Top Energy Consumer Trust

Group Financial Statements

for the year ended 31 March 2020

Directory

Top Energy Consumer Trust

Trustees

Mrs Yvonne Sharp	Kerikeri - Chair
Mr Hugh Ammundsen	Doubtless Bay - Deputy Chair
Mrs Ann Court	Kerikeri
Mr Bruce Mathieson	Kerikeri
Mr Ken Rintoul	Okaihau

Secretary

Mr Steven James	ACA

Top Energy Limited

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)

Auditor	Grant Thornton New Zealand Audit Partnership Auckland
Bankers	Australia and New Zealand Banking Group Ltd., Auckland Bank of New Zealand, Kaikohe China Construction Bank (New Zealand) Limited, Auckland
Website address	www.topenergy.co.nz

Trustees' report

The Trustees present the annual report of the Top Energy Consumer Trust, incorporating the financial statements and the auditor's report, for the year ended 31 March 2020.

The Board of Trustees of the Top Energy Consumer Trust authorised the financial statements presented on pages 8 to 59 for issue on 30 June 2020.

For and on behalf of the Board.

Yvonne Sharp Trustee	Steven James Secretary

30 June 2020

TRUSTEES' REVIEW

IN RELATION TO THE YEAR ENDED 31 MARCH 2020

The financial year to 31 March 2020 was a very positive one for both the Trust and Top Energy Ltd Group – at least until the last week of March when we all went into lockdown, to combat the Covid-19 pandemic.

Profitability for the Group was 7% higher than the previous year and all Group operations have, once again, maintained an excellent safety record, with no lost time injuries (LTIs). The fact that the generation operations at Ngawha have had no LTIs for the last 11 years is really noteworthy and a credit to the staff.

Continuing the theme from previous reports, the past year has been heavily influenced by the ongoing construction of the 31.5MW expansion of the Ngawha generation facilities. As we have noted before, this is the largest construction project in the Far North for decades, and will make a real difference to the power supply in the region, as well as providing an opportunity for the people of the Far North to share in the benefits that will flow from it. Local residents and visitors alike can take the opportunity to view the site of the expansion project from Ngawha Springs Road and will be struck by the significant size and complexity of the plant being constructed. A large part of the year was taken up with earthworks and construction of the initial foundations required. As the end of the financial year approached, some of the large items of plant began arriving from the overseas locations where they have been manufactured. Everything looked like it was going to plan until the last week of March, when the country's borders were closed, and we all went into lockdown. That meant that the expansion project site was closed, and all the contractors were required to vacate. However, under Lockdown Level 3, the contractors were able to return and we will outline the steps taken since then at the end of this report.

While management of the expansion project is taking a considerable amount of the time of Top Energy's directors, trustees and directors are turning our minds to what happens after the expansion project is complete. As we have noted previously, the project requires the Group to borrow a lot of money. The Group's funding arrangements will require some of those funds to be repaid as quickly as possible, before longer-term repayment arrangements become operative. Discussions between trustees and directors have been focused on establishing a strategic balance that addresses the issues of risk management, capital or value growth and lowering the delivered cost of energy to power consumers/beneficiaries.

Trustees have agreed with directors that the annual rebate should be increased as soon as possible and to that end, the average residential consumer will receive a rebate of $250 in the coming year. In fact, at the time of writing, this rebate is being paid to power consumers. This is earlier than has been paid in the past but we have agreed with directors that the financial challenges that many in our Far North community are presently experiencing, means bringing forward the payment date is appropriate. This should be of assistance to many people and businesses. It is planned to increase these annual rebates in the coming years, although the timing of these increases may have to be reviewed, as the impacts of Covid-19 become clearer. Increases in these rebates remains a clear goal of trustees and directors, as we look to reduce the cost of power for our community.

Over recent years, the Group has been working to reduce the number and length of outages on the distribution system. We have been achieving a steady reduction, despite the fact that maintenance work can no longer be carried out using "live line" techniques. When agreeing the annual Statement of Corporate Intent (SCI) for the year to 31 March 2020, it had been expected that this rate of reduction would continue. However, storms and other issues meant that the Group wasn't able to achieve this, this year. The actual results are shown below, and you will see we are very close to the levels achieved in the previous year. It should be pointed out that the goal the Group set itself was significantly below the level allowed by the industry regulator and this achievement may have future benefits for the Group.

Financial performance of the Trust

As is our usual practice, the Trust has operated at a near breakeven level during the year. Interest income has risen in relation to the previous year and the dividend paid to the Trust from the Group was set at a level to cover the remainder of our expenses. Due to costs associated with membership of the national electricity trusts association and their bi-annual conference increases, the trustees have reviewed membership of this group and decided that our requirements can be meet in other, more cost effective, ways.

The item Other Expenses includes consultancy tasks including a full evaluation during the year of director performance. It is intended to repeat this process every second or third year. This ensures that the directors we have appointed are operating at the level the Group requires. Costs of a director recruitment were also incurred during the year as we moved to set up the new board structure, requiring two independent directors.

Financial and Service Performance of Top Energy Group

While maintaining profitability of the Group is always essential, cash availability is paramount, as we work through the Ngawha expansion project. Net cashflows from Operations increased by $10m over the previous year, an excellent result given the funds that are required for the project. The remaining debt funds available under the bank funding facility will allow the Group to complete the project. The impact of Covid-19 is currently being assessed by directors and we comment further on this in the last section of this report.

Earnings before interest, tax, depreciation, amortisation and fair value movements of financial assets (EBITDAF) increased by $3m or 7%, to $47m. The increased valuation of the existing Ngawha plant, at the end of the previous year, increased the depreciation charge but finance costs reduced, reflecting the lower interest rates during the year. The interest costs associated with the expansion project, and any other significant capital works undertaken on the electricity network, are capitalised to the cost of the works involved and will become part of the depreciation charges in future years.

The lower market interest rates are also dealt with in the financial statements by valuing the financial instruments the Group uses to manage the risk of market rate changes. Similar valuations are also undertaken in relation to the contracts for the sale of energy from the Ngawha plant. Energy markets have been quite volatile during the year but at financial year end, market prices dropped in response to the Covid-19 situation and this produced an accounting profit in relation to the contracted prices the Group has in place. This profit partially offset the adjustment that was required in relation to the interest rate hedge contracts. As we have noted before, these are accounting adjustments only and do not, of themselves, involve any cash profit or loss.

The impact of Covid-19 has had an impact on the carrying value of the Ngawha plant and directors believe that it is prudent to adjust the value of the existing Ngawha plant. An external valuer has provided a range of values and directors have adopted the low point valuation. This is consistent with the position taken previously and trustees are comfortable with this approach.

Communications & Governance

Trustees met 11 times during the course of the financial year, to manage the business of the Trust. The annual public meeting was also held in July 2019, at which 32 power consumers were in attendance.

In addition, we met with the directors of the Company, in our role as shareholder, for the Annual General Meeting and on two other occasions to discuss matters of strategy and direction of the Top Energy Group. The Chairman of Directors and the Chief Executive have updated trustees on a regular basis in relation to progress of the Ngawha Expansion Project and other general industry issues, as they arise.

The Chairs of the Trust and the Company communicate as necessary to discuss issues that arise.

Statement of Corporate Intent (SCI)
An SCI is negotiated with the directors of the Company, each year. At the Company's Annual General Meeting in June 2019, trustees agreed performance targets for the year ended 31 March 2020. The following summarises the actual performance achieved by the Group, measured against those targets.

	Actual 2020	Target 2020	Actual 2019
Net Profit After Tax, as a percentage of average shareholders funds for:			
*The Group	11.8%	10.0%	11.6%
*The Network Business	12.6%	11.0%	12.2%
*The balance of the Group	12.9%	11.5%	16.1%
The average length of high voltage outages (including planned) per customer excluding Transpower outages (minutes/pa)	366	318	352

A new SCI has been negotiated with the directors and a copy of this new Statement is available on the Company's website.

Trust Guidelines
The Trust has adopted guidelines to govern the right of beneficiaries to have access to certain information. Those guidelines also set out the procedure to be adopted if a request for information is declined by the Trust. During the year ended 31 March 2020, no requests were made to the Trust for information to which the provisions apply. Therefore, no costs have been incurred in meeting such requests, nor has there been any requirement for the Trust to have any decision reviewed and consequently, no costs have been incurred in relation to this possibility either.

Retirement and Appointment of Directors
At the Company's AGM in June 2019, Greg Steed retired from the Board after 8 years, serving as Chair of the Audit & Risk Committee for 5 of those years. Greg was involved with the seeking of resource consents for the current Ngawha expansion and putting in place the funding and contractual requirements for the project. Trustees wish to thank Greg for his significant contribution.

David Sullivan has assumed the role of Chairman of the Audit & Risk Committees.

At the Company's AGM in June 2019 Paul White retired by rotation and was re-appointed for a further year. As noted above, an independent assessment of director performance was conducted during the year. The results of this process assist trustees in determining what action should be taken when considering the re-appointment of directors. At this year's AGM all directors retired by rotation and were re-appointed as appropriate.

Appointment of Trustees

No trustees retired during the year ending 31 March 2020. Three of our present trustees will retire by rotation, effective from 31 March 2021.

The Trust's Deed requires that nominations for the position of trustee be called by public notification. It is anticipated that this will next occur in November 2020. Any resident of the Far North can be nominated for the position and any retiring trustee can also be nominated.

The Industry and the future.

As noted above, Covid-19 impacted on the Top Energy Group and the rest of New Zealand as the financial year to 31 March 2020 came to a close. It had little impact on the achievements of last year but it will have on the 2020/21 year. Its impact must be expected to extend for the next few years. Trustees have kept in close contact with directors during the period of lockdown and as the business has come back up to full activity levels. As an essential service and life line service, the day to day operation of the network and the existing power generator continued to operate. However, the expansion project was closed down for the duration of Lockdown Level 4 and took a short time to get back up to full operation.

During the lockdown levels, electricity demand dropped but came back up as the restrictions were progressively lifted. At the time of writing, wholesale prices have generally reverted to pre-lockdown levels although significant volatility continues. The major issue which is currently evident is that there is no certainty around what the next few months, and possibly years, will hold. Trustees are, however, confident that the Company's directors are managing the situations well and have placed the Group in the best possible position to ensure that the Far North community weathers this storm as best as can be hoped for.

It gives me pleasure, as Chair of the Top Energy Consumer Trust, to record my thanks to the Company's directors and all the staff and also to my fellow trustees for their commitment and dedicated approach in serving the people of the Far North

Yvonne Sharp
Chair

Statement of comprehensive income

For the year ended 31 March 2020

	Notes	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Operating revenue	4	**77,589**	75,989	**221**	185
Operating expenses	5	**(30,505)**	(31,923)	**(219)**	(183)
Earnings (loss) before interest, tax, depreciation, amortisation and fair value movements of financial assets (EBITDAF)		**47,084**	44,066	**2**	2
Depreciation and amortisation	5	**(18,786)**	(17,412)	**-**	-
Finance costs		**(6,860)**	(7,828)	**-**	-
Earnings (loss) before tax and fair value movements of financial assets (EBTF)		**21,438**	18,826	**2**	2
Fair value gains (losses) on financial assets	6	**(15,284)**	(34,536)	**-**	-
Profit (loss) before income tax		**6,154**	(15,710)	**2**	2
Income tax (expense) / benefit	7	**(1,199)**	5,152	**-**	-
Profit (loss) from continuing operations		**4,955**	(10,558)	**2**	2
Profit/(loss) from discontinued operations	8	**-**	(244)	**-**	-
Profit/(loss) for the year		**4,955**	(10,802)	**2**	2
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		**1,691**	4,078	**2**	2
Profit (Loss) is attributable to:					
Beneficiaries of the Top Energy Consumer Trust		**4,955**	(10,802)		
		4,955	(10,802)		
Total comprehensive income for the year is attributable to:					
Beneficiaries of the Top Energy Consumer Trust		**1,691**	4,078		
		1,691	4,078		

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

Statement of financial position

As at 31 March 2020

		Consolidated		Parent	
		2020	2019 (Restated)	**2020**	2019
	Notes	**$'000**	$'000	**$'000**	$'000
ASSETS					
Current assets					
Cash and cash equivalents	9	**101**	203	**-**	-
Receivables	10	**9,957**	8,649	**1,562**	1,583
Inventories	11	**1,817**	1,411	**-**	-
Current tax benefit		**-**	2	**-**	-
Intangible assets	12	**770**	151	**-**	-
Derivative financial instruments	13	**1,461**	2,647	**-**	-
		14,106	13,063	**1,562**	1,583
Non-current assets					
Property, plant and equipment	15	**585,588**	494,166	**-**	-
Intangible assets	16	**19,498**	17,531	**-**	-
Shares in subsidiaries	33	**-**	-	**25,267**	25,267
Derivative financial instruments	13	**627**	12	**-**	-
Right-of-use lease assets	17	**5,745**	-	**-**	-
Total non-current assets		**611,458**	511,709	**25,267**	25,267
Total assets		**625,564**	524,772	**26,829**	26,850
LIABILITIES					
Current liabilities					
Payables	18	**21,398**	14,869	**950**	973
Interest bearing liabilities	19	**190**	5	**-**	-
Current tax liabilities	20	**2,240**	372	**-**	-
Provisions	21	**385**	379	**-**	-
Derivative financial instruments	13	**3,901**	9,824	**-**	-
Right-of-use lease liabilities	17	**409**	-	**-**	-
Total current liabilities		**28,523**	25,449	**950**	973
Non-current liabilities					
Interest bearing liabilities	22	**286,650**	212,710	**-**	-
Derivative financial instruments	13	**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		**421,365**	322,264	**950**	973
Net assets		**204,199**	202,508	**25,879**	25,877
BENEFICIARIES' EQUITY					
Reserves	26	**75,622**	78,886	**-**	-
Retained earnings	26	**128,577**	123,622	**25,879**	25,877
Total beneficiaries' equity		**204,199**	202,508	**25,879**	25,877

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

Statement of changes in equity

For the year ended 31 March 2020

Consolidated	Notes	Settlors' capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance as at 1 April 2019		-	78,886	123,622	202,508
Comprehensive income					
Profit for the year		-	-	4,955	4,955
Revaluation of generation plant	15	-	(4,513)	-	(4,513)
Reversal of revaluation surplus 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)	4,955	1,691
Balance as at 31 March 2020		-	75,622	128,577	204,199

Consolidated	Notes	Settlors' capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance as at 1 April 2018		-	63,894	134,426	198,320
Comprehensive income					
Profit for the year		-	-	(10,802)	(10,802)
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	(10,802)	4,190
Balance as at 31 March 2019		-	78,886	123,622	202,508

Parent	Settlors' capital $'000	Retained earnings $'000	Total equity $'000
Balance at 1 April 2019	-	25,877	25,877
Comprehensive income			
Gain for the year	-	2	2
Total comprehensive income	-	2	2
Balance as at 31 March 2020	-	25,879	25,879
Balance at 1 April 2018	-	25,876	25,876
Comprehensive income			
Gain for the year	-	2	2
Total comprehensive income	-	2	2
Balance as at 31 March 2019	-	25,877	25,877

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

Cash flow statement

For the year ended 31 March 2020

	Notes	Consolidated 2020 $'000	Consolidated 2019 $'000	Parent 2020 $'000	Parent 2019 $'000
Cash flows from operating activities					
Receipts from customers		**77,670**	75,111	**-**	-
Payments to suppliers and employees		**(25,824)**	(31,853)	**(250)**	(164)
		51,846	43,258	**(250)**	(164)
Interest received		**8**	18	**80**	50
Interest paid		**(7,199)**	(7,828)	**-**	-
Income taxes paid		**(2,050)**	(3,075)	**-**	-
Net cash inflow / (outflow) from operating activities	35	**42,605**	32,373	**(170)**	(114)
Cash flows from investing activities					
Payments for property, plant and equipment		**(117,982)**	(96,692)	**-**	-
Proceeds from sale of property, plant and equipment		**1,325**	6,198	**-**	-
Disposals (Purchases) of financial assets at fair value through other comprehensive income		**-**	691	**-**	-
Dividends received		**-**	-	**140**	135
Repayment (increase) of loans to related parties		**-**	-	**30**	(23)
Net cash inflow / (outflow) from investing activities		**(116,657)**	(89,803)	**170**	112
Cash flows from financing activities					
(Repayments of) proceeds from borrowings		**73,940**	57,610	**-**	-
Repayment of Right-of-use leases		**(175)**	-	**-**	-
Net cash inflow / (outflow) from financing activities		**73,765**	57,610	**-**	-
Net increase (decrease) in cash balances		**(287)**	180	**-**	(2)
Cash at bank and on hand at the beginning of the financial year		**198**	18	**-**	2
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

The Top Energy Consumer Trust (the Trust) was established under the terms of a trust deed dated 23 April 1993. The Trust was previously called the Bay of Islands Electric Power Trust. The name was changed on 10 July 2002 to the Top Energy Consumer Trust. The Trust holds the entire share capital of Top Energy Ltd on behalf of the power consumers within the network area served by Top Energy Ltd.

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

Top Energy Limited is a limited liability company, incorporated and domiciled in New Zealand.

These financial statements were approved by the Trustees of the Trust on 30 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

The Trust is required under the terms of its Trust Deed to prepare financial statements that accord with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

The financial statements of Top Energy Ltd and its subsidiaries, which have been consolidated into the Trust's group 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 $5.0m, 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 $42.6m 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 Top Energy Group lenders. All risk scenarios developed demonstrate the Top Energy Group is expected to be able to meet its obligations as they fall due for the foreseeable future;

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- 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(c), 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 25(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 25 are expected to be sufficient to cover the higher trade payables and the capital commitments, typical of a large construction project with 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 financial statements for the 'Parent' are for the Top Energy Consumer Trust as a separate legal entity.

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

The Parent and the Group 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 financial assets at fair value through other comprehensive income, 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 have been no other material 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 entity'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.

2 Summary of significant accounting policies (continued)

(b) Accounting estimates and assumptions (continued)

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 and equity accounting

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Top Energy Consumer Trust (the 'Trust' or 'parent entity') as at 31 March 2020 and the results of all subsidiaries for the year then ended. Top Energy Ltd and its subsidiaries together are referred to in these financial statements as the Top Energy Group.

Subsidiaries are those entities over which the Trust has, because of its ownership of Top Energy Ltd, the power to govern the financial and operating policies. 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 Group. 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-entity transactions, balances and unrealised gains and losses on transactions between group entities 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.

2 Summary of significant accounting policies (continued)

(h) Distributions to beneficiaries

Provision is made for the amount of any distribution declared on or before the end of the financial year but not paid at balance date.

Distributions to the Trust's beneficiaries are recognised as a liability in the Trust's and the Group's financial statements in the accounting period in which the distribution is declared by the Trustees.

(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) Fair Value through Other Comprehensive Income financial instruments

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

All of the Group's Fair Value through Other Comprehensive Income financial instruments 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.

2 Summary of significant accounting policies (continued)

(k) Fair Value through Other Comprehensive Income financial instruments (continued)

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 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.

2 Summary of significant accounting policies (continued)

(p) Intangible assets (continued)

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 entity has an unconditional right to defer settlement of the liability for at least 12 months after the balance 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.

2 Summary of significant accounting policies (continued)

(s) Investments and other financial assets (continued)

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 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.

2 Summary of significant accounting policies (continued)

(s) Investments and other financial assets (continued)

(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 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.

2 Summary of significant accounting policies (continued)

(s) Investments and other financial assets (continued)

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

(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.

Dividends

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

(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.

2 Summary of significant accounting policies (continued)

(u) Non-current assets held for sale (continued)

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
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.

2 Summary of significant accounting policies (continued)

(v) Property, plant and equipment (continued)

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 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.

2 Summary of significant accounting policies (continued)

(x) Revenue recognition (continued)

(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 Trust 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 statement of comprehensive income 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.

2 Summary of significant accounting policies (continued)

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

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 has had a material impact on these financial statements.

(ac) Standards, amendments and interpretations 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.

The Group's primary financial risks are within the Top Energy Group rather than the Parent. Risk management is carried out by senior management under policies approved by Top Energy Limited's Board of Directors. Management identifies and evaluates relevant financial risks and acts to maintain 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: 5.98%) 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).

3 Financial risk management (continued)

(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 13.

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 following table 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.

3 Financial risk management (continued)

At 31 March 2020	Less than 1 year $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000
Group				
Bank overdrafts and loans	9,589	9,398	300,748	-
Right-of-use lease liabilities	409	415	1,327	3,705
Trade and other payables	20,447	-	-	-
Parent				
Trade and other payables	950	-	-	-
At 31 March 2019				
Group				
Bank overdrafts and loans	8,911	8,907	235,719	-
Trade and other payables	14,868	-	-	-
Parent				
Trade and other payables	973	-	-	-

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.

Consolidated only	Less than 1 year $'000	Between 1 and 2 years $'000	Between 2 and 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 CFD's				
- 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 CFD's				
- inflow	375	-	13	-
- outflow	(9,408)	(4,039)	(3,320)	-

3 Financial risk management (continued)

Cash flow forecasting is performed in aggregate by the Top Energy Group. The Top Energy Group monitors rolling forecasts of its liquidity requirements to ensure it has sufficient cash to meet operational needs whilst maintaining sufficient headroom on its undrawn committed borrowing facilities at all times, so that the Top Energy Group does not breach its borrowing limits or covenants (as applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Top Energy 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.

3 Financial risk management (continued)

The following table presents the Group's and Parent'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.

Consolidated - At 31 March 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
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
Consolidated - 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

Parent - At 31 March 2020 and 31 March 2019

Assets - None
Liabilities - None

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

3 Financial risk management (continued)

(e) Financial instruments by category

Financial assets as per the statement of financial position	Amortised Cost $'000	Assets at fair value through profit or loss $'000	Other $'000	Total $'000
Consolidated				
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	8,225	-	-	8,225
Other financial assets	-	-	2,026	2,026
Cash and cash equivalents	100	-	-	100
	8,325	2,088	2,026	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	7,917	-	-	7,917
Other financial assets	-	-	2,026	2,026
Cash and cash equivalents	203	-	-	203
	8,120	2,659	2,026	12,805

Financial assets as per the statement of financial position	Amortised Cost $'000	Assets at fair value through profit or loss $'000	Other $'000	Total $'000
Parent				
At 31 March 2020				
Trade and other receivables	1,547	-	-	1,547
	1,547	-	-	1,547
At 31 March 2019				
Trade and other receivables	1,577	-	-	1,577
	1,577	-	-	1,577

3 Financial risk management (continued)

Financial liabilities as per the statement of financial position	**Financial liabilities at fair value through profit or loss $'000**	**Financial liabilities at amortised cost $'000**	**Total $'000**
Consolidated			
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	-	18,428	18,428
	61,311	312,479	373,790
At 31 March 2019			
Borrowings	-	212,715	212,715
Derivative financial instruments - interest rate swaps	29,987	-	29,987
Derivative financial instruments - electricity CFDs	16,612	-	16,612
Trade and other payables	-	11,135	11,135
	46,599	223,850	270,449
Parent			
At 31 March 2020			
Trade and other payables	-	931	931
	-	931	931
At 31 March 2019			
Trade and other payables	-	950	950
	-	950	950

4 Revenue

	Consolidated		Parent	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
From continuing operations				
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	**-**	-
Interest	**-**	-	**81**	50
Dividends	**-**	-	**140**	135
Other revenue	**190**	274	**-**	-
Total revenue from continuing operations	**77,589**	75,989	**221**	185

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'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	**8,191**	10,855	**219**	183
Transmission charges	**4,855**	5,090	**-**	-
	30,505	31,923	**219**	183
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 operating leases				
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	**-**	-

5 Expenses (continued)

Auditors' fees

Top Energy Consumer Trust is audited by Grant Thornton New Zealand Audit Partnership. The Top Energy Group is audited by Deloitte Limited, who are acting on behalf of the Auditor-General. The following fees were paid or payable for services provided by the respective appointed auditors of the Group and their related practices:

	Consolidated		**Parent**	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Audit services				
Grant Thornton New Zealand Audit Partnership:				
Audit of the financial statements of the Top Energy Consumer Trust Group	**19**	18	**19**	18
Deloitte Limited New Zealand:				
Audit of the financial statements of the Top Energy Ltd Group	**156**	127	**-**	-
Total remuneration for assurance services	**175**	145	**19**	18
Deloitte Limited New Zealand for services to the Top Energy Ltd Group:				
Audit of regulatory statements	**61**	60	**-**	-
Total remuneration for advisory services	**61**	60	**-**	-
Total remuneration for services	**236**	205	**19**	18

6 Fair value gains (losses) on financial assets

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

7 Income tax expense

	Consolidated 2020 $'000	2019 $'000	Parent 2020 $'000	2019 $'000
(a) Income tax expense				
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 from continuing operations	**1,199**	(5,152)	**-**	-
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				
Profit (loss) from continuing operations before income tax expense	**6,154**	(15,710)	**2**	2
Profit (Loss) from discontinuing operations before income tax expense	**-**	(160)	**-**	-
	6,154	(15,870)	**2**	2
Tax at the New Zealand tax rate of 28% (2019: 28%) (Parent: 33% for both periods)	**1,723**	(4,443)	**-**	1
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non-deductible expenditure	**15**	3	**-**	-
Income not subject to tax	**(809)**	(636)	**-**	-
Other reconciling items				
Adjustment in respect of prior years	**2**	7	**-**	-
Tax losses utilised	**-**	1	**-**	(1)
Other	**268**	-	**-**	-
Income tax expense	**1,199**	(5,068)	**-**	-

7 Income tax expense (continued)

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

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

	Before tax $'000	Tax (expense) / benefit $'000	After tax $'000
Consolidated only			
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.

	Consolidated		**Parent**	
	2020 $'000	2019 $'000	**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 (outflow) from operating activities	-	337	-	-
Net cash inflow (outflow) from investing activities	-	4,861	-	-
Net cash inflow from financing activities	-	(5,198)	-	-
Total cash flows	-	-	-	-

9 Current assets - Cash and cash equivalents

	Consolidated 2020 $'000	2019 $'000	Parent 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 cash flow statement:

	Consolidated 2020 $'000	2019 $'000	Parent 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 - Receivables

	Consolidated 2020 $'000	2019 $'000	Parent 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	**-**	-
Net related party receivable				
Receivable from Top Energy Ltd	**-**	-	**1,547**	1,577
Prepayments				
Sundry prepayments	**927**	732	**15**	6
Total current receivables	**9,957**	8,649	**1,562**	1,583

(a) Impaired receivables

Movements in the provision for impairment of receivables are as follows:

	Consolidated 2020 $'000	2019 $'000	Parent 2020 $'000	2019 $'000
At 1 April	**397**	575	**-**	-
Provision for impairment arising during the year	**116**	-	**-**	-
Provision for impairment released in the year	**-**	(110)	**-**	-
Charge (credit) to profit and loss during the year	**(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.

10 Current assets - Receivables (continued)

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

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

12 Current assets - Intangible assets

	Consolidated		Parent	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'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.

13 Derivative financial instruments

	Consolidated		Parent	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'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 for details.

(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.

13 Derivative financial instruments (continued)

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).

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 further group of assets were subsequently sold during the year ending 31 March 2020.

15 Non-current assets - Property, plant and equipment

Consolidated	**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 disposals 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

15 Non-current assets - Property, plant and equipment (continued)

Consolidated	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
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

15 Non-current assets - Property, plant and equipment (continued)

(a) Parent entity

The Parent entity owned no assets in the above categories during the years ended 31 March 2020 and 2019.

(b) Critical accounting estimates and assumptions

The Group considers annually whether the carrying values of its property, plant and equipment are supportable, based on their expected value-in-use or fair value as detailed below. This also takes into consideration the impacts of Covid-19, as discussed in note 2(a)(ii).

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

The external valuation of the generation plant was performed as at 31 March 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.

(c) 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 surplus net of applicable deferred income taxes was credited to other comprehensive income and is shown in ‘reserves’ in beneficiaries' 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).

(d) 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.

15 Non-current assets - Property, plant and equipment (continued)

(e) 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 Coast (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.

(f) 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

Consolidated	**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	-	(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

Parent entity

The Parent entity owned no assets in the above categories during the years ended 31 March 2020 and 2019.

Emission Trading Scheme units

For further details of the Emission Trading Scheme units refer to note 12 .

16 Non-current assets - Intangible assets (continued)

(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
As 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(n) 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:

	Consolidated		Parent	
	2020 $'000	2019 $'000	**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	-	**-**	-

17 Leases (continued)

(b) Amounts recognised in the Statement of comprehensive income

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'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 leases for the year ended 31 March 2020 was $644,000 (2019: nil).

(c) The Group's leasing activities 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 - Payables

	Consolidated		Parent	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Trade payables	**13,812**	6,700	**(1)**	19
GST payable	**57**	187	**-**	-
ACC levies. PAYE and other payroll taxes	**297**	302	**-**	-
Payroll creditors	**1,587**	1,392	**-**	-
Accruals	**2,970**	3,734	**19**	22
Unclaimed dividends due to Trust beneficiaries	**932**	932	**932**	932
Revenue received in advance	**1,743**	1,622	**-**	-
	21,398	14,869	**950**	973

19 Current liabilities - Interest bearing liabilities

	Consolidated		Parent	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Bank overdrafts	**190**	5	**-**	-
Total current interest bearing borrowings	**190**	5	**-**	-

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

20 Current liabilities - Current tax liabilities

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

21 Current liabilities - Provisions

	Consolidated		Parent	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'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

	Consolidated		Parent	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'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 its bankers by all companies in the Top Energy Ltd Group are as follows:

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 Top Energy Ltd 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) debt will not exceed 60% of the aggregate of the total debt plus shareholders' funds of the Top Energy Ltd Group; and

(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; and

(iii) consolidated tangible assets of the Guaranteeing Group will not be less than 90% of the consolidated tangible assets of the Top Energy Group; and

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

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

23 Non-current liabilities - Deferred tax liabilities

	Consolidated		Parent	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'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				
Opening 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 2020	**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	**-**	-
	43,337	47,330	**-**	-

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

24 Imputation credits

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

The above amounts represent the balance of the Group companies' 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 Settlors' capital

	Consolidated		Parent	
	$	$	**$**	$
(a) Share capital				
On settlement - 23 April 1993	**100**	100	**100**	100

(b) Capital risk management

The Trustees regularly monitor the Group's capital ratios. The Trustees have delegated the responsibility for day-to-day maintenance of the Group's overall capital position to the Directors of the Top Energy Ltd Group.

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

In order to maintain or adjust the capital structure, the Top Energy Ltd Group may adjust the amount of distributions paid to the Trust, may return capital to the Trust, 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 less 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:

	Top Energy Ltd Group	
	2020	2019
	$'000	$'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

	Consolidated		Parent	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
(a) Reserves				
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 - surplus before tax	**(4,513)**	20,667	**-**	-
Deferred tax on the revaluation surplus	**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:

	Consolidated 2020	Consolidated 2019	Parent 2020	Parent 2019
Balance 1 April	**123,622**	134,424	**25,877**	25,875
Net profit for the year	**4,955**	(10,802)	**2**	2
Balance at 31 March	**128,577**	123,622	**25,879**	25,877

27 Distributions

All payments made to beneficiaries of the Trust during the years ended 31 March 2020 and 2019 related to the re-issue of distributions arising in financial years up to 31 March 2011. Accordingly, these re-issued payments were charged against the provisions previously made.

28 Trustee and Director disclosures

(a) Trustees

The following persons were Trustees of the Top Energy Consumer Trust during the financial year ended 31 March 2020:

Mrs Yvonne Sharp (Chair)
Mr Hugh Ammundsen
Mrs Ann Court
Mr Bruce Mathieson
Mr Ken Rintoul

None of the trustees were due to retire by rotation at 31 March 2020.

All of the Trustees are connected to Top Energy Limited's electricity distribution network and therefore are also beneficiaries of the Top Energy Consumer Trust.

(b) Trustees' and Directors' remuneration

Details of the remuneration of each Trustee of the Top Energy Consumer Trust and of each Director of Top Energy Limited and of various subsidiary companies within the Top Energy Ltd Group are set out in the following tables.

Year to 31 March 2020

Name	Cash salary and fees $	Total $
Trustees of the Top Energy Consumer Trust		
H Ammundsen	14,855	14,855
A Court	14,475	14,475
B Mathieson	14,475	14,475
K Rintoul	14,475	14,475
Y Sharp	26,323	26,323
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 (Top Energy Limited and Ngawha Generation Limited)	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	503,874	503,874

28 Trustee and Director disclosures (continued)

Year to 31 March 2019

Name	Cash salary and fees $	Total $
Trustees of the Top Energy Consumer Trust		
H Ammundsen	14,954	14,954
A Court	13,285	13,285
B Mathieson	13,285	13,285
K Rintoul	13,285	13,285
Y Sharp	23,965	23,965
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 01.08.2018 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* (to 26.02.2019)	-	-
R Kirkpatrick	48,750	48,750
J Moulder (from 01.08.2018 to 06.11.2018)	16,250	16,250
R Shaw*	-	-
Total	448,360	448,360

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

(c) Trustees' and Directors' interests in other entities

The Trust maintains a register of trustees' interests in other entities. No trustee has declared a conflict of interest in respect of their 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, the "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 Top Energy Limited 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 Top Energy Limited 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 Top Energy Limited 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:

	Consolidated		**Parent**	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'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) Transactions with Top Energy Ltd and other Group entities

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.

During the year ended 31 March 2020, Top Energy Ltd paid a dividend to the Trust of $140,000 (2019: $135,000). These dividends were to assist with the Trust's running costs.

The Trust charged Top Energy Ltd interest at prevailing market rates on the balance of funds loaned, totalling $80,000 in the year ended 31 March 2020 (2019: $50,000). The effective average interest rate applied by the Trust on the loan to Top Energy Limited during the year ended 31 March 2020 was 3.87% (2019: 3.35%).

The balances receivable from Top Energy Ltd at the relevant balance dates are detailed in note 31(f) below and have been included in receivables in the statement of financial position (see note 10). All transactions between Top Energy Ltd and the Trust are made on normal business terms.

Interest charged between the Trust and Top Energy Ltd and balances due between the parties are eliminated on consolidation.

(b) Trustees

The names of persons who were trustees of the Trust at any time during the financial year are given at note 28.

(c) Key management personnel remuneration

The totals below refer to remuneration paid to employees of the Top Energy Ltd Group only. They do not include the remuneration of the Trustees of the Trust, details of which are given at note 28.

	Short-term benefits $'000	Post-employment benefits $'000	Other long-term benefits $'000	Termination benefits $'000	Total $'000
2020	**4,964**	**128**	**77**	**73**	**5,242**
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 transactions with key management personnel or entities related to them, other than the payment of remuneration, during the year ended 31 March 2020 (2019: none).

(e) Subsidiaries

The Trust's interests in its direct and indirect subsidiaries are set out in note 33.

31 Related party transactions (continued)

(f) Loan to Top Energy Limited

The movements in and balances of the loan between the Trust and Top Energy Ltd were as follows:

	Parent only	
	2020	2019
	$'000	$'000
Balance due from Top Energy Ltd at 1 April	**1,577**	1,554
Amounts advanced to (repaid by) Top Energy Ltd	**(110)**	(27)
Interest charged to Top Energy Ltd	**80**	50
	1,547	1,577

The above balance is unsecured and is repayable on demand.

(g) Guarantees

Details of negative pledges made by the Top Energy Ltd Group to its bankers 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 %	Proportion of ordinary shares held by the Group %
Ngawha Generation Ltd	New Zealand	Electricity generation	-	100
Top Energy Ltd	New Zealand	Electricity distribution	100	-
Top Energy Ngawha Spa Ltd	New Zealand	Liquid asset holding	-	100

The companies listed above are directly-held subsidiaries of Top Energy Ltd. Top Energy Ltd is a directly-held subsidiary of the Trust.

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.

Top Energy Consumer Trust's interest in its direct subsidiary, Top Energy Ltd

	2020 $'000	2019 $'000
Shares at cost		
Shares at cost - Top Energy Ltd	**25,267**	25,267

34 Events occurring after the reporting period

At the date of signing these financial statements, the country is in Alert Level-1. The Company 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. 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. 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 the directors, there are no other events occurring after the balance date that require disclosure in these financial statements.

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Profit for the year	**4,955**	(10,802)	**2**	2
Adjustments made for:				
Depreciation and amortisation	**18,786**	17,412	**-**	-
Impairment of fixed assets	**-**	-	**-**	-
Dividend received from subsidiary	**-**	-	**(140)**	(135)
Net loss (gain) on sale of non-current assets	**(140)**	(517)	**-**	-
Fair value (gain) loss on biological assets	**-**	-	**-**	-
Movement in provision for doubtful debts	**110**	(178)	**-**	-
Net (gain) loss on sale of financial assets at fair value through other comprehensive income	**-**	249	**-**	-
Interest on Right-of-use leases	**(245)**	-	**-**	-
Fair value (gains) losses on other financial assets at fair value through profit or loss	**15,283**	34,536	**-**	-
Changes in working capital:				
Decrease (increase) in trade debtors	**80**	(864)	**(9)**	(4)
Decrease (increase) in inventories	**(406)**	101	**-**	-
Decrease (increase) in other operating assets	**(187)**	327	**-**	-
Increase (decrease) in trade creditors	**5,790**	(456)	**(20)**	17
Increase (decrease) in other operating liabilities	**(567)**	723	**(3)**	6
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	**42,605**	32,373	**(170)**	(114)

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Matters relating to the electronic presentation of the audited consolidated financial statements

This audit report relates to the consolidated financial statements of Top Energy Consumer Trust (the "Trust") for the year ended 31 March 2020 included on the Top Energy Group's (the "Group") website. The Trust is responsible for the maintenance and integrity of the Group's website. We have not been engaged to report on the integrity of the Group's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website.

The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report for the year ended 31 March 2020 to confirm the information included in the audited consolidated financial statements presented on this website.

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

Grant Thornton New Zealand Audit Partnership

Grant Thornton

Auckland, New Zealand

30 June 2020

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Independent Auditor's Report

To the Beneficiaries of Top Energy Consumer Trust

Report on the Audit of the Parent and Group Consolidated Financial Statements

Opinion

We have audited the parent and group financial statements, together the consolidated financial statements of Top Energy Consumer Trust on pages 8 to 59 which comprise the parent and consolidated statement of financial position as at 31 March 2020, and the parent and consolidated statement of comprehensive revenue and expense, parent and consolidated statement of changes in equity and parent and consolidated cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent and consolidated financial statements present fairly, in all material respects, the financial position of both the Parent and the Group as at 31 March 2020 and its financial performance and cash flows for the year then ended in accordance with International Reporting Standards issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent and Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Parent or the Group.

Other Information

The Trustees are responsible for the other information. The other information comprises the Directory on page 1 and the Trustees' Report on pages 2 to 7 but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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.

Grant Thornton

Emphasis of a Matter – Covid-19

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

Trustees' Responsibilities for the Parent and Consolidated Financial Statements

The Trustees are responsible on behalf of the Parent and the Group for the preparation and fair presentation of these consolidated financial statements in accordance with International Reporting Standards issued by the New Zealand Accounting Standards Board, and for such internal control as those charged with governance determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, those charged with governance are responsible for assessing the Parent and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the Parent or Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the Audit of the Parent and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent and the consolidated financial statements 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 is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent and consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the External Reporting Board's website at: https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-7/

Restriction on use of our report

This report is made solely to the Trust's beneficiaries. Our audit work has been undertaken so that we might state to the Trust's beneficiaries those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust and the Trust's beneficiaries for our audit work, for this report or for the opinion we have formed.

Grant Thornton New Zealand Audit Partnership

Grant Thornton

Auckland, New Zealand
30 June 2020