



# **Statement of Corporate Intent**

**For the Year Ending 31 March 2021**

Version: Publish

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

**TOP ENERGY LIMITED**  
**STATEMENT OF CORPORATE INTENT**

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## **1. NATURE AND SCOPE OF ACTIVITIES**

The Group operates and maintains the electricity supply network within its area of geographical operation and provides related construction and maintenance services. Through its subsidiary, the Group operates a geothermal electricity generator. Other activities may be considered if they meet the Objectives of the Group as set out in this Statement of Corporate Intent.

## **2. OBJECTIVES**

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

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

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

### **3. STRATEGIES TO DELIVER THE OBJECTIVES**

#### **A. Long Term Value**

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

- i. Optimise the long-term value from the Network, which is a balance between network reliability/risk and the cost to consumers.
  - Network returns will be achieved by maximising the regulatory allowance at each 5-year regulatory price reset. Focus is also on maintaining currently connected profitable consumers whilst driving continuous improvement in asset management and operational efficiency. With one third of the network being uneconomic, the strategy is to vigorously assess capital expenditure alternatives to provide the most economic supply utilising the optimal regulated asset base (RAB).
- ii. Maximise the long-term value of Ngawha, currently dominated by the near-term development focus of expanding the existing 25 MW plant to 56MW;
  - Managing the construction risks to ensure that the value created following the commissioning of the new station in 2020 is maximised,
  - The existing plant also provides significant returns and these need to be maximised through achieving the highest wholesale energy prices for all generation and preventing any major events that may impact plant availability.
- iii. Minimise financing costs and risk.
  - The ability to secure funding, both at competitive rates and with reasonable risks, is critical for the Group to deliver the objective.

#### **B. Safety and Organisational Culture**

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

There has been a continual drive to encourage the reporting of injuries so learnings can be taken from the circumstances to improve in the future. This has been achieved with specific focus by staff on the culture towards safety.

The safety focus is also being extended through to the Groups contractors with safety performance for internal staff and external contractors combined, ensuring that safety for all people involved on the Groups work site is covered in safety discussions.

Employee Wellbeing is a key aspect of the safety culture and has been reviewed across five key themes, health, security, environment, relationships and purpose. The objective is to provide employees an environment of physical, mental and social wellbeing through the development

of amongst others, policies, digital wellbeing platforms, engagement surveys, development opportunities, training plans, keynote speakers and community involvement.

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

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

### **C. Network Quality Standards**

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

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

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
















The AMP is a public document disclosed on the website and prepared in compliance with Requirement 2.4 of the Electricity Distribution Information Disclosure Determination 2012. The current plan covering the period 1 April 2020 to 31 March 2030 was adopted and published on 31 March 2020.

### **D. Environmental, Cultural and Social Needs**

As the Group is consumer owned, it is highly visible in the community and maintaining public trust is of high importance to the Group. The Group believes it has a role to play in supporting the development of the Far North and wants to ensure it is focused on having a positive impact in the community in which it operates.

For this reason, the Group have chosen to use the United Nations Sustainable Development Goals (SDGs) to guide the sustainability strategy. Reporting against the framework will be included in our next annual report.

The Group is in the process of developing a number of goals, targets and supporting KPIs to measure its performance against the strategy. This will ensure focus on the issues that matter most to the Groups stakeholders and the business. The SDGs that are most relevant and material to the business and community are shown in the following table along with how they are linked to the strategic objectives.

Long Term Value	Safety Culture	Network Quality Standards	Environmental, cultural and social needs	Total delivered cost of electricity
 		 	      	  

While this strategic work is ongoing, the Group will continue to refine how current activities, such as community sponsorship and partnerships support ambitions for the future and determining what gaps exist that might prevent meeting these ambitions. Presently, community presence is maintained through A&P shows where free rides and kids activities are available. Community support is provided through relevant tree trimming, hanging Christmas lights and town flags, with wider financial support being provided for critical activities such as the Electricity Rescue Helicopter and WaterSafe. We also provide financial support to assist in areas of economic development, including a Business Development Fund, Engineering Scholarships and supporting the Young Enterprise Scheme and energy hardship through Healthy Homes.

The Group has a clear role to play in New Zealand's low carbon future. Initiatives continue to be reviewed to reduce the environmental impact and with the expansion of the Ngawha plant, analysis is currently being undertaken to understand how the emissions profile is likely to change in the future.

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

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

#### **E. Total Delivered Cost of Electricity**

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

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

## **4. PERFORMANCE METRICS**

### **A. Long Term Value**

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

The financial forecasts included in this SCI are an estimate of the most probable of a range of possible outcomes based on the assumptions made in our business planning process. That is, the financial forecasts are an estimate of the most probable outcome given the best available information as at the date of this SCI.

The performance targets span a period of higher investment, with the expansion in Ngawha being in FY21. The Network returns are aligned with the Commerce Commission new price path which has a significantly lower weighted average cost of capital (WACC) at 4.57%. The investment in Ngawha changes the Group's business mix, with generation assets becoming larger than the Network and turning into a net electricity exporter for the area.

For this SCI, its preparation coincides with the COVID-19 event and as such, significant forecasting uncertainty arises because the inputs available either relate to the conditions before the event, or where data is available, it is volatile and reflects the evolving view of Top Energy, customers, market participants and market commentators as they respond to new information.

We have used the best available information to assess the impact of COVID-19 on the attitude of customers, market participants, and therefore on our business plan assumptions; however, the exact impact will not be known until information from the crisis is available, ex-post.

With all this said, we believe that future uncertainty has increased materially over our previous SCI's and believe that the financial outcomes in this SCI could realistically vary by 10-15%.



	Actual for Y/E 31 March 20	Budget for Y/E 31 March 21	Target for Y/E 31 March 22	Target for Y/E 31 March 23
<b>Network Business</b>				
Earnings before Interest and Tax as a percentage of Total Tangible Assets	10.1%	4.5%	4.9%	4.7%
Net Profit After Tax, as a Percentage of Average Shareholder Funds	12.6%	3.7%	4.2%	3.6%
<b>Generation Business</b>				
Earnings Before Interest and Tax as a percentage of Total Tangible Assets	4.1%	3.2%	7.1%	7.8%
Net Profit After Tax, as a percentage of Average Shareholder Funds	12.9%	4.7%	8.8%	10.8%
<b>Group</b>				
Net Profit After Tax, as a percentage of Average Shareholder Funds	11.8%	3.4%	4.8%	4.9%
Shareholder's Funds to Total Assets (at year end)	2.9	3.09	2.97	2.81

**NOTES:**

- (i) Revenue of the Network business is controlled under the Commerce Act 1986.
- (ii) The Group's ability to achieve the profit performance targets agreed above could be materially affected by changes in Government Policies, Legislation and Regulations.
- (iii) The above performance targets are before any unrealised gains or losses from derivatives (Ngawha and Group) are taken to account and exclude the effect of any asset revaluations (Ngawha and Group).
- (iv) The Network performance excludes any indexation (CPI) that is applied to the regulated asset base, which forms part of the regulatory returns that are audited and disclosed to the Commerce Commission. This means that the returns expressed within the SCI, are lower than those assessed by the regulator.
- (v) 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 minor activities.
- (vi) The ratio of consolidated Shareholder's Funds to Total Assets will not be greater than 1:3.0 (no greater than 1:3.2 during the Ngawha expansion ending 31 March 2021). This is relevant with the present ownership, but any change in the future may lead to this being reviewed.
- (vii) Shareholder's Funds comprise the total issued capital, the balance of undistributed profits and all revenue and capital reserves, excluding any minority interests, excluding any effect of the revaluations. Total Assets of the Group comprise all the tangible and intangible assets of the Group at their current book values as defined in the Group's Statement of Accounting Policies, excluding the effect of any asset revaluations. Therefore, these values will not be the same as disclosed in the Annual Financial Statements.

## B. Safety and Organisational Culture

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

	Actual for Y/E 31 March 20	Budget for Y/E 31 March 21	Target for Y/E 31 March 22	Target for Y/E 31 March 23
Total Recordable Injury Frequency Rate (TRIFR)	4.4	3.6	3.6	3.6

### C. Network Quality Standards

The quality standards have been calculated in line with the requirements of the relevant Electricity Distribution Services Default Price-Quality Path Determination. A Determination is issued every five years, with the latest being released for the periods from Y/E 31 March 2021, setting new quality standards from that period onwards.

	Actual for Y/E 31 March 20	Budget for Y/E 31 March 21	Target for Y/E 31 March 22	Target for Y/E 31 March 23
<b>SAIDI</b> System Average Interruption Duration Index. (Refer Note (ii) to (iv)).	366	379	371	362
<i>Regulatory Measures (Refer Note (v))</i>				
Cap	517			
Target	434			
Collar	354			
<b>SAIFI</b> System Average Interruption Frequency Index. (Refer Notes (i) to (vi)).	4.5	3.5	3.5	3.4
<i>Regulatory Measures (Refer Note (v))</i>				
Cap	6.2			
Target	5.4			
Collar	4.6			

#### NOTES:

- (i) SAIFI – the number of outages (including planned) per year for an average customer.
- (ii) SAIDI – the number of high voltage outage (including planned) minutes experienced by the average customer.
- (iii) Items are measured using the methodology determined by of the Commerce Commission.
- (iv) These performance levels do not include any faults arising on the Transpower system.
- (v) These measures were set by the Commerce Commission. A “quality incentive” is receivable by the Company if the annual result is between the target and collar, and a quality disincentive is payable by the Company between the target and cap. If the cap is exceeded, a breach has occurred and could result in an investigation by the Commission

### D. Environment, Cultural and Social Needs

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

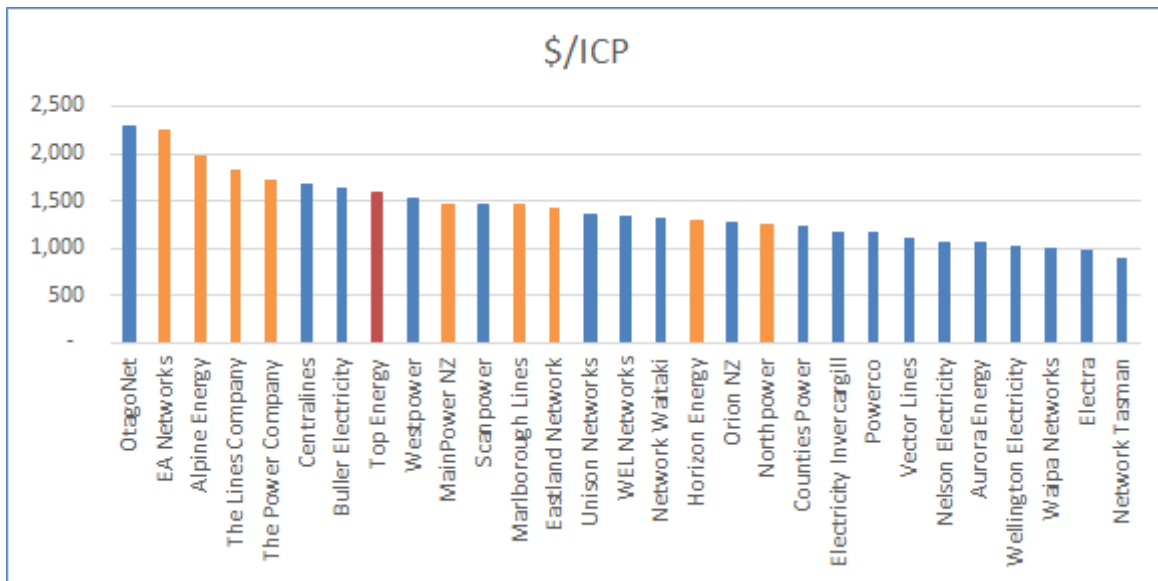
	Actual for Y/E 31 March 20	Budget for Y/E 31 March 21	Target for Y/E 31 March 22	Target for Y/E 31 March 23
Maintain consent compliance without remedial actions	Yes	Yes	Yes	Yes
Ngawha Cultural Monitoring Plan compliance without remedial actions	Yes	Yes	Yes	Yes

The Group is in the process of developing a reporting framework for the sustainability strategy to measure performance against the SDG’s mentioned earlier. This is expected to be completed during this reporting period and included in further versions of the Statement of Corporate Intent.

## E. Total Delivered Cost of Electricity

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

The current target is to remain in the middle of the peer group, being those of a comparative network (i.e. customer density, size, geographic characteristics and our immediate neighbour) and are shown in orange below.



By 2030, the goal is to move from a high cost region for electricity to be one of the lowest. This may be achieved through a combination of a dividend and discount.

## 5. DISTRIBUTION POLICY

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

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

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

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

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

The Group presently has no separately identified capital reserves.

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

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

## **6. INFORMATION TO BE PROVIDED TO THE SHAREHOLDER**

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

- i. A half-year report will be delivered to the Group's shareholder within three months of the end of each half-year. The report will comprise:
  - a. A report from the Chairman covering the Operations and achievement against SCI Objectives for the half year period, and
  - b. The information required to be included by this Statement of Corporate Intent.
- ii. An Annual Report will be delivered to the Group's Shareholder within three months of the end of each financial year and will comprise:
  - a. A report from the Chairman covering the Operations and achievement against SCI Objectives for the year, and
  - b. audited, Consolidated Financial Statements for the financial year in respect of the Group, and
  - c. an auditor's report on the Financial Statements.

The Group's audited Consolidated Financial Statements will comprise the following:

- A Report on the Performance Indicators contained within the Statement of Corporate Intent
  - A Statement of Comprehensive Income
  - A Statement of Financial Position
  - A Statement of Changes in Equity
  - A Cash Flow Statement
  - Such other statements as may be necessary to fairly reflect the financial position of the Group.
- iii. Any event that is defined as a Major Transaction in the Company's Constitution must be approved by the Shareholder. In addition, the Company will bring to the attention of the Trustees, any transaction or decision that is deemed significant.

A significant event, is one where the value of the event is 10% or more of;

- the asset base of the Group, or
- any other event the Company deems the Trustees may have an interest in,

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

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

## **7. ACCOUNTING POLICIES**

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

The Accounting Policies to be applied in respect of the year commencing 1 April 2020 are attached as APPENDIX 1.

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

Transactions between related Companies within the Group and with certain other parties, that are anticipated to occur during the three-year period to 31 March 2023, are set out in APPENDIX 2.

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

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

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

## APPENDIX 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Summary of significant accounting policies

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

#### (a) Basis of preparation

##### *Statutory base*

Top Energy Limited is registered under the Companies Act 1993.

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

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

##### *Going Concern*

These financial statements have been prepared on a going concern basis.

##### *Entities reporting*

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

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

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

##### *Historic cost convention*

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

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

##### *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'). 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 include 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**

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 through 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.

**(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.

**(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 entity's business model for managing the financial assets and the contractual terms of the cash flows.

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

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

*(ii) Measurement*

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

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

*Debt instruments*

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

*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.

*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 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.

**(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.

### *Other property, plant and equipment*

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

### *Subsequent expenditure*

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

### *Depreciation*

Land is not depreciated.

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

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

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

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

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

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

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

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

*(iv) Other revenue*

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 was to cancel the contract prior to the commencement of work, the advance payment would become repayable to the customer.

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

## APPENDIX 2 – RELATED PARTY TRANSACTIONS

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

Provider	Recipient	Description of transaction	Actual value of transactions for the year ended (\$'000s)	Budgeted value of transactions for the year ending (\$'000s)			
				31 March 20	31 March 21	31 March 22	31 March 23
Top Energy Ltd	Top Energy Consumer Trust	Dividend	105	140	140	140	
Top Energy Ltd	Ngawha Generation Ltd	Operating cost	1,292	1,448	1,575	1,607	
Top Energy Ltd	Ngawha Generation Ltd	Cost of funding	9,697	12,417	12,733	11,676	
Top Energy Ltd	Ngawha Generation Ltd	Injection Charges	87	40	87	87	
Top Energy Ltd	Ngawha Generation Ltd	Connection Agreement	64	64	64	64	
Ngawha Generation Ltd	Top Energy Ltd	Avoided Cost of Transmission	2,753	1,752	2,800	2,800	
Ngawha Generation Ltd	Top Energy Ltd	Avoided Cost of Distribution	350	350	350	350	