk nature of their work.

- Health, safety and environmental plans were reviewed regularly
- New workers were required to attend at least two different site inductions
- Weekly project coordination meetings were held with all contractors
- Zero-tolerance approach has been taken to drugs and alcohol

Knowing that the highest risk is around workers not doing the right thing, our contracting partners remain committed to ensuring project safety processes are followed.

TIMELINE

2019

MAY 2019
Builder of the new control room and office for the plant operators sets up on site.

JULY 2019
Pipeline routes, internal roads, and the power station platform completed.

SEPTEMBER 2019
- Construction starts on the geothermal fluid pipelines and the substation.
- Top Energy starts construction of the transmission lines from the Ngawha substation.

OCTOBER 2019
First consignment of heavy power station equipment arrives.

DECEMBER 2019
The new control centre building is finished. Representatives from Ngawha Marae perform a blessing ceremony at dawn on 7 December 2019.

2020

MARCH 2020
- Last of the heavy power station equipment arrives on site.
- Contractors focused on mechanical erection of the main power station equipment, construction of the electrical switch rooms, installation of the geothermal fluid piping, and the electrical fitout of the Ngawha substation.
- Civil works start at the Top Energy Kaikohe substation bay extension.
- Work stops in the last week of March on the expansion project as a consequence of the Covid-19 alert level 4 lockdown.

WE'RE AHEAD DESPITE COVID-19

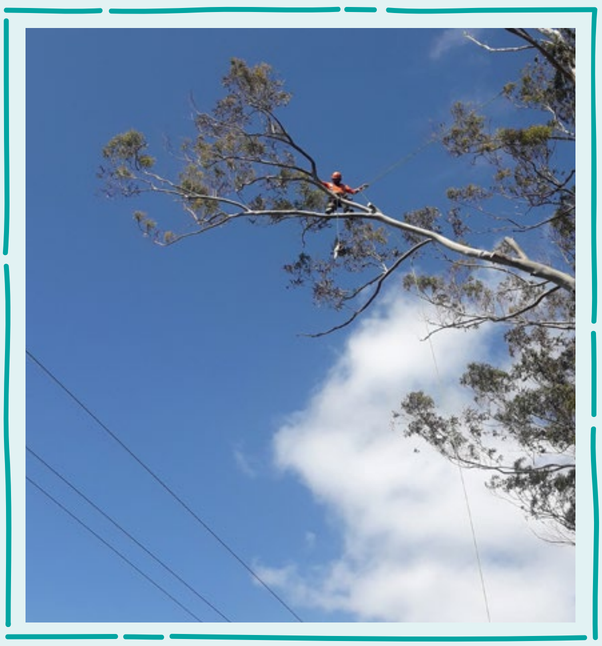
As the nation moves down through the Covid-19 alert levels, we will be working closely with all our contractors on site to safely re-establish their teams. This involves adopting controlled site entry, distancing and other health and safety measures to ensure the safety of both our own staff and all contractors' personnel. Despite the Covid-19 lockdown, we are on track to commission the station by the end of 2020 – earlier than the original plan.

'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

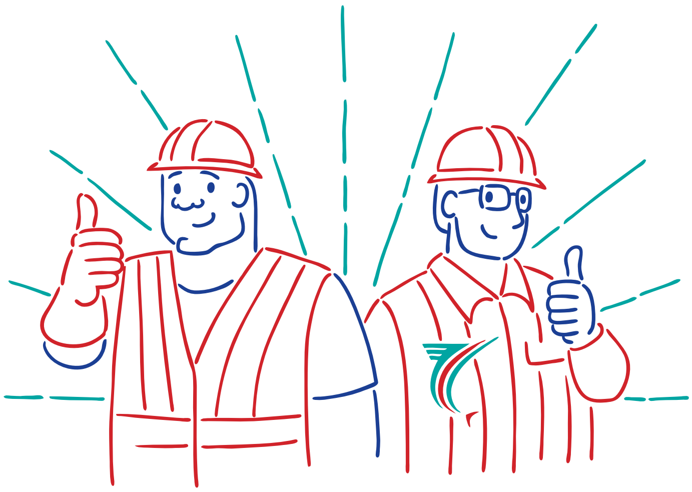
For the third year running, the Group achieved zero lost time injuries. A fantastic achievement for our staff, it is also significant, as this was the first year we included contractor performance in our statistics. It is a testament to the hard work of our people, and everyone's focus on living up to our value of safety and ensuring that every day we get home safely.



PUBLIC SAFETY

The public's safety around our electricity network remains a key focus for us. To ensure effective controls are in place to safeguard our community we operate a Public Safety Management System (PSMS) certified to Electricity Industry standard NZS 7901. Its review process is considered industry 'best practice' and this year's external audit returned another great result.

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



HEALTH, SAFETY & WELFARE COMMITTEE

The Health, Safety & Welfare committee meets monthly to encourage staff engagement in workplace health and safety and to drive continuous improvement. It provides representatives with a great opportunity to discuss significant health and safety concerns with the Chief Executive.

All staff have the opportunity to contribute to health and safety processes through regularly held Safe Team meetings.

Contractor work safety was a major focus last year, ensuring safety remained top of mind across everyone working for the Group.

Third-party assessment of contractors' health and safety systems saw the percentage of contractors with up-to-date assessments double from 2018 to 2019, and those with expired assessments were down to zero. A great result!

MENTAL HEALTH INITIATIVES

Mental health challenges are common in New Zealand, affecting the wellbeing of one in five people. Left undiagnosed, they can have a profound impact on a person's home life and reduce their ability to perform work safely and effectively.

Given the everyday challenges of our types of work, we made significant effort to improve our awareness of everyone's mental health as part of ensuring our people remain safe at work and return home to their families each day.

Embracing our value of "Together", this year we invited mental health advocate Mike King to speak to our staff and their families to share his own journey and experiences with them, and to discuss coping and recovery strategies. The sessions have had a lasting, positive effect on our people and given us the opportunity to strengthen the supportive environment we strive for at 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.

The company's online wellness programme 'Tracksuit – Inc' was well supported with 78% of staff participating in the programmes, topics and challenges focused on creating a healthier lifestyle.

Embrace Winter

Getting cosy when it's miserable outside has to be one of the best parts of winter. Activities for this challenge were designed to blow away the winter blues. Focused on the importance of social interaction and coming together, teams were encouraged to share a meal, a game of cards or go for a group walk.

Front Row

Leading up to the Rugby World Cup, this challenge involved some daily trivia, a few brain teasers and a little bit of physical activity thrown in for good measure. Some of the fun activities included peeling oranges with one hand and playing coin rugby! The challenge required team members to pick a rugby position related to their own personality and skills. This helped them understand their role in the team during the two-week challenge.

SHIFT – The Kiwi Edition

Teams were encouraged to get moving, break up their workday and have fun with their colleagues during the Kiwi edition of the SHIFT team walking challenge! Run over four weeks, this virtual tiki-tour across New Zealand followed parts of Te Araroa trail. Teams earned points for tracking their daily steps and learning something new through a range of activities.

LONG SERVICE RECOGNITION

Five employees were recognised for achieving significant long service milestones, accumulating 75 years of work experience between them.

Glen Rogers, Terry Price, Kevin Farrington, Monty Walker and Peter Yerkovich have all provided 15 years' great service to the company.

Glen Rogers

Terry Price

Kevin Farrington

Monty Walker

Peter Yerkovich

Heather Fitchett

Heather Fitchett joined Top Energy in February 1995 as an office temp. She had recently gained a business diploma. Noticing her potential, 'can do' attitude and willingness to take on work, we quickly offered her a permanent role in the retail arm of our business.

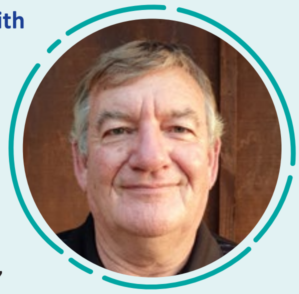
When the industry restructured in the late nineties and we closed our retail business, we were keen to keep Heather on, so we moved her across to our Network team. She spent many years there in general administration, before moving into various supervisory roles within Network Operations.

In the 25 years Heather's been with Top Energy, she has gone from making photocopies to managing people, and now looks after Fault Dispatch Operations, a department critical to our fault response efforts.

We would like to congratulate Heather on her 25-year service achievement and thank her for her continuing efforts at Top Energy.

RETIREMENT

Neil Tapp



Neil began his career with Top Energy back in 1976, when the Company was still known as the Bay of Islands Electric Power Board. His first job as a fresh-faced 23-year-old was to operate the highway borer truck in the lines crew, digging holes for poles.

Enjoying his work with the crew, he trained to be a Linesman and spent many years in the field before becoming an Overseer based at the Kaikohe depot. It was here that his talent for technical drawing was discovered and was developed further, taking formal training in CAD (Computer Aided Design).

Neil's contribution to the development of CAD technology at Top Energy has been enormous. Many large jobs for significant Far North businesses were drawn and completed by Neil during his time with us.

In 2019, after 43 years, Neil made the decision to retire. In keeping with his work ethos, he gave the business a long notice period to ensure he had plenty of time to pass on his wealth of knowledge to the team. We would like to thank Neil for his long and loyal service and wish him the all the best for his retirement years.

Kari Pou

Kari Pou retired from Top Energy this year after an amazing tenure of 54 years!

Starting out as an Electrical Apprentice in 1967 when we were the Bay of Islands Electric Power Board, Kari has worn many hats over the years. From Electrical Technician, Senior Technician, Test Department Superintendent to Technical Services Trainer to his most recent position of Maintenance Engineer – Substations.

A Top Energy stalwart with a wealth of knowledge on all aspects of our history, he mentored and trained many of our Technicians over the years. His knowledge of Top Energy Substations and protection systems was second to none, mostly because Kari worked on the construction and commissioning of most of them.

Unfortunately, due to the Covid-19 pandemic we were unable to hold a company event to celebrate Kari's retirement, but we will make sure this happens soon. We would like to wish Kari the best for his well-deserved retirement.

REWARDS AND RECOGNITION

Launched in 2013, our 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.

Key facts for the last year

143 Employees displaying positive actions / behaviours

33 Employees successfully achieving stretch targets

13 Employees making outstanding contributions to the business

Some examples of these include:

Exceptional workmanship and attention to detail	Proactively managing fatigue and always looking for ways to improve safety
Consistently assists and goes beyond expectations in his role as a Faultman	Making the right safety decision
Working after hours to remove trees under difficult conditions	Always ensuring a positive outcome for the customer

STAFF DEVELOPMENT

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

- Level 6 NZ Diploma in Infrastructure Asset management
- NZ Certificate in Electricity Supply (Introductory)
- Infrared Thermography
- Fibre Optics

Several staff continued their multi-year training towards their industry qualifications:

- Level 6 NZ Diploma Surveying
- Level 4 NZ Certificate in Horticulture (Arboriculture)
- Level 3 NZ Certificate in Arboriculture
- Level 5 National Certificate in Electricity Supply
- NZ Certificate in Electricity Supply (Introductory)
- Electrical Services Technician (EST)

Three staff members continued working towards a Graduate Diploma in Business Studies while one staff member is working towards an MBA through Massey University.

A workshop on Business Continuity was attended by many from the business, and a 'Team Leader Essentials' workshop was held at the NZ Institute of Management. This workshop was aimed at understanding the role and responsibility of the team leader and manager in today's workplace.

Secondment and promotion

In the past year, four staff members went on secondment to more senior roles in different parts of the Top Energy Group. These secondments provided them with an opportunity to hone their managerial skills and gain a more holistic view of the business.

Elaine Collinson and Gary Stowell temporarily covered for colleagues who were needed on projects elsewhere, and the other two secondments led to promotions. Ian Robertson was promoted to General Manager Network and David James to General Manager Contracting.

Great for career advancement, secondments, like all our staff development programmes, are an investment in the future of Top Energy.

Elaine Collinson

Ian Robertson

'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 18 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

- $30,000 awarded 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 WINNERS

BAY OF ISLAND TOURS

Bay of Islands Tours have become very successful by operating fun and unique group tours on land in the Bay of Islands region and surrounding areas.

All their tours are led by friendly, professional guides with extensive local knowledge and suit all ages and interest.

Co-founders Matthew Barnett and Chloe Van Dragt have used their grant to:

- set up a new vehicle yard for their growing fleet of vehicles,
- fund the purchase and signwriting of two new vehicles,
- provide their drivers with training and uniforms, and
- make two full-time and four part-time offers of employment.

www.bayofislands.tours

ON2IT ELECTRONICS

Based in Oromahoe, On2it Electronics designs, repairs and fixes from simple to fully automated electronic control systems.

Owner Daniel Inglis prides himself on the quality of his workmanship, the service he provides and his integrity.

He believes that electronic componentry design and repairs should be efficient and effective.

Knowing bees to be an important part of the economy in the Far North, owner Daniel Inglis devised AutoBee, an electronic hive monitoring and automation product designed to help apiarists care for their bee colonies during winter.

The simple technology:

- saves beekeepers time in the field,
- bees from unnecessary stress,
- increases the amount of honey produced by bees, and
- is a game changer because no other systems exist here or overseas, to monitor or control hives in this way.

Daniel will use the grant to develop his working prototype into marketable units to grow their market and generate employment in the Far North region.

www.on2itelectronics.co.nz

POWERSOFT

Electric Vehicle (EV) advocate Craig Salmon is the owner of PowerSoft in Paihia. He is developing web-enabled software for the back-end billing and management of EV charging infrastructure focusing on vehicle-to-grid and vehicle-to-home technology for billing and grid load management.

This is in response to:

- strong growth in the electric vehicle market nationally and worldwide,
- the increase in demand for charging infrastructure and back-end management systems for both commercial fleets and private consumers, and
- a need for electricity system peak load management as part of the transition away from fossil fuels.

Craig will use his grant, a $10k discount off the three-phase upgrade he needs, to complete the testing of his software.

www.powersoft.nz

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

R. TUCKER THOMPSON TE TAI TOKERAU TALL SHIP CHALLENGE

It was third time lucky for this year’s winners Katie Thompson and Kira Watson from Kaitaia College.

Having applied twice before but been unsuccessful, they put their all into the challenge and demonstrated they have what it takes in terms of leadership, creativity, initiative and, of course, teamwork to win.

The five-day voyage is in its tenth 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.

Image: Paul Doherty (GM Finance) from Top Energy with Katie Thompson and Kira Watson from Kaitaia College with the winning trophy

ENGINEERING SCHOLARSHIP PROGRAMME

This year’s winner, Auckland University student Lauren Harrell, is a standout all-rounder who is motivated by problem solving and a love of cars. Her application was impressive, and the judges mentioned that she decisively knew what she wanted and where she was going and was determined to get there. Lauren is entering her third year at the University of Auckland and will be one of the first students ever to graduate with a conjoined Engineering and Design degree. The bringing together of the functional and creative sides of engineering was a natural decision for her chosen career in the automotive industry. She believes car aesthetic and usability are as important as mechanical function.

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

Image: Lauren is a member of the University of Auckland’s Formula SAE team, helping to design and construct a small formula style race car each year for an internal student competition.

Top Energy is one of the largest businesses based in the region and uniquely placed to help our young people excel. We sponsor these programmes to achieve this goal.

YOUNG ENTREPRENEUR SCHEME (YES), NORTHLAND

This year's Top Energy YES Northland Company of the Year winner was Peepi Packs created by Santana Hobson from Hiwa i Te Rangi (the Northland College School for Young Parents). The comprehensive pack is for new mothers and their babies, and the judges found her idea innovative and unique. 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

Image: Santana Hobson receiving her trophy as the big YES winner 2019 from Top Energy chief executive Russell Shaw.

FAR NORTH SCIENCE & TECHNOLOGY FAIR

Sophia Fotheringham and Tea Rasclas from Kerikeri High School were joint winners of the premier prize at this year's Far North Science & Technology Fair, which saw a record 200 project entries and girls making a clean sweep of the top prizes.

Sophie's research into boosting the anti-bacterial properties of mānuka honey by more than 200 per cent, by combining it with an extract from the tōtara tree, could have practical applications in an era when superbugs and resistance to standard antibiotics are becoming more common.

Tea's study of alternative methods for controlling the varroa bee mite found that placing a cloth soaked in naturally occurring oxalic acid in the beehive was both effective against the mite and safe for the bees.

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

Image: Far North Science and Technology Fair premier winners, from left, Anika Riddle (Year 7 winner), Belinda Peddie (Top Energy), Tea Rasclas (Year 11-13), Sophia Fotheringham (Year 11-13), Zara Riddle (Year 9-10) and Lucy Clent (Year 8). Photo / Peter de Graaf.

'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.

About WaterSafe

- Aimed at primary and intermediate school children
- Managed by Sport Northland
- Teaches children how to swim and water safety and survival skills

Key facts for this year

16
Schools supported this year

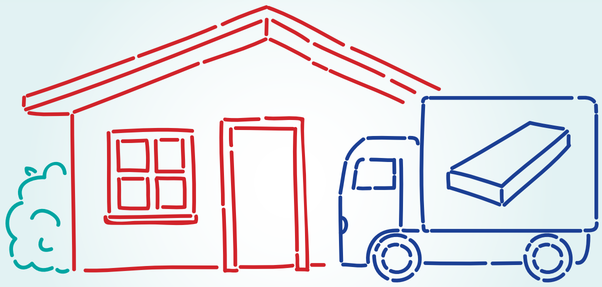
218
Teachers trained in and out of pool

2,841
Students enrolled in the programme

14,324
Total swimmer & dryland lessons given for 2018/19

11,733
Kms travelled by WaterSafe Kaiārahi

310
Students received Coastguard Boating Education certificate



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 9,000 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

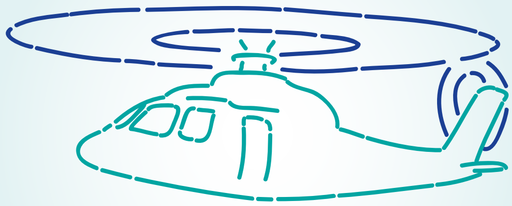
- Joint venture between the Community Business and Environment Centre (CBEC) and He Iwi Kotahi Tatou trust (He Iwi)
- Not-for-profit charitable enterprise
- Community owned

Key facts for this year

183
Houses installed

393
Houses to install

$3,067
Average install price



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. In the 30 years the annual appeals have run, the joint sponsors have helped the Northland community raise more than $3.5 million, to keep this vital emergency rescue service in the air.

About 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

Key facts for this year

957
Missions

1,096
Flying hours

$242 THOUSAND
Raised in the 2019 annual public appeal, to which the sponsors added $150,000

‘**WE ARE ACTIVE** IN THE COMMUNITY’

COMMUNITY EVENTS

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 at Waimate North, Kaitaia and Kaikohe are a great opportunity to talk about safety around our network and the issues caused when trees get into the lines. We also take the time to answer questions on power consumption and how to reduce their energy costs. The response we receive from people at shows is always positive.

This year we offered tours of the Ngawha power station from the Kaikohe A & P show. This gives everyone an opportunity to learn more about our geothermal generation and see the progress being made constructing the new power station.

THE KAITAIA SHOW

THE NORTH HOKIANGA AGRICULTURAL & PASTORAL SHOW AT BROADWOOD

THE KAIKOHE AGRICULTURAL, PASTORAL & HORTICULTURAL

THE BAY OF ISLANDS
PASTORAL &
INDUSTRIAL SHOW
AT WAIMATE NORTH

COMMERCIAL CUSTOMER ENGAGEMENT

During the year we meet with our commercial customers for three events, where they could learn more about Top Energy, our network and the Ngawha power station.

We talked about:

- the new 110kV line to Kaitaia, the new generators in Kaitaia and the Top Energy outage app;
- our generation capacity and the Ngawha expansion project;
- this year's increased customer discount; and
- our plans for the change in electricity pricing, effective from 01 April 2020.

Each session provided an excellent opportunity for us to connect with local businesses and to answer their questions. We were warmly welcomed.

We are grateful to the support of the Kaikohe, Waipapa and Kaitaia Business Associations for hosting us at these events.

Waipapa Business Association event

FINANCIAL STATEMENTS

FINANCIAL REPORT FOR THE **YEAR ENDED 31 MARCH 2020**

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 2020.

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 39 to 74 for issue on 15 June 2020.

For and on behalf of the Board.

R Krogh
Chair

D Sullivan
Chair ARC

15 June 2020

Consolidated statement of comprehensive income

For the year ended 31 March 2020

	Notes	**2020** $'000	2019 $'000
Operating revenue	4	77,589	75,989
Operating expenses	5	(30,286)	(31,740)
Earnings before interest, tax, depreciation, amortisation and fair value movements of financial assets (EBITDAF)		**47,303**	**44,249**
Depreciation and amortisation	5	(18,786)	(17,412)
Finance costs		(6,940)	(7,878)
Earnings before tax and fair value movements of financial assets (EBTF)		**21,577**	**18,959**
Fair value gains (losses) on financial assets	6	(15,284)	(34,536)
Profit (loss) before income tax		**6,293**	**(15,577)**
Income tax credit (expense) from continuing operations	7	(1,199)	5,152
Profit (loss) from continuing operations		5,094	(10,425)
Profit (loss) from discontinued operations		–	(244)
Profit (loss) for the year	8	**5,094**	**(10,669)**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Gain (loss) on revaluation of generation plant	15	(4,513)	20,667
Reversal of revaluation surplus on disposal of revalued assets	15	(20)	–
Income tax relating to revaluation of non-current assets	7	1,269	(5,787)
		(3,264)	**14,880**
Other comprehensive income for the year, net of tax		**(3,264)**	**14,880**
Total comprehensive income for the year		**1,830**	**4,211**
Profit (loss) is attributable to:			
Equity holders of Top Energy Limited		5,094	(10,669)
		5,094	**(10,669)**
Total comprehensive income for the year is attributable to:			
Equity holders of Top Energy Limited		1,830	4,211
		1,830	**4,211**

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

Consolidated statement of financial position

As at 31 March 2020

	Notes	2020 $'000	2019 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	101	203
Receivables	10	9,942	8,643
Inventories	11	1,817	1,411
Current tax benefit		–	2
Intangible assets	13	770	151
Derivative financial instruments	12	1,461	2,647
Total current assets		**14,091**	**13,057**
Non-current assets			
Property, plant and equipment	15	585,588	494,166
Intangible assets	16	19,498	17,531
Derivative financial instruments	12	627	12
Right-of-use lease assets	17	5,745	–
Total non-current assets		**611,458**	**511,709**
TOTAL ASSETS		**625,549**	**524,766**
LIABILITIES			
Current liabilities			
Payables	18	20,447	13,896
Interest bearing liabilities	19	1,737	1,582
Current tax liabilities	20	2,240	372
Provisions	21	385	379
Derivative financial instruments	12	3,901	9,824
Right-of-use lease liabilities	17	409	–
Total current liabilities		**29,119**	**26,053**
Non-current liabilities			
Interest bearing liabilities	22	286,650	212,710
Derivative financial instruments	12	57,410	36,775
Deferred tax liabilities	23	43,337	47,330
Right-of-use lease liabilities	17	5,445	–
Total non-current liabilities		**392,842**	**296,815**
TOTAL LIABILITIES		**421,961**	**322,868**
NET ASSETS		**203,588**	**201,898**
EQUITY			
Contributed equity	25	25,267	25,267
Reserves	26	75,622	78,886
Retained earnings	26	102,699	97,745
TOTAL EQUITY		**203,588**	**201,898**

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 2020

CONSOLIDATED ONLY	*Notes*	**Share capital** *$'000*	**Reserves** *$'000*	**Retained earnings** *$'000*	**Total equity** *$'000*
Balance as at 1 April 2019		**25,267**	**78,886**	**97,745**	**201,898**
Comprehensive income					
Profit for the year		–	–	5,094	5,094
Revaluation of generation plant	*15*	–	(4,513)	–	(4,513)
Reversal of revaluation on disposal of revalued assets	*15*	–	(20)	–	(20)
Income tax relating to components of other comprehensive income	*7*	–	1,269	–	1,269
Total comprehensive income		**–**	**(3,264)**	**5,094**	**1,830**
Transactions with owners					
Dividends	*27*	–	–	(140)	(140)
Total transactions with owners		**–**	**–**	**(140)**	**(140)**
Balance as at 31 March 2020		**25,267**	**75,622**	**102,699**	**203,588**
Balance as at 1 April 2018		**25,267**	**63,894**	**108,549**	**197,710**
Comprehensive income					
Profit for the year		–	–	(10,669)	(10,669)
Revaluation of generation plant	*15*	–	20,667	–	20,667
Fair value gain (loss) on Financial assets at fair value through other comprehensive income, net of tax	*26*	–	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	*27*	–	–	(135)	(135)
Total transactions with owners		**–**	**–**	**(135)**	**(135)**
Balance as at 31 March 2019		**25,267**	**78,886**	**97,745**	**201,898**

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 2020

	Notes	**2020** *$'000*	2019 *$'000*
Cash flows from operating activities			
Receipts from customers (exclusive of goods and services tax)		77,670	75,111
Payments to suppliers and employees (exclusive of goods and services tax)		(25,574)	(31,689)
		52,096	**43,422**
Interest received		8	18
Interest paid		(7,279)	(7,878)
Income taxes paid		(2,050)	(3,075)
Net cash inflow from operating activities	*35*	**42,775**	**32,487**
Cash flows from investing activities			
Purchases of property, plant and equipment		(117,982)	(96,692)
Proceeds from sale of property, plant and equipment		1,325	6,198
Disposal (Purchases) of financial assets at fair value through other comprehensive income		–	691
Increase / (repayment) of loan from parent		(30)	23
Net cash inflow / (outflow) from investing activities		**(116,687)**	**(89,780)**
Cash flows from financing activities			
Proceeds from (repayment of) borrowings		73,940	57,610
Dividends paid to the Group's shareholders	*27*	(140)	(135)
Repayment of Right-of-use leases		(175)	–
Net cash inflow / (outflow) from financing activities		**73,625**	**57,475**
Net increase (decrease) in cash and cash equivalents		(287)	182
Cash at bank and on hand at the beginning of the financial year		198	16
Cash and cash equivalents at end of year	*9*	**(89)**	**198**

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 15 June 2020.

[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

(i) 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.

(ii) Going Concern

The business impact of Covid-19 is still not fully known, including the economic impact on the Far North. The largest impact to date has been the delays with the Ngawha Expansion, which will impact on final costs and cause time delays on completion, noting that it will still be commissioned earlier than the original timeline of June 2021. The impact has been carefully considered in compiling these accounts following the Alert Level-4 national lockdown that the Government implemented on 25 March 2020. Whilst the impact on these financial statements is not material, a longer-term view has also been considered to understand potential future implications.

The Group recorded a profit after tax of $5.1m, with an underlying operational profit which has been reduced by a fair value loss on derivatives of $11.0m (net of tax), 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 results to 31 March 2020 and the following:

- The Group's operations consist primarily of electricity generation and distribution, which are considered essential services;
- The actual operational result for the period at an EBITDAF level exceeded current year target expectations;
- Cash flow from operating activities was $42.8m and has improved over the period;
- 10-year forecasts have been reviewed including relevant sensitivity analysis;
- Covid-19 risk scenarios have been developed including a best, mid and worst case outcome and these have been shared with the Company's lenders. All risk scenarios developed demonstrate the Company is expected to be able to meet its obligations as they fall due for the foreseeable future;
- The balance sheet for the period, which currently shows a net working capital deficit is driven by the increased trade payables in comparison to prior year, associated with the expansion and the fair value loss on financial derivatives;
- As described in note 15(a), the carrying value of the Generation assets have had an external valuation completed to ensure that the appropriate judgements can be made. A negative adjustment of $4.5m was made. As a result of the uncertainty on the impact of the future electricity wholesale price path, the Group has adopted the low point of the valuation range, which is consistent with the prior year;
- The Group is forecast to operate within the conditions of its banking facilities as disclosed in note 22(b) and also the new conditions following the commissioning of the Ngawha expansion in the next 12 months;
- Funding facility limits as disclosed in note 22 are expected to be sufficient to cover the higher trade payables and the capital commitments relating to the Ngawha expansion.

At the date of signing these financial statements, the country is in Alert Level-1. The Group is able to undertake normal business activities, with additional safety protocols initiated under earlier Covid-19 Alert Levels.

Refer to note 34 for events occurring after the reporting date.

As a result of the above considerations, these financial statements have been prepared on a going concern basis.

(iii) 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.

(iv) 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), 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.

(v) Comparative figures

To ensure consistency with the current period, comparative figures have been restated where appropriate in accordance with NZ IFRS requirements. During the year ended 31 March 2020, Resource Consents were reclassified from Non-current Property, Plant and Equipment to Non-current Intangible assets. There were no other reclassifications or restatements in these financial statements in respect of the year ended 31 March 2019.

(vi) 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 2020 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) 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.

(e) 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.

(f) 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 is included in trade payables as Revenue received in advance.

(g) 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 resulting gain or loss is recognised in profit or loss.

(h) 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.

(i) 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.

(j) 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.

(k) Financial Assets at Fair Value through Other Comprehensive Income

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 sold its holding of Fonterra Co-operative Group shares during the reporting year ended 31 March 2019.

(l) 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.

(m) 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.

(n) 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).

(o) 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.

(p) 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.

(v) Resource Consents
Resource consents are capitalised on the basis of the costs incurred. These costs are amortised over their useful lives, considered to be the period of time until their expiry.

(q) 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.

(r) 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.

(s) 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 entityís 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 two 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 profit or loss*

  Assets that are not held for collection of contractual cash flows and for selling the financial assets 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) 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.

(v) 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.

Financial assets at fair value through profit or loss are carried at fair value. Gains or losses arising from changes in the fair value are recognised within Fair value gains (losses) on financial assets.

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

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.

(vi) 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(z).

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.

(vii) 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.

(t) Leases

The group has changed its accounting policy for leases, and has adopted NZ IFRS 16 as of 1 April 2019.

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

Lease liabilities are measured at the present value of remaining lease payments, discounted using a rate which represents our Incremental Borrowing Rate (IBR), as well as a deemed margin to reflect commercial property borrowing risk where applicable. This rate is effective on the date of transition, and subsequently reassessed for new lease liabilities on the date they are recognised.

Right-of-use (ROU) assets are initially recognised at cost, being the amount of the lease liability. ROU assets are subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

In considering the lease term, the group applies judgment in determining whether it is reasonably certain that an extension or termination option will be exercised. The majority of the group's leases are property leases. The Group has the right to renew the leases at the end of their lease terms

The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Refer to note 2(ab) for details relating to the adoption of the NZ IFRS 16 Leases financial reporting standard.

For the adoption of NZ IFRS 16 the Group has used practical expedients NZ IFRS 16 C3 to not reassess whether a contract is, or contains, a lease at the date of initial application. Also it made use of the practical expedient to not make any adjustment on transition for leases for which the underlying assets are of low value.

(u) 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.

(v) 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 revaluation of the generation assets was undertaken as at 31 March 2020 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
Plant and equipment	3-20
Freehold buildings	50
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.

(w) 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.

(x) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and Goods and Services Tax.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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 statement of financial position) 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
Revenue is recognised when the Group finalises a contract for sale with the purchaser over time as the customer receives and consumes 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.

(y) 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.

(z) 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.

(aa) Changes in accounting policies

All accounting policies have been applied on a basis consistent with those applied during the previous reporting period unless otherwise stated within these financial statements.

(ab) 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
The group has adopted NZ IFRS 16 Leases, effective from 1 April 2019. The Group has identified several leases that fall under NZ IFRS 16, predominantly consisting of property and geothermal well leases.

The group applied NZ IFRS 16 using the modified retrospective transition approach. Comparative information is therefore not restated and continue to be reported under NZ IAS 17 Leases and IFRIC 4 in determining whether an arrangement contains a lease.

The impact from adoption of NZ IFRS 16 has resulted in the recognition of a right-of-use lease liabilities and right-of-use lease assets, as presented in the statement of financial position. Refer to note 2(t) for a summary of accounting policies; and note 17 for detailed disclosure.

All mandatory Standards, Amendments and Interpretations have been adopted in the current accounting period. Apart from NZ IFRS 16, none have had a material impact on these financial statements.

(ac) 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.

[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 period ending 31 March 2020 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$4,587,000 (2019: US$21,055,000) 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 2020 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 2020, US$4,587,000 mature prior to the Group's next annual reporting date (2019: US$21,055,000).

(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 2020 and 2019, 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 6.28% (2019: 5.89%) 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 +$21,743,000/ -$23,865,000 respectively (2019: +$20,953,000/ -$23,167,000).

(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 48% of the Group's total trade accounts receivable as at 31 March 2020 (2019: 55% 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. Unrealised gains are presented as derivative financial instrument assets within note 12.

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 2020				
Bank overdrafts and loans	9,589	9,398	300,748	–
Right-of-use lease liabilities	409	415	1,327	3,705
Other loans	1,598	–	–	–
Trade and other payables	22,120	–	–	–
At 31 March 2019				
Bank overdrafts and loans	8,911	8,907	235,719	–
Other loans	1,643	–	–	–
Trade and other payables	13,895	–	–	–

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 2020					
Forward foreign exchange contracts	– inflow	–	–	–	–
	– outflow	(6,283)	–	–	–
Interest rate swaps	– inflow	–	–	–	–
	– outflow	(10,571)	(9,712)	(26,185)	(24,950)
Electricity CFDs	– inflow	43	189	487	–
	– outflow	(3,281)	(5,078)	(662)	–
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)	–

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 15 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 2020				
Assets				
Financial assets at fair value through profit or loss				
– Trading derivatives - electricity CFDs	–	670	–	670
– Trading derivatives - forward FX contracts	–	1,418	–	1,418
Total assets	**–**	**2,088**	**–**	**2,088**
Liabilities				
Financial liabilities at fair value through profit or loss				
– Trading derivatives - interest rate swaps	–	52,599	–	52,599
– Trading derivatives - electricity CFDs	–	8,712	–	8,712
Total liabilities	**–**	**61,311**	**–**	**61,311**
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**

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

(e) Financial instruments by category

FINANCIAL ASSETS as per statement of financial position	**Financial assets at Amortised cost** *$'000*	**Financial assets at Fair value through profit or loss** *$'000*	**Other** *$'000*	**Total** *$'000*
At 31 March 2020				
Derivative financial instruments - electricity CFDs	–	670	–	670
Derivative financial instruments - forward FX contracts	–	1,418	–	1,418
Trade and other receivables	8,224	–	–	8,224
Other financial assets	–	–	2,027	2,027
Cash and cash equivalents	100	–	–	100
	8,324	**2,088**	**2,027**	**12,439**
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**

FINANCIAL LIABILITIES as per statement of financial position	**Financial liabilities at Amortised cost** *$'000*	**Financial liabilities at Fair value through profit or loss** *$'000*	**Total** *$'000*
At 31 March 2020			
Borrowings	288,197	–	288,197
Derivative financial instruments - interest rate swaps	–	52,599	52,599
Derivative financial instruments - electricity CFDs	–	8,712	8,712
Right-of-use lease liabilities	5,854	–	5,854
Trade and other payables	17,376	–	17,376
	311,427	**61,311**	**372,738**
At 31 March 2019			
Borrowings	214,287	–	214,287
Derivative financial instruments - interest rate swaps	–	29,987	29,987
Derivative financial instruments - electricity CfD's	–	16,612	16,612
Trade and other payables	9,996	–	9,996
	224,283	**46,599**	**270,882**

[4] Revenue

From continuing operations	**2020** *$'000*	2019 *$'000*
Electricity line revenue	60,858	56,579
Network line charge discount	(5,444)	(5,386)
Capital contributions	2,092	2,848
Electricity sales	17,131	18,767
Contracting services	2,762	2,907
Other revenue	190	274
Total revenue from continuing operations	**77,589**	**75,989**

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

	2020 $'000	2019 $'000
Expenses, excluding depreciation, amortisation and finance costs, included in the Statement of Comprehensive Income classified by nature		
Raw materials and consumables used	3,242	2,673
Employee benefits expense	14,217	13,305
Other expenses	7,972	10,672
Transmission charges	4,855	5,090
	30,286	**31,740**
Profit before income tax includes the following specific expenses:		
Depreciation		
Distribution system	7,684	7,868
Generation plant	8,550	7,462
Plant and equipment	880	861
Vehicles	634	660
Buildings	128	155
Right-of-use leased assets	529	–
Total depreciation	**18,405**	**17,006**
Amortisation		
Software	206	235
Resource consents	175	171
Total amortisation	**381**	**406**
Total depreciation and amortisation	**18,786**	**17,412**
Net loss (gain) on disposal of property, plant and equipment	**140**	**(517)**
Rental expense relating to short term, low value, or other leasing arrangements		
Minimum lease payments	276	1,143
Employee benefit expense		
Wages and salaries, including restructuring costs and termination benefits	13,359	12,457
ACC levies and employee medical insurance	421	416
Pension costs -defined contribution plans	437	432
	14,217	**13,305**

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:

	2020 $'000	2019 $'000
Audit services		
Audit of the financial statements - Deloitte Limited	156	127
Total remuneration for audit services	**156**	**127**
Audit of regulatory statements - Deloitte Limited	61	60
Total remuneration for assurance services	**217**	**187**

[6] Fair value gains / (losses) on financial assets

	2020 **$'000**	2019 $'000
Net (loss) gain on interest rate swaps	(22,613)	(18,373)
Net (loss) gain on electricity Contract For Differences	8,183	(17,571)
Net gain on forward foreign currency contracts	(854)	1,408
	(15,284)	**(34,536)**

[7] Income tax expense

(a) Income tax expense

	2020 ***$'000***	2019 *$'000*
Current tax		
Current tax on profits for the year	3,845	2,294
Adjustments in respect of prior years	78	(278)
Total current tax	**3,923**	**2,016**
Deferred tax		
Origination and reversal of temporary differences	(3,917)	(1,583)
Exclude: element arising on fixed asset revaluation	1,269	(5,786)
Under (over) provided in prior years	(76)	285
Total deferred tax	**(2,724)**	**(7,084)**
Income tax expense / (benefit)	**1,199**	**(5,068)**
Income tax expense is attributable to:		
Profit/(Loss) from continuing operations	1,199	(5,152)
Profit/(Loss) from discontinued operations	–	84
Aggregate income tax expense	**1,199**	**(5,068)**
Deferred income tax expense (benefit) included in income tax expense comprises:		
(Increase) decrease in deferred tax assets	(4,155)	(9,709)
Increase (decrease) in deferred tax liabilities (note 23)	1,431	2,625
	(2,724)	**(7,084)**

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

	2020 ***$'000***	2019 *$'000*
Profit/(Loss) from continuing operations before income tax expense	6,293	(15,577)
Profit/(Loss) from discontinued operations before income tax expense	–	(160)
	6,293	**(15,737)**
Tax at the New Zealand tax rate of 28% (2019: 28%)	1,762	(4,406)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non deductible expenditure	15	3
Income not subject to tax	(848)	(673)
Other reconciling items		
Adjustment in respect of prior years	2	8
Other	268	–
	270	**8**
Income tax expense	**1,199**	**(5,068)**

(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 2020			
Fair value gains:			
Revaluation of generation plant	(4,513)	1,264	(3,249)
Reversal of revaluation surplus on disposal of revalued assets	(20)	5	(15)
Other comprehensive income	**(4,533)**	**1,269**	**(3,264)**
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**

[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.

	2020 *$'000*	2019 *$'000*
Summarised statement of comprehensive income		
Revenue	–	393
Expenses	–	(553)
Profit/(Loss) before income tax	–	(160)
Income tax expense (benefit)	–	(84)
Profit/(Loss) after income tax of discontinued operations	**–**	**(244)**
Summarised statement of cash flows		
Net cash inflow/(outflow) from operating activities	–	337
Net cash inflow/(outflow) from investing activities	–	4,861
Net cash inflow/(outflow) from financing activities	–	(5,198)
Total cash flows	**–**	**–**

[9] Current assets – Cash and cash equivalents

	2020 *$'000*	2019 *$'000*
Cash on hand	1	1
Bank balances	–	2
Deposits at call	100	200
	101	**203**

(a) Reconciliation to cash at the reporting date

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

	2020 *$'000*	2019 *$'000*
Balances as above	101	203
Bank overdrafts (note 19)	(190)	(5)
Cash and cash equivalents	**(89)**	**198**

(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

	2020 $'000	2019 $'000
Net trade receivables		
Trade debtors	8,225	8,314
GST receivable	1,312	–
Provision for doubtful receivables	(507)	(397)
Net trade receivables	**9,030**	**7,917**
Sundry prepayments	912	726
Total current receivables	**9,942**	**8,643**

(a) Impaired receivables

	2020 $'000	2019 $'000
Movements in the provision for impairment of trade receivables are as follows:		
At 1 April	397	575
Provision for impairment arising (released) in the year	116	(110)
Charge (credit) to profit and loss during the period	(6)	(68)
At 31 March	**507**	**397**

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

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

[11] Current assets – Inventories

	2020 $'000	2019 $'000
Raw materials		
Raw materials at cost	1,604	1,188
Contract costs incurred less recognised losses	213	223
	1,817	**1,411**

[12] Derivative financial instruments

	2020 *$'000*	2019 *$'000*
Current assets		
Forward foreign exchange contracts - at fair value through profit or loss - see below ((a)(i))	1,418	2,272
Electricity Contract for Differences - see below ((a)(iii))	43	375
Total current derivative financial instrument assets	1,461	2,647
Non-current assets		
Electricity Contract For Differences - see below ((a)(iii))	627	12
Total non-current derivative financial instrument assets	627	12
Total derivative financial instrument assets	**2,088**	**2,659**
Current liabilities		
Interest rate swaps - at fair value through profit or loss - see below ((a)(ii))	692	435
Electricity Contract For Differences - see below ((a)(iii))	3,209	9,389
Total current derivative financial instrument liabilities	3,901	9,824
Non-current liabilities		
Interest rate swaps - at fair value through profit or loss - see below ((a)(ii))	51,907	29,552
Electricity Contract For Differences - see below ((a)(iii))	5,503	7,223
Total non-current derivative financial instrument liabilities	57,410	36,775
Total derivative financial instrument liabilities	**61,311**	**46,599**
Net (liabilities) in relation to derivative financial instruments	**(59,223)**	**(43,940)**

For further information refer to note 2(g).

(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 2020, the NZ Dollar equivalent of the US Dollar commitment US$4,587,000 (31 March 2019: US$21,055,000) was NZ$6,283,000 (31 March 2019: NZ$28,505,000). The remaining contracts mature during the year ended 31 March 2021.

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 2020 the notional principal amount of current contracts totalled $359,000,000 (31 March 2019: $373,000,000). At 31 March 2020 the Parent had committed to enter into 7 (31 March 2019: 13) contracts, with a total notional principal value of $102,000,000 (2019: $207,000,000), 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 2020, the notional amount of current contracts totalled $85,985,000 (31 March 2019: $67,927,000). 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).

[13] Current assets – Intangible assets

	2020 *$'000*	2019 *$'000*
Emission Trading Scheme Units	770	151
	770	**151**

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.

[14] Current assets – Non-current assets classified as held for sale

A 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 group of assets were subsequently sold during the period ending 31 March 2020.

[15] Non-current assets – Property, plant and equipment

	Distribution system $'000	Capital work in progress $'000	Generation plant $'000	Plant and equipment $'000	Motor vehicles $'000	Freehold land $'000	Buildings $'000	Total $'000
Year ended 31 March 2020								
Opening net book amount	215,515	104,631	159,394	2,724	2,872	7,505	1,525	494,166
Additions	17,087	96,135	1,191	582	676	971	89	116,731
Disposals	(37)	–	(3)	(147)	(914)	(971)	(38)	(2,110)
Transfers and reclassifications	2,784	(4,787)	–	289	–	–	–	(1,714)
Depreciation charge	(7,684)	–	(8,550)	(880)	(634)	–	(129)	(17,877)
Depreciation released on disposals	21	–	1	113	782	–	8	925
Revaluation of generation plant	–	–	(4,513)	–	–	–	–	(4,513)
Reversal of revaluation surplus on disposal of revalued assets	–	–	(20)	–	–	–	–	(20)
Closing net book amount	**227,686**	**195,979**	**147,500**	**2,681**	**2,782**	**7,505**	**1,455**	**585,588**
At 31 March 2020								
Cost	409,844	195,979	1,233	12,535	9,755	7,505	2,396	639,247
Valuation	–	–	146,289	–	–	–	–	146,289
Accumulated depreciation	(182,158)	–	(22)	(9,854)	(6,973)	–	(941)	(199,948)
Net book amount	**227,686**	**195,979**	**147,500**	**2,681**	**2,782**	**7,505**	**1,455**	**585,588**
At 1 April 2018								
Cost	374,634	28,896	891	11,571	9,528	7,602	2,457	435,579
Valuation	–	–	152,427	–	–	–	–	152,427
Accumulated depreciation	(166,968)	–	(7,472)	(8,896)	(6,954)	–	(681)	(190,971)
Net book amount	**207,666**	**28,896**	**145,846**	**2,675**	**2,574**	**7,602**	**1,776**	**397,035**
Year ended 31 March 2019								
Opening net book amount	207,666	28,896	145,846	2,675	2,574	7,602	1,776	397,035
Additions	12,301	81,482	343	917	1,041	4	119	96,207
Disposals	(905)	–	–	(691)	(577)	(101)	(231)	(2,505)
Transfers and reclassifications	3,979	(5,747)	–	10	–	–	–	(1,758)
Depreciation charge	(7,868)	–	(7,462)	(862)	(660)	–	(154)	(17,006)
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**	**2,724**	**2,872**	**7,505**	**1,525**	**494,166**
At 31 March 2019								
Cost	390,009	104,631	821	11,806	9,993	7,505	2,345	527,110
Valuation	–	–	158,573	–	–	–	–	158,573
Accumulated depreciation	(174,494)	–	–	(9,082)	(7,121)	–	(820)	(191,517)
Net book amount	**215,515**	**104,631**	**159,394**	**2,724**	**2,872**	**7,505**	**1,525**	**494,166**

(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 as detailed below. This also takes into consideration the impacts of Covid-19, as discussed in Note 2 (a)(ii) – Going Concern.

The carrying value of the distribution network at 31 March 2020 did not exceed its Regulatory Asset Base value as defined in the Electricity Distribution Disclosure Determination 2012.

The external valuation of the generation plant was performed as at 31 March 2020 using an approach based principally on discounted predicted future cash flows over a 15 year period to 31 March 2035 using a post tax WACC of 7% 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 2020 valuation, the Low Point valuation was adopted (2019: Low point)

As a result of the uncertainty on the impact of the future electricity wholesale price path, the Group has continued to adopt the low point of the valuation range.

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 2020. The revaluation adjustment net of applicable deferred income taxes was debited to other comprehensive income and is shown in 'reserves' in shareholders equity (note 26).

The carrying amount of the generation plant that would have been recognised at 31 March 2020 had those assets been carried under the cost model is $55,707,000 (31 March 2019: $57,465,000).

(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 2020, 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 2020 *($'000)*	Valuation technique(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Generation plant	146,289	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%.	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 +/- 9% and -6% / +7% 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 +/- 4%. 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 2020 was $8,605,000 (2019: $3,059,000).

Interest capitalised was at the average rate of 6.28% for the year ended 31 March 2020 (2019: 5.98%).

[16] Non-current assets – Intangible assets

	Goodwill $'000	Resource consents $'000	Computer software $'000	Easements $'000	Emission Trading Scheme units $'000	Total $'000
Year ended 31 March 2020						
Opening net book amount	811	5,564	334	8,947	1,875	17,531
Additions	–	32	1,216	3	–	1,251
Transfers and reclassifications	–	–	778	937	–	1,715
Reclassification between current and non-current ETS units	–	–	–	–	(618)	(618)
Amortisation charge	–	(175)	(206)	–	–	(381)
Closing net book amount	**811**	**5,421**	**2,122**	**9,887**	**1,257**	**19,498**
At 31 March 2020						
Cost	811	6,100	6,863	9,887	1,257	24,918
Accumulated amortisation	–	(679)	(4,741)	–	–	(5,420)
Net book amount	**811**	**5,421**	**2,122**	**9,887**	**1,257**	**19,498**
At 1 April 2018						
Cost	811	5,834	4,979	7,720	1,896	21,240
Accumulated amortisation	–	(333)	(4,660)	–	–	(4,993)
Net book amount	**811**	**5,501**	**319**	**7,720**	**1,896**	**16,247**
Year ended 31 March 2019						
Opening net book amount	811	5,501	319	7,720	1,896	16,247
Additions	–	231	161	93	–	485
Transfers and reclassifications	–	3	111	1,134	–	1,248
Disposals	–	–	(22)	–	–	(22)
Reclassification between current and non-current ETS units	–	–	–	–	(21)	(21)
Amortisation charge (note 5)	–	(171)	(235)	–	–	(406)
Closing net book amount	**811**	**5,564**	**334**	**8,947**	**1,875**	**17,531**
At 31 March 2019						
Cost	811	6,068	4,870	8,947	1,875	22,571
Accumulated amortisation	–	(504)	(4,536)	–	–	(5,040)
Net book amount	**811**	**5,564**	**334**	**8,947**	**1,875**	**17,531**

For further details of the Emission Trading Scheme units refer to note 13.

(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 2020		
Cost at 1 April 2019	811	811
At 31 March 2020	**811**	**811**
At 31 March 2019		
Cost at 1 April 2018	811	811
At 31 March 2019	**811**	**811**

(b) Impairment testing of goodwill

As described in note 2(p), 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 2030, and a post-tax discount rate of 7% (2019: 7.5%). At 31 March 2020 and 2019 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.

[17] Leases

(a) Amounts recognised in the Statement of financial position

The Statement of financial position shows the following amounts relating to Right-of-use leases:

	2020 *$'000*	2019 *$'000*
Right-of-use lease assets net book value		
Properties	4,341	–
Equipment	65	–
Well sites	1,339	–
	5,745	**–**
Cost on transition	6,102	–
Adjustment on re-measurement	172	–
Accumulated Depreciation	(529)	–
	5,745	**–**
Right-of-use lease liabilities		
Current	409	–
Non-current	5,445	–
	5,854	**–**

(b) Amounts recognised in the statement of comprehensive income

The statement of comprehensive income shows the following amounts relating to Right-of-use leases:

	2020 *$'000*	2019 *$'000*
Depreciation charge of Right-of-use assets		
Properties	446	–
Equipment	41	–
Well sites	42	–
	529	**–**
Interest on Right-of-use leases		
Interest expense (included in finance cost)	245	–
	245	**–**

The total cash outflow for Right-of-use leases in the year ended 31 March 2020 was $644,000 (2019: $ nil)

(c) The Company leasing activity and how these are accounted for

The Group leases various offices, warehouses, depot sites, well sites, and equipment. Rental contracts are typically made for fixed periods, but may have extension options. These are used to maximise operational; flexibility in terms of managing the assets used in the Group's operations. The majority of extensions and termination options held are exercisable only by the Group and not by the respective lessor.

(d) Transition to NZ IFRS 16 - Leases

	$'000
Operating lease commitment at 31 March 2019 as disclosed in the Group's financial statements	7,016
Adjustment to operating lease commitment for lease payments reasonably certain to be exercised	(1,599)
Adjustments for short term leases	(156)
Discounted using the incremental borrowing rate at 1 April 2019	6,190
Right of use lease liability recognised at 1 April 2019	6,190

[18] Current liabilities – Trade and other payables

	2020 *$'000*	2019 *$'000*
Trade payables	13,812	6,681
GST payable	57	187
ACC levies, PAYE and other payroll taxes	297	302
Payroll creditors	1,587	1,392
Accruals	2,951	3,712
Revenue received in advance	1,743	1,622
	20,447	**13,896**

[19] Current liabilities – Interest-bearing liabilities

	2020 *$'000*	2019 *$'000*
Bank overdrafts	190	5
Total interest bearing bank borrowings	**190**	**5**
Loan from parent entity	1,547	1,577
Total other interest bearing borrowings	**1,547**	**1,577**
Total current interest bearing borrowings	**1,737**	**1,582**

The Group's borrowings are subject to covenants agreed with its lenders. Details are provided at note 22.

[20] Current liabilities – Current tax liabilities

	2020 *$'000*	2019 *$'000*
Income tax payable	2,240	372
	2,240	**372**

[21] Current liabilities – Provisions

	2020 *$'000*	2019 *$'000*
Employee benefits	385	379
	385	**379**

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.

[22] Non-current liabilities – Interest-bearing liabilities

	2020 $'000	2019 $'000
Bank loans	286,650	212,710
Total non current interest bearing liabilities	**286,650**	**212,710**

(a) Liabilities subject to 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:

	2020 $'000	2019 $'000
Bank overdrafts and bank loans	286,840	212,715
Total liabilities covered by negative pledges	**286,840**	**212,715**

(b) Banking covenants

The bank loans and overdraft are subject to identical negative pledges given to all of the Group's banks. The pledges impose certain covenants on a "Guaranteeing Group".

The Guaranteeing Group comprises all Group companies as at 31 March 2020. Each negative pledge 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 either the Bank of New Zealand Limited, the Australia and New Zealand Banking Group Ltd, or the China Construction Bank (New Zealand) Limited (as applicable) 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.

[23] Non-current liabilities – Deferred tax liabilities

	2020 $'000	2019 $'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	60,529	60,125
Intangible assets	(10)	(5)
Financial assets at fair value through profit or loss	(16,583)	(12,303)
Other temporary differences	(599)	(487)
Net deferred tax liabilities	**43,337**	**47,330**
Movements		
Balance at 1 April	47,330	48,664
Charged / (credited) to profit or loss	(2,724)	(7,085)
Tax charged/(credited) directly to equity (note 7)	(1,269)	5,787
Disposal of subsidiary	–	(36)
Closing balance at 31 March	**43,337**	**47,330**
Expected maturity of deferred tax liabilities		
Within 12 months	(1,283)	(2,229)
In excess of 12 months	44,620	49,559

The tax rate applied in calculating the deferred tax provision was 28% at 31 March 2020 and 2019.

[24] Imputation credits

	2020 *$'000*	2019 *$'000*
Balances		
Imputation credits available for subsequent reporting periods based on a tax rate of 28% (2019: 28%)	17,587	13,663
	17,587	**13,663**

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.

[25] Contributed equity

(a) Share capital

	2020 *Shares 000s*	2019 *Shares 000s*	**2020** *$'000*	2019 *$'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 2020 and 2019 the Group's strategy was to maintain a equity ratio of less than 60%. The equity ratios at 31 March 2020 and 31 March 2019 were as follows:

	2020 *$'000*	2019 *$'000*
Total borrowings	290,752	216,272
Less: cash and cash equivalents (note 9)	(101)	(203)
Net debt	**290,651**	**216,069**
Total equity	203,588	201,898
Exclude: derivatives at valuation	59,223	43,940
Total capital	**553,462**	**461,907**
Equity ratio	**53%**	**47%**

[26] Reserves and retained earnings

(a) Reserves

	2020 *$'000*	2019 *$'000*
Property, plant and equipment revaluation reserve	**75,622**	**78,886**
Movements		
Property, plant and equipment revaluation reserve		
Balance at 1 April	78,886	64,006
Revaluation - before tax	(4,513)	20,667
Deferred tax on the revaluation	1,269	(5,787)
Reversal of revaluation surplus on disposal of revalued assets	(20)	–
Balance at 31 March	**75,622**	**78,886**
Financial assets at fair value through other comprehensive income reserve		
Balance at 1 April	–	(112)
Transfer to net profit - gross	–	112
Balance at 31 March	**–**	**–**

(b) Retained earnings

Movements in retained earnings were as follows:

	2020 *$'000*	2019 *$'000*
Balance at 1 April	97,745	108,549
Net profit for the year	5,094	(10,669)
Dividends	(140)	(135)
Balance at 31 March	**102,699**	**97,745**

[27] Dividends

(a) Ordinary shares

	2020 *$'000*	2019 *$'000*
Dividend of 0.56 cents per ordinary share paid on 31 March 2020	140	–
Dividend of 0.54 cents per ordinary share paid on 26 March 2019	–	135
	140	**135**

(b) Dividend imputation

The dividends paid by Top Energy Ltd on 31 March 2020 and 26 March 2019 were not imputed.

[28] Director disclosures

The following persons were directors of Top Energy Limited during the financial year ended 31 March 2020:

(i) Chairman - non-executive

– Mr Richard Krogh (appointed Chairman on 29 May 2018).

(ii) Other non-executive directors

– Mr Jason McDonald (appointed 17 June 2019)
– Mr David Sullivan (appointed 1 August 2018)
– 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 2020		
Directors of Top Energy Ltd		
– R Krogh	105,291	105,291
– J McDonald (from 17 June 2019)	39,306	39,306
– G Steed (to 25 June 2019)	15,392	15,392
– D Sullivan	63,150	63,150
– P White	49,463	49,463
– S Young	57,900	57,900
Directors of other Group companies		
– R Kirkpatrick	49,463	49,463
– R Shaw*	–	–
– K Tempest (from 17 June 2019)	39,306	39,306
Total	**419,271**	**419,271**
Year to 31 March 2019		
Directors of Top Energy Ltd		
– R Krogh	95,860	95,860
– J Parsons (to 26.06.2018)	12,768	12,768
– G Steed	60,107	60,107
– D Sullivan (Top Energy Ltd from 1.8.2018, and Ngawha Generation Ltd from 17.12.2018)	33,963	33,963
– P White	48,750	48,750
– S Young	53,138	53,138
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**

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.

[29] Contingencies

As at 31 March 2020 a "Guaranteeing Group" had executed identical security deeds in favour of ANZ Bank New Zealand Limited, Bank of New Zealand Limited, and China Construction 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 2020 the total value of contingent obligations entered into by the Group was $1,340,000 (2019: $682,000) and the total value of contingent receivables from third parties was $24,242,000 (2019: $17,962,000).

[30] Commitments

(a) Capital commitments

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

	2020 *$'000*	2019 *$'000*
Property, plant and equipment	33,257	35,918
	33,257	**35,918**

Of the capital commitments, $31,492,000 relate to the Ngawha Generation subsidiary (2019: $34,680,000) primarily for the expansion of the Ngawha generation plant.

(b) 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.

[31] 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 $140,000 to the Trust during the year ended 31 March 2020 (2019: $135,000). 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, totaling $80,000 in the year ended 31 March 2020 (2019: $50,000).

As at 31 March 2020, a balance of $1,547,000 was owed by the Company to the Trust (31 March 2019: $1,577,000) 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 28.

(c) Key management personnel remuneration

	Short-term benefits $'000	Post-employ-ment benefits $'000	Other long-term benefits $'000	Termination benefits $'000	Total $'000
Year ended 31 March 2020	**4,964**	**128**	**77**	**73**	**5,242**
Year ended 31 March 2019	4,584	118	57	–	4,759

There were no contracts for share based payments during the years ended 31 March 2020 and 2019.

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

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 2020 (2019: $4,900).

(e) Subsidiaries

The Group's interests in its subsidiaries are set out in note 33. 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:

	2020 $'000	2019 $'000
Balance due to the Trust at 1 April	1,557	1,554
Loan advanced from (repaid to) the Trust	(110)	(27)
Interest charged by the Trust	80	50
Balance due to the Trust at 31 March	**1,547**	**1,577**

(g) Guarantees

Details of security made by the Group to its lenders are given at note 22.

(h) Terms and conditions

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

[32] 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.

[33] Investments in subsidiaries

The Group had the following subsidiaries at 31 March 2020:

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	Liquid asset holding	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.

[34] Events occurring after the reporting period

At the date of signing these financial statements, the country is in Alert Level1. The Group is being able to complete all work required, although additional safety protocols remain in place.

The business impact of Covid-19 is still not fully known, including the economic impact on the Far North. The largest impact to date has been the delays with the Ngawha Expansion, with an extension of time of 42 days and additional costs in the range of $4-5m. There has also been lower overall electricity consumption experienced on the Network. Wholesale electricity prices were lower initially and have subsequently recovered, however volatility remains.

Our lenders have provided an additional $15m facility under our agreement as a result of Covid-19. This was approved on 26 May 2020.

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

[35] Reconciliation of profit after income tax to net cash inflow from operating activities

	2020 *$'000*	2019 *$'000*
Profit for the year	**5,094**	**(10,669)**
Adjustments made for:		
Depreciation and amortisation	18,786	17,412
Net (loss) gain on sale of non-current assets	(140)	(517)
Movement in provision for doubtful debts	110	(178)
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	15,283	34,536
Interest on Right of use leases	(245)	–
Changes in working capital:		
Decrease (increase) in trade debtors	89	(860)
Decrease (increase) in inventories	(406)	101
Decrease (increase) in other operating assets	(187)	327
Increase (decrease) in trade creditors	5,810	(474)
Increase (decrease) in other operating liabilities	(565)	717
Increase (decrease) in income taxes payable	1,868	(1,098)
Increase (decrease) in provision for deferred income tax	(2,722)	(7,060)
Net cash inflow from operating activities	**42,775**	**32,487**

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF TOP ENERGY LIMITED GROUP'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 31 MARCH 2020

The Auditor-General is the auditor of Top Energy Limited Group (the Group). The Auditor-General has appointed me, Brett Tomkins, 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 39 to 74, that comprise the statement of financial position as at 31 March 2020, 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 2020; 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 2020.

Our audit was completed on 15 June 2020. 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.

Emphasis of matter – Covid-19

Without modifying our opinion, we draw attention to note 2 a) ii) to the financial statements, which explains the impact of the Covid-19 pandemic on the Group.

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 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 is responsible for the other information. The other information comprises the information included on pages 3 to 37, 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.

Brett Tomkins

Brett Tomkins
Deloitte Limited
On behalf of the Auditor-General
Auckland, New Zealand

DIRECTORY

Principal business

Electricity generation and lines distribution business

Directors

- Mr Richard Krogh — *BE (Hons) CMEngNZ CMInstD - Chairman*
- Mr Jason McDonald — *BE Elec (Hons) MBA (Tech Mgmt) CMInstD*
- Mr David Sullivan — *BCom CA*
- Mr Paul White — *BArch DBA MBS*
- Mr Simon Young — *BBS MSc Dip Hort Sc M Phil (Econ)*

Officers

- Mr Russell Shaw — *B Eng (Hons) MSc CEng 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

Brett Tomkins 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

www.topenergy.co.nz

TOP ENERGY®
Te Puna Hihiko

‘COMMITTED TO **KEEPING THE POWER ON** FOR THE FAR NORTH DURING COVID-19’

Thank you to all our essential services staff working during the COVID-19 lockdown.

Together we kept things running as smoothly as possible for the people in our Far North community.

TOP ENERGY®
Te Puna Hihiko

www.topenergy.co.nz