ANNUAL REPORT
2020 / 2021

TOP ENERGY®
Te Puna Hihiko

OUR NEW GEOTHERMAL POWER STATION IS LIVE!

$217 MILLION
overall cost

32 MW
generates

1M cubic metres
of material excavated

over 75 kilometres
of cable laid on site

PROJECT **TIMELINE**

JUL 2017
Final resource consents granted.

OCT 2017
Major transaction approval granted by Top Energy Consumer Trust. Enabling works begin onsite.

DEC 2017
Contracts awarded for the well drilling and for the power station construction.

JAN-APR 2018
Construction of drilling pad, water storage and settlement ponds, and first stage of power station complete.

APR-MAY 2018
Drilling begins.

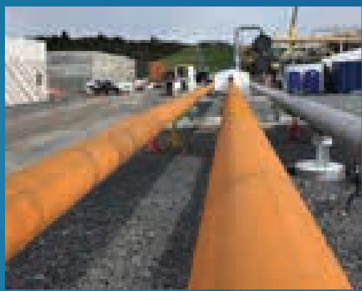
SEP-OCT 2018
Viability of geothermal resource determined.

JAN-SEP 2019

Well drilling and power station platform construction completed. Construction of control room, office, substation and transmission line begins.

MAR 2019

Ancient Kauri discovered during excavations is gifted to Ngāwhā Marae.



OCT 2019-AUG 2020

Construction of power station, pipelines and electricity transmission system continues.

DEC 2019

New control room operational.

AUG 2020

Commissioning and testing of the transmission line and power station begins.

DEC 2020

Power station is live

POWER OWNED **BY AND FOR THE PEOPLE** OF THE FAR NORTH

The electricity coursing through power lines and cables, heating kettles and turning on lights is now generated in the Far North.

DID YOU KNOW...

Power generated will create revenue which in turn WILL DRIVE DOWN THE COST OF DELIVERED ELECTRICITY to the people connected to Top Energy's network.

Over 1000m^3 of geothermal liquid can be processed per hour – enough to fill an Olympic swimming pool in 2.5 hours. This fluid is cycled back into the geothermal reservoir 900m–1500m below ground.

CONTENTS

WITH OPERATIONS THROUGHOUT THE FAR NORTH, THE GROUP IS PROGRESSIVE AND TECHNICALLY DRIVEN WITH INTERESTS IN THE AREAS OF ELECTRICITY GENERATION AND DISTRIBUTION
WE ARE ONE COMPANY WITH A CLEAR VISION: POWERING GROWTH IN THE FAR NORTH PROVIDING ENERGY WHICH MEETS THE NEEDS OF OUR CONSUMERS

ABOUT US

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

ELECTRICITY **GENERATION** THROUGH OUR GEOTHERMAL POWER PLANT

TRANSMISSION AND DISTRIBUTION LINES **NETWORK**

ELECTRICAL RETICULATION **CONTRACTING**

33 THOUSAND

Top Energy is owned by the Top Energy Consumer Trust, on behalf of 33,000 power consumers connected to the company's network.

650 MILLION

The Group manages assets of more than $650 million.

150

The Group employs over 150 staff.

‘A SOLID FOUNDATION FOR **AN EXCITING FUTURE**’

CHAIRMAN'S REPORT

The energy sector, electricity particularly, faces significant business challenges to stay ahead of advances in technology, as we respond to the impact of climate change on our environment.

Richard Krogh – Chairman.

BUSINESS PERFORMANCE

1	72.8 MILLION ($)	38.3 MILLION ($)	680.4 MILLION ($)
Lost time injury	Operating income	EBITDAF	Total assets

SAFETY, HEALTH AND WELLBEING

The safety, health and wellbeing of all our staff, and those who work for us as contractors, are the most critical issues that drive how our business is run. We have just delivered a major project at the Ngawha power station site, but during the year we, unfortunately, had one lost time injury (LTI) event.

One LTI is one too many, and the Board and I remain focused on enabling Top Energy to provide the highest standard of safety for all.

OPERATING EARNINGS

As for most businesses in New Zealand, financial stability has been a major issue for the Company during a year involving various levels of COVID-19 lockdowns, whilst completing the largest capital project seen in the Far North in recent memory. EBITDAF is reported at $38.3m, but excluding the additional $2.9m Covid related constructions costs, exceeded budget by $1.2m.

In relation to net profit after tax (NPAT), we incurred a loss of $44.3m, which was entirely attributed to the accounting reporting of derivatives being valued to the market rates applying at balance date. The debt funding arrangements that allowed us to build and complete the expansion project included requirements that we enter into interest rate swaps and power offtake forward contracts. The combination of continuing lower interest rates and higher prices for future power offtake contracts, has resulted in the fair value adjustment to the consolidated statement of comprehensive income of $73.7m. As I have noted regularly in the past, there is no cash implication as our intention is to hold the derivatives to maturity as they are a key risk management tool for the Company. The Company continues to be profitable and sustainable at the prices inherent in the derivative contracts.

THE NGAWHA EXPANSION PROJECT

I am pleased to report that we successfully completed the expansion of our geothermal power generation capacity. This was a major achievement and will add considerable value to the Company and the Far North community, for decades to come.

This project, probably the largest and most significant impacting on the Far North, was completed during the year. Commissioning of the plant commenced on New Year's eve, and final handover occurred on 26 March 2021. Generation commenced 5 months earlier than originally planned when the business case was approved.

A project of this size always presents multiple challenges. Doing so in the middle of an international pandemic tested all our contractors, consultants and our own staff, to their limits. The Board's thanks go out to all involved in the project, and we acknowledge the significant effort of our executive team, the team at Ngawha and many others across the Company. The Far North now has a power facility that will both increase the reliability of our power supplies and start us on a path enhancing the wellbeing of all of us in the Far North.

The Company always wanted to build this plant using our own resources. This meant we had to use our balance sheet to secure debt funding. The resulting borrowings took the Group's balance sheet to the maximum levels we could justify. Understandably, the debt providers required us to minimise the risks associated with the project and, as a result, we entered into financial instruments to protect us from possible unfavourable changes in both interest rates and wholesale power prices. These arrangements allowed us to proceed with the project. However, the effect of these contracts on our earnings before tax, as we value them to current market values, is to produce a loss for the year. However, this is not a cash loss, and the original business case is based on the prices at which these contracts have been set. The underlying operating income from our generating business has been strong because a portion of the generation output is sold on the wholesale spot market, where prices have been at elevated levels for the last few months of the financial year.

A shortage of water storage in the South Island lakes, constrained gas supplies and the significant use of coal as a generation fuel are expected to continue for some time, indicating that generation returns in the 2021/22 financial year may be higher than expected.

INDUSTRY ISSUES

For decades, the electricity industry has been almost entirely assets based, and the growth of those assets has been able to be anticipated, planned for and constructed over time periods that can be managed. The impacts of climate change and new technologies are resulting in rapid changes in the industry and in the solutions available to maintain and enhance service to consumers.

These changes are reflected in the Company's continuing need to seek exemptions from the Electricity Authority, as we meet these changing requirements. We have held exemptions for our ownership of the Ngawha power station for a number of years. In addition, we had applied for an exemption to own and operate generation assets to provide network support (continued supply in the event of planned and unplanned outages) in locations where we have a single line of supply. The Electricity Authority granted us a short-term exemption of 1 year, during the last 12 months. This was to allow us to undertake market investigations to establish whether third parties would provide these services. An open tender was undertaken and established that there are no alternatives to the generating assets we have installed. On this basis, we continue to seek a long-term exemption to allow us to own and operate the generation assets, which support the reliability of supply for our customers.

COVID-19

Our frontline staff continued to work through the various COVID-19 lockdown levels. In most cases, our office staff were able to work from home during the various periods during which we were required to avoid close working conditions. Given the pressures our consumers were experiencing as a result of the lockdowns, we decided to bring the payment of the line discount forward to May/June. Feedback indicated that this was very helpful to many.

ENHANCEMENT TO OUR DISCLOSURE ON GOVERNANCE

This annual report is a continuation of the Board's focus on enhancing governance disclosures. Our intention is to present to our shareholders and stakeholders appropriate details on how we are governing this important Far North asset. This year we include our first review of the Board Governance Code and all its annexures.

LOOKING FORWARD

As I noted above, wholesale power prices have increased significantly over the last quarter of the 2020/21 financial year. With no indication that prices will revert to the more usual levels, for the immediate future, retailers are indicating that they will be increasing their prices to customers.

In a district with low average incomes and an increasing level of energy poverty, this does not bode well for our consumers. In part at least, we are beginning to assist our consumers by increasing the level of the average annual line discount. During the last year, we increased this to an average of $250 per residential consumer, and it is our intention to increase the rebate amount by $50 every third year.

THANKS

As each year goes by, the pressures on everyone continue to increase. Staff and contractors responded positively during the periods of increased stress and complexity. My fellow directors spent more time than usual involved in the governance processes, ensuring the safe delivery of both our business-as-usual activities and the Ngawha expansion project. On behalf of the Board, I would like to thank our management team, staff and contractors for their contribution to what has been a very challenging but highly successful year.

Richard Krogh
Chairman

‘TO MEET THE ELECTRICTY NEEDS OF **FAR NORTH CONSUMERS’**

Trustees, Directors and senior executives at the recently commissioned plant expansion site.

GOVERNANCE

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

APPOINTMENT OF DIRECTORS

Nicole Anderson was appointed on 01 April 2021 as an independent director on the Top Energy Board. Nicole has a background in accountancy, health and business development.

Nicole (CMinstD) has been a director of the Pharmaceutical Management Agency (PHARMAC) since 2014 and, more recently, has been appointed as a director or member of the Northland District Health Board, the Accreditation Council, Northland Inc Ltd and NorthTec (Tai Tokerau Wānanga).

Nicole (Ngāpuhi) has a number of affiliations with local Māori organisations, including as a member of Te Runanga Ā Iwi Ō Ngāpuhi.

After more than 11 years as a director of Top Energy, Paul White will retire at the Company's AGM in June 2021. The shareholder (The Top Energy Consumer Trust) and his fellow directors record their appreciation to Paul for his substantial service to the Group and the people of the Far North.

During Paul's tenure as a director, the assets of the Group increased by 194% to $680m, and the generation capacity of the Ngawha power station increased by almost 130% to 57MW. During this 11-year period, $66.4m has also been distributed to the power consumers of the Far North by way of discounts.

BOARD GOVERNANCE

This is the first full year operating under the Top Energy Group Corporate Governance Code.

The code is based on the Financial Markets Authority guidance for corporate governance. A copy of the Corporate Governance Code is available on the Company's website.

The Corporate Governance Code calls for an annual review of it's contents; however, the Directors decided that this full review should occur bi-annually.

No changes have been proposed or made during the current reporting year.

Code of Ethics

During the reporting year, one complaint was lodged by an external party claiming a breach of the code in relation to commercial negotiations. When we sought specific details of the claimed breach, the claim was withdrawn, and no further action was required.

The CEO undertook a review of compliance with the Code of Ethics and reported the results to the Board of Directors. No issues (other than the above) were raised, and no concerns in relation to the Code were expressed. No breaches under the Protected Disclosures policy were reported, and there were no reports of loss, damage, misuse, waste or theft of Company assets.

Board Charter

The Board has met formally in general meeting with the shareholder and on two other occasions, to discuss strategy, the drafting of a new SCI and the risks and status of the Ngawha expansion project.

The Chairman and/or CEO have met with the shareholder six times during the year to provide updates on general operations and specifically the Ngawha expansion project. The Chairman has met, as a member of the shareholder's Director Nominations Committee, to report on director performance and assist that committee in selecting a new director.

Interest registers have been maintained for all directors and reviewed and updated at each directors' meeting. No conflicts of interest were identified during the year.

No director has failed to attend a properly notified meeting without providing an apology and leave being granted in relation to that absence.

Directors' fees were considered during the year and a recommendation made to the shareholder that no changes be made at that time. This recommendation was accepted by the shareholder. Details of actual fees paid are set out in the statutory financial statements.

To satisfy Arms-Length obligations, two independant Directors have been appointed to the Boards of Top Energy and Ngawha Generation. All related party transactions have been reviewed by those directors as required.

Audit & Risk Committee

The Committee met five times during the financial year. The Committee reviewed all major risks of the business and identified no significant changes or concerns. The Committee reviewed all financial policies and were satisfied that there was full compliance with those policies and all legislative requirements.

Performance Planning and Review

The Board has maintained an annual Work Plan and has ensured that all material items have been completed. The Board met with the CEO to assess his and senior management's performance and to agree a suitable remuneration arrangement with the CEO.

Stakeholder Engagement

The Statement of Corporate Intent (SCI) for the period to 31 March 2021 was provided to the shareholder within the statutory period required. All comments provided by the shareholder were considered, but none required amendment to the draft document provided. The final document was adopted at the AGM on 30 June 2020 and published on the Company's website. All legislated disclosures and information were provided to the shareholder by the dates required.

Risk Management

After consideration of the report from the Audit & Risk Committee, in relation to the review of all material risks to which the Company is exposed, the Board confirmed that no known risks are expected to materialise that could impact on the business to an extent that the business could not address them as part of its normal business process and using its existing resources. The Board has paid particular attention to the risks in relation to the Ngawha expansion project, including in relation to commissioning, operating risks (including high-impact, low-probability risks), energy hedging, the risks associated with the recent high spot prices, and debt covenant headroom.

The Board considers health and safety performance on a monthly basis and has a formal due diligence programme to meet its obligations under section 44 of Health and Safety at Work Act 2015. The Board engaged an external party to undertake an in-depth review of the Group's health and safety monitoring and reporting to the Board, to ensure that the Board is fully informed of all material safety issues. The review covered the first year of our five year safety plan. In addition, all parts of the Group were subject to independent audits of our Public Safety Management Systems (PSMS) and Quality Management Systems (QMS), with no adverse results.

STATEMENT OF CORPORATE INTENT (SCI)

The SCI is a document prepared by directors and agreed with the shareholder. It sets out the objectives generally of the Company and details specific targets that are set to ensure delivery of those objectives.

The objectives are supported by four strategic pillars:

- VERTICAL INTEGRATION
- FUTURE INVESTMENT
- MAINTAINING OUR IDENTITY
- TRUSTED SOURCE

As noted elsewhere in the Report, the overriding feature of the Company's activities during the last year was the completion of the Ngawha expansion project. This project cost over $217m and is the biggest capital project undertaken in the Far North in recent history.

To mitigate the financial and trading risks associated with the expanded plant, most of the funds generated by the new plant will be used to repay debt. However, in the foreseeable future, we will be able to direct the benefits from this investment to the next stages of our strategies, and it is important that we plan for what these steps will be.

VERTICAL INTEGRATION

Recent technological advances continue to create investment and diversification opportunities for the Company.

We have previously identified that the business and environmental risks faced by the Company should be addressed by diversification of investment rather than looking for pure growth opportunities.

The size and significance of the Ngawha expansion project has created a baseline from which we will move forward, examining both the significance and spread of risks and the investment opportunities that will add value for the local communities.

FUTURE INVESTMENT

Following completion of the Ngawha expansion project, access to funding in the short term should be considered as a possible constraint on any significant new investments.

However, our response to issues such as climate change suggest that we will be involved in the development of solar and wind generation in the district (either as a lines company facilitating delivery of the energy generated to our communities and the rest of New Zealand or as direct investments ourselves), construction of the new 110kV line between Wiroa and Kaitaia, removing the need to operate diesel or biodiesel gensets, and energy efficiency programmes.

MAINTAINING OUR IDENTITY

We continue our involvement in a wide range of community-focused sponsorships. Some of these are detailed later in this report.

Our staff attend a number of business and community group meetings to provide information in relation to the electricity industry and Top Energy's power prices and how they can be used for the benefit of consumers and to answer any questions.

The annual rebate was increased this past year, meaning that the average residential consumer received a $250 discount. Regular increases in these discounts or dividends are included in our forward planning, with the objective of our medium-term strategy being charges in the lower quartile nationally.

TRUSTED SOURCE

As we move to improve our interaction with our customers, we have changed our call centre service provider. The new provider has extensive experience in servicing the first-contact requirements of electricity industry lines companies.

This change has supplemented the introduction of new software, which allows us to track our continuing communications with existing or prospective clients, ensuring ease and consistency of interactions between us and our customers.

We regularly survey our customers to establish what their experience has been like. Both these customer surveys and enquiries and applications by regular customers, such as electricians, builders and solar installers, will soon be carried out online.

DEVELOPMENT AGAINST OUR SUSTAINABLE DEVELOPMENT GOALS

The COVID-19 response and the new power station development slowed progress in this area. The SCI is the means by which we have begun to implement our programme to achieve our sustainable development goals.

During the last year, we calculated our carbon emissions for the last 4 years and estimated the outcome for the financial year ending 31 March 2022. The results for the first 3 of those years show a small decline, year on year. However, with the commissioning of the new generation plant at Ngawha, the emissions for the past year have reflected this increase. The 2022 year will be impacted by those emissions for the first full year. Over time, these are expected to decrease as we pursue reduction opportunities. It is expected that a seperate report setting out achievements in relation to these goals, will be published for the year ending 31 March 2022.

CARBON EMISSIONS (tCO^2e)					
Classification	*FY18*	*FY19*	*FY20*	*FY21*	*FY22* *Target*
Total Emissions	65,423	63,137	62,395	82,582	138,674

OUR SUSTAINABILITY GOALS

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

1 NO POVERTY

End poverty in all its forms everywhere.

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

7 AFFORDABLE AND CLEAN ENERGY

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

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

8 DECENT WORK AND ECONOMIC GROWTH

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

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

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

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

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

10 REDUCED INEQUALITIES

Reduce inequality within and among countries.

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

11 SUSTAINABLE CITIES AND COMMUNITIES

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

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

13 CLIMATE ACTION

Take urgent action to combat climate change and its impacts.

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

15 LIFE ON LAND

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

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

GROUP DIRECTORS

RICHARD KROGH

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

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

DAVID SULLIVAN

David was appointed to the Top Energy Board in August 2018.

In December 2018 he was also appointed to the Ngawha Generation Ltd board.

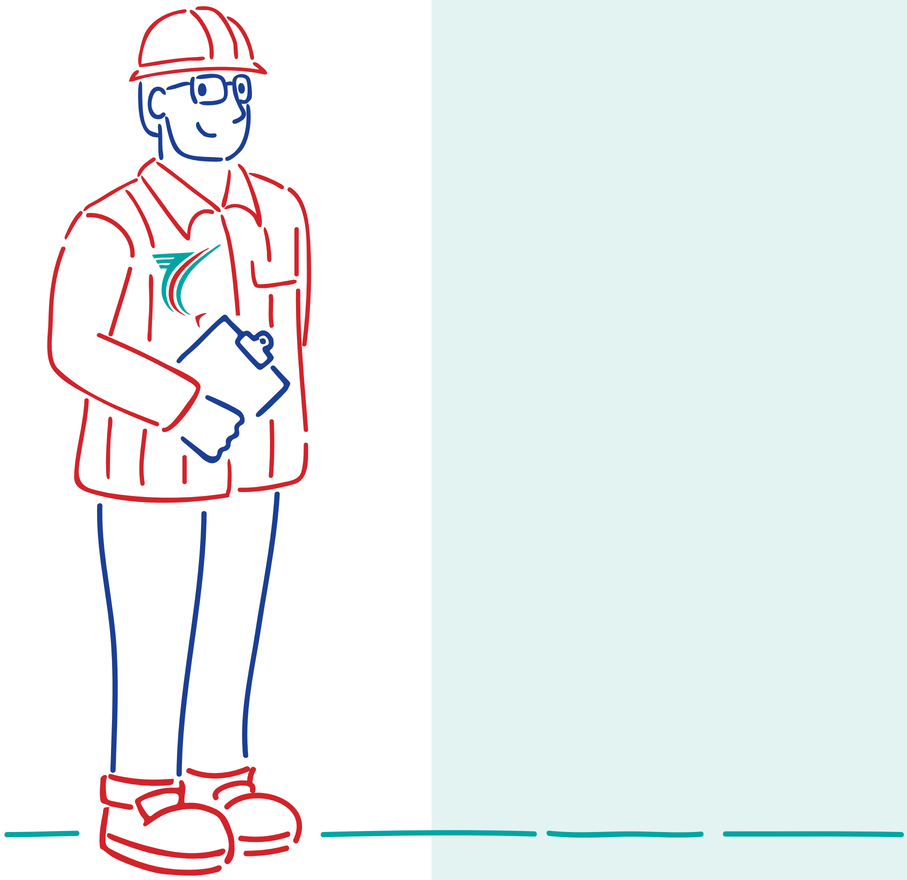
David is a qualified Chartered Accountant (CA), with many years of experience in director and senior executive finance roles, across a number of large and often listed companies, including chairing of the Audit Committee of a substantial finance company. David chairs both Audit and Risk Committees of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

SIMON YOUNG

Simon has over 20 years' experience in the New Zealand electricity industry and associated financial markets.

He has previously been director of a number of electricity-related public and private companies including listed generator retailer TrustPower and The Lines Company.

As an executive, Simon has been General Manager of Opunake Hydro, Managing Director of Alliant Energy New Zealand Limited and founding Managing Director of Empower Ltd, New Zealand's first independent electricity retailer.



TOP ENERGY DIRECTORS

JASON MCDONALD

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

He has an electrical engineering degree majoring in power systems.

PAUL WHITE

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

NGAWHA GENERATION DIRECTORS

DR ROBERT KIRKPATRICK

Robert is the independent director on the Ngawha Generation Ltd Board. He teaches Engineering and Business at Auckland University, including design to chemical engineers.

Robert also conducts his own consulting practice, reflecting his more than 40 years' experience in the refining and petrochemical industries.

KEITH TEMPEST

Keith Tempest spent 23 years with electricity generator TrustPower Limited, resigning as Chief Executive in 2009.

He progressed his career as a Professional Director across a range of companies and industries, including Crown Infrastructure Partners Limited, Port of Tauranga Limited, Transpower NZ Limited, NZ Bus Limited, UltraFast Fibre Limited and Bay Venues Limited. Keith has been directly involved in large-scale capital infrastructure projects across New Zealand and Australia. He is a Chartered Fellow of the Institute of Directors.

‘LOOKING TO THE FUTURE AFTER AN EXCELLENT RESULT FOR THE YEAR’

CEO'S REPORT

After a year of uncertainty and significant business challenges, we have achieved an amazing result.

Our safety record has been maintained as we record a fourth year with no staff LTIs in Top Energy and 13 years with no staff LTIs at the Ngawha Power Station.

Additionally, lines prices to consumers dropped 15% and the annual discount received by each of our residential consumers increased, on average, to $250.

Russell Shaw –Chief Executive Officer.

BUSINESS PERFORMANCE

8.8%

Growth in total assets

40%

Revenue increase from power generation

SAFETY

We have achieved significant milestones for safety in the last year. Our record of no lost-time injuries (LTIs) for our own staff has been continued. In fact, it has been 12 years with no staff LTIs at Ngawha, and towards the end of the financial year we achieved 3,000 days without an LTI in our head office in Kerikeri.

From the beginning of the 2020/21 year, we began to monitor LTIs incurred by approved contractors working on our various work sites. Unfortunately, we had to record one LTI by a staff member of a contractor on the OEC4 expansion project. Nonetheless, this is a significant result, but we will continue to work with our contractors to improve their safety commitment and results.

Last year, we reported on our increasing focus on mental wellbeing. We continue to explore how we can support our staff in this area, particularly given the stress and challenges that COVID-19 has presented to all of us.

GENERATION EXPANSION

As the Chairman has referred to in his report, the biggest challenge in front of us during 2020 was the expansion of our generation capacity at Ngawha. Adding over 32MW of output to our generation portfolio, this new plant was constructed under the constraints and uncertainties of COVID-19.

The original business case, approved by the Top Energy Consumer Trust, as the shareholder of the company, in November 2017, was scheduled to be commissioned in June 2021, producing 28MW. The plant delivered to us produces 32MW and was commissioned on 31 December 2020, 5 months earlier than scheduled. All this despite the delays caused by the COVID-19 level 4 lockdown, when all work on the project was stopped.

To achieve the commissioning date, many of our staff, the plant supplier and their contractors worked extended hours for many weeks, including, in some cases, working right through the Christmas break.

PROFITABILITY

We have achieved an outstanding result for our EBITDAF measure. This year was the first in the new 5-yearly regulatory period, and our lines revenues were reduced by 15% from 1 April 2020. Partly offsetting that change, our generation revenue exceeded the previous year by over 40%. The running of OEC4 for the last few months of the year was a significant contributor to this result, but the wholesale market prices also held up very well, particularly during the last quarter, when gas shortages and a hydro shortage combined to drive up prices.

The impacts of COVID-19 on the business have been quite varied, and amounted to a total of nearly $6m. Despite this, we have delivered an EBITDAF result (excluding Covid related costs) that is $1.2m above budget.

SERVICE LEVELS

It has been another challenging year for total outages on the distribution system. We achieved the targeted levels set out in the Statement of Corporate Intent for SAIDI (system average interruption duration index) but the frequency measure, SAIFI (system average interruptions frequency), was exceeded, as we managed the duration of our planned outages.

In future, we will be targeting separate forecast levels for planned and unplanned outages. This is consistent with the new reporting requirements of the Commerce Commission.

We reported last year that we were still unable to secure the legal access rights for a small number of properties on the line route for the new 110kV line from Wiroa to Kaitaia. The court action relating to these issues is continuing. Towards the end of the financial year, we received the decision of the Court of Appeal, with all matters being decided in our favour.

Unfortunately, soon after the beginning of the current year, we received notice that the affected landowners had lodged an application with the Supreme Court for an appeal to be heard by that court.

As I reported last year, we have installed a number of diesel gensets, mainly across the northern part of our distribution system. These are now fully commissioned and, as wholesale prices rose significantly at the end of the financial year, we have used these generation units to add to the amount of power available to the national grid. As a regulated business, we cannot keep this income permanently, but it will produce a benefit to local consumers in future years.

COVID-19

The pandemic has had a significant impact on the entire New Zealand economy. However, the affects have been irregular across both the country and different parts of the economy.

The impact on Top Energy has not been as significant as we had thought it might be at this time last year. Our staff responded very positively to the original and subsequent lockdown periods. Many staff were able to work from home, and this approach was very ably supported by our IT teams, who set up the required equipment and connections swiftly and efficiently.

STAFF

Through uncertain times, much of it relating to COVID-19 lockdowns, our staff have, once again, risen to the challenges that our business experiences as we maintain our focus on delivery of service to the power consumers of the Far North.

I thank all our staff and contractors who have enabled us to keep the lights on throughout the year for the benefit of our communities.

Russell Shaw
CEO

Top Energy Group

FINANCIAL SUMMARY

The Group has been financially resilient during a period of significant uncertainty. It was anticipated that EBITDAF would reduce this year with the lower Network regulated price path; what was unclear was the impact of COVID-19.

Reported EBITDAF reduced by $9.0m (-19.0%) from 2020 and excluding the one-off $2.9m construction related COVID-19 expenses, was $1.2m (3.0%) ahead of target. A remarkable result given the uncertainty throughout the year, with strong performance by the core Network and Generation activities.

The construction related COVID-19 expenses were attributed to the OEC4 construction costs incurred during Alert Level-4 Lockdown. These were required to be expensed, akin to abnormal costs, as they were incurred when the construction site was required to be shutdown.

Revenue reduced by 6.2% ($4.8m), which was expected with the $9.7m price path drop in Network regulated revenue (17.5%). There was a decrease of 2.2% in Network consumption, with the impact of COVID-19 experienced differently across the consumer groups; residential consumption up 3.6% and both commercial and large industry down 5.2% and 13.6% respectively. Peak demand rose sharply by 6.1% to 75MW, the highest level in the last 10 years, for a brief period.

Strong revenue growth was seen in Generation, increasing $5.2m (30.3%) with generation output (kWh) increasing by 35%, with the new plant being commissioned during the year and average spot prices higher by $37/MWh. Modest growth was experienced in Capital Contributions, derived from network extensions driven by customer requirements, increasing by $0.1m (5.0%). Contracting revenue declined by $0.3m (12.5%), impacted by the lockdown in the first quarter.

A 4.1% ($1.2m) increase in operating expenses was driven by a $2.5m (31.5%) increase in Other Expenses with higher carbon, insurance and computer support costs. All other operating expense categories reduced.

Depreciation and amortisation costs increased by $0.6m (3.4%), of which $0.5m was attributed to software relating to recent investments in the Network Advanced Distribution Management System and Salesforce CRM.

Finance costs increased $0.8m (12.2%) as a result of closing out some small interest rate hedges. When including capitalised interest for the network projects and the significant investment in the Ngawha expansion, total interest costs increased by $2.9m. Debt increased by $41.8m during the period, with the completion of the expansion project. Funding facilities are in place sufficient for the Group's requirements.

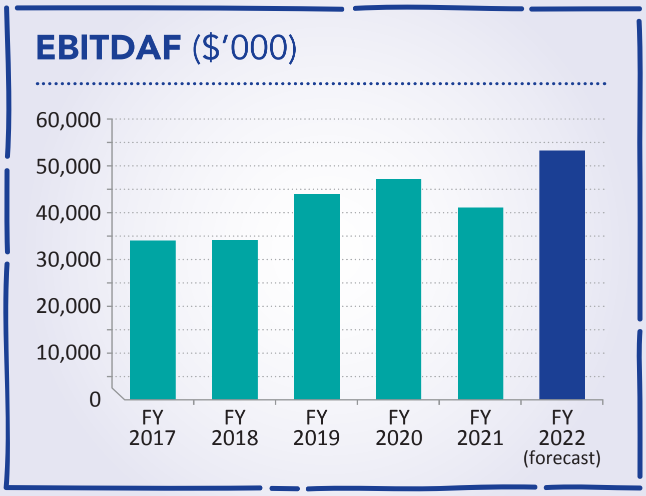
The fair value adjustment on financial assets was a loss of $73.7m arising from the Group's hedging strategy. The main driver ($92.3m) was from the significant increase in wholesale energy prices given the Country's current generation stack caused by low hydro levels and gas shortages. A gain of $18.6m was reported on interest rate swaps.

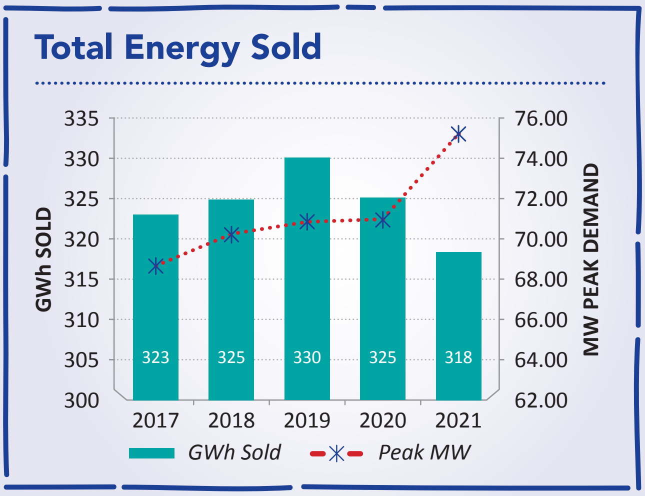
Generation assets were revalued as at the reporting date, to account for the newly commissioned generation plant. The overall revaluation reserve increased by $1.6m, after accounting for a reduction on the existing plants and a 12.8% uplift on the new plant.

Overall, total equity decreased by $43.2m for the year, the net effect of the loss after tax of $44.3m, due to the fair value adjustment and the revaluation gain.

It is anticipated that EBITDAF for 2022 will increase by 29%, a direct result of having the new generation plant in operation for a full year.

-6.2%	+$5.2 MILLION	-$9.7 MILLION	-19%	+4.1%	-2.2%
TOTAL REVENUE	GENERATION REVENUE	NETWORK REVENUE	EBITDAF	OPERATING EXPENSES	NETWORK CONSUMPTION





TOP ENERGY LIMITED GROUP : REPORT ON PERFORMANCE INDICATORS CONTAINED WITHIN THE STATEMENT OF CORPORATE INTENT *(SCI)*

	Actual *31.03.2021*	Target *31.03.2021*	Actual *31.03.2020*
FINANCIAL PERFORMANCE TARGETS			
Group			
Net profit after tax as a percentage of average shareholder's funds	6.7%	3.4%	11.8%
Ratio of shareholder's funds to total assets	1:3.1	1:3.1	1:2.9
Network business			
Profit before finance and tax as a percentage of total tangible assets	5.9%	4.5%	10.1%
Net profit after tax as a percentage of average shareholder's funds	5.8%	3.7%	12.6%
Generation business			
Profit before finance and tax as a percentage of total tangible assets	3.1%	3.2%	4.1%
Net profit after tax as a percentage of average shareholder's funds	9.7%	4.7%	12.9%

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

(ii) Group results include Network (Top Energy), Generation (Ngawha) and all other major activities carried out by the Group. Network Business plus Generation Business will not add to the Group due to the immaterial amounts from other major activities.

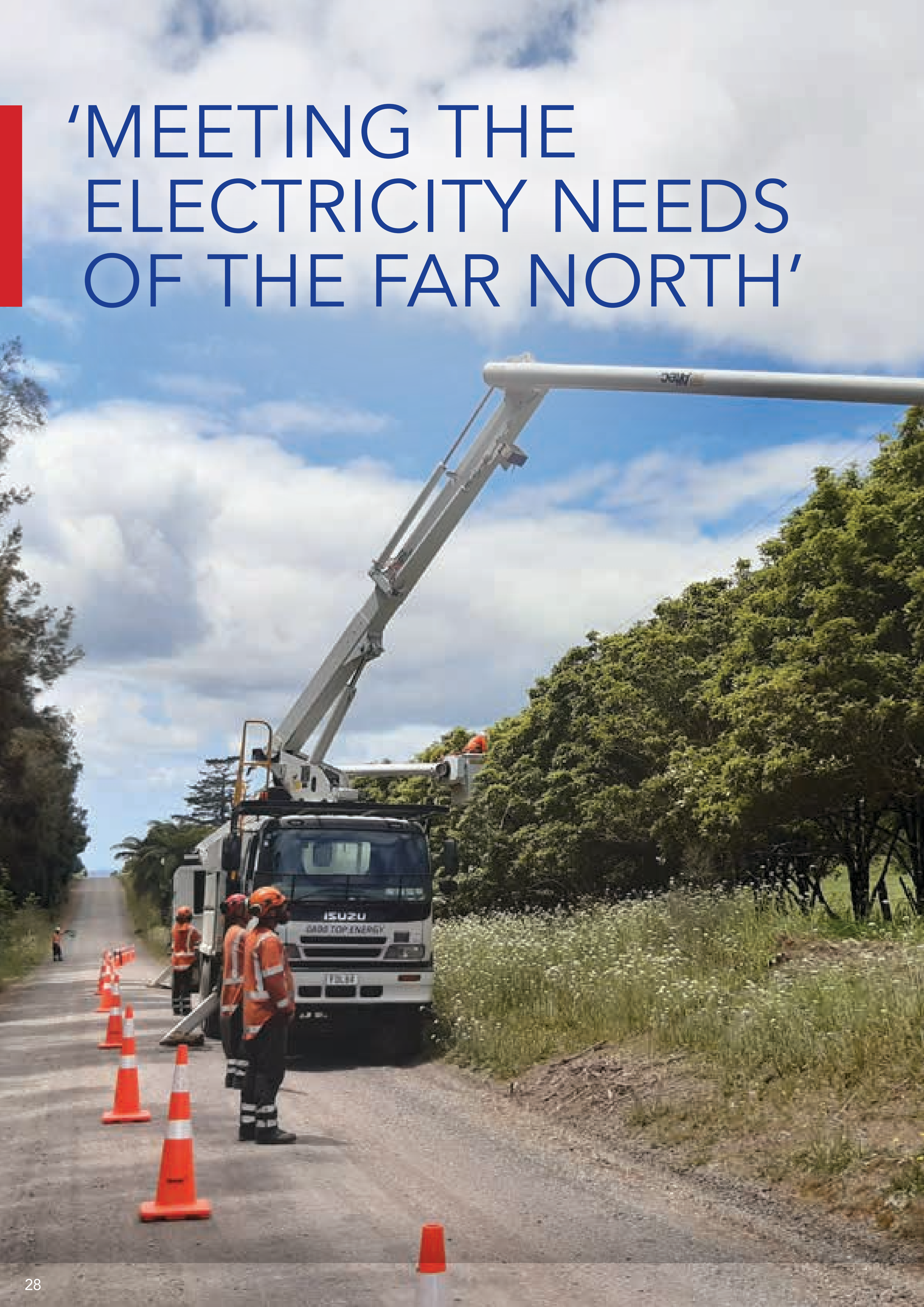
(iii) Shareholder's Funds comprise the total issued capital, the balance of undistributed profits and all revenue and capital reserves, excluding any minority interests, excluding any effect of the revaluations. Total Assets of the Group comprise all the tangible and intangible assets of the Group at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

	Actual 31.03.2021	Target 31.03.2021	Actual 31.03.2020
NETWORK QUALITY STANDARDS*			
System Average Interruption Duration Index (SAIDI). *The average duration of high voltage outages (including planned) per customer (minutes)*	363	379	366
System Average Interruption Frequency Index (SAIFI). *The average number of outages (including planned) per year for any customer*	3.9	3.5	4.5
** Above items are measured using the methodology determined by the Commerce Commission, and are subject to audit.*			
SAFETY CULTURE			
Total Recordable Injury Frequency Rate (TRIFR)	2.7	3.6	4.4

OWNERSHIP

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

‘MEETING THE ELECTRICITY NEEDS OF THE FAR NORTH’



NETWORK & CONTRACTING

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

The team are supported by our inhouse contracting team, who provide construction, maintenance and vegetation management services.

Ian Robertson, General Manager Network.

David James, General Manager Contracting.

This was a year of expansion, with many significant network projects completed.

NORTHERN GENERATION

With the establishment of eight 1,250kVA generators at the Bonnetts Road generator park, the addition of three generators at Top Energy's Kaitaia depot and new generation installed at the Pukenui substation, our customers on the northern part of our network are much more securely supplied. This project was known as the Northern Generation Project and means that Top Energy now has a highly resilient and flexible northern network that helps to address the previous vulnerability of power supply arising from the single 110kV line from Kaikohe.

It also provides sufficient backup generation to enable the contracting team to carry out major maintenance, without interrupting supply to our commercial and domestic customers. This year, with additional back up from the Taipa generators, we were able to maintain power to all of these customers while annual maintenance on the 110kV lines was undertaken.

We are hopeful that further capacity will be added with a second line from Kerikeri to Kaitaia, following the court rulings in Top Energy's favour, to secure final easements over private land. This process is continuing, with further appeals lodged by the affected landowners.

Top left: The completed generator park at Bonnetts Road.

Top right: Working alongside Network Waitaki is the Top Energy contracting team running the conductors from the Ngawha substation to Kaikohe. A fantastic example of good communication, coordination and cooperation.

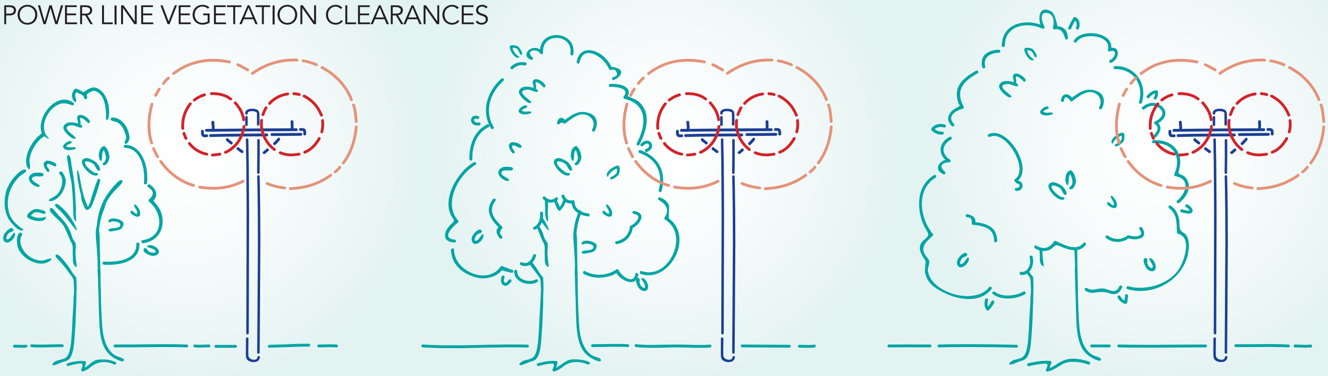
Right: Stringing the 110kV line between the Ngawha and Kaikohe substations.

THE NGAWHA INTERCONNECTION PROJECT

There were some real highlights this year, with the aerial stringing of the 110kV lines between the Ngawha and Kaikohe substations, as part of the Ngawha interconnection project. This was a challenging job, with limited resources and compressed timelines, compounded by the challenges of the COVID-19 level 4 lockdown. It required a high degree of collaboration across internal teams and with Network Waitaki, who undertook the stringing of the conductor, using a helicopter.

The interconnection project was critical as it provides a connection from the expanded Ngawha geothermal power station onto the Top Energy distribution network. Taking 2 years, the project was completed in October and included the construction and commissioning of a new 110/33kV substation at the Ngawha power station, the construction of the 110kV line between the Ngawha and Kaikohe substations and the extension of the 110kV bus at the Kaikohe substation.

POWER LINE VEGETATION CLEARANCES



TREE OUTSIDE NOTICE ZONE
(RISK WARNING NOTICE)

TREE INSIDE NOTICE ZONE
(HAZARD WARNING NOTICE)

TREE INSIDE GROWTH LIMIT ZONE
(CUT OR TRIM NOTICE)

THE RISE OF SOLAR FARMS AND EMERGING TECHNOLOGIES

Electricity distribution networks need to adapt to the emergence of new technologies such as electric vehicles, utility scale photovoltaics, micro distribution networks -solar, batteries, demand response and peer-to-peer energy markets.

These all have implications for how the network is managed and developed. Top Energy has a long-term strategy for a self-reliant and sustainable network and power supply, and this has focused on geothermal power and diesel generation.

Local demand for alternative energy sources is strong, with the Far North having the highest uptake of solar power in the country. We currently have more than 6MW of solar generation connected to our network, and applications for another 67MW of utility-scale solar generation in the Kaitaia area, have been received.

REAL-TIME INFORMATION

Over the last year, we have had greater real-time visibility of outages on our network through our Advanced Distribution Management System (ADMS), which replaced the Supervisory Control and Data Acquisition (SCADA) systems, and introduced an outage management system.

Since the launch of ADMS in January 2020, further functionality has been added to provide more accurate real-time information from our customer's field and network, enabling a more efficient outage restoration response.

As the system is updated and developed, it becomes more customised to our network and is an invaluable tool for our operational teams in the field.

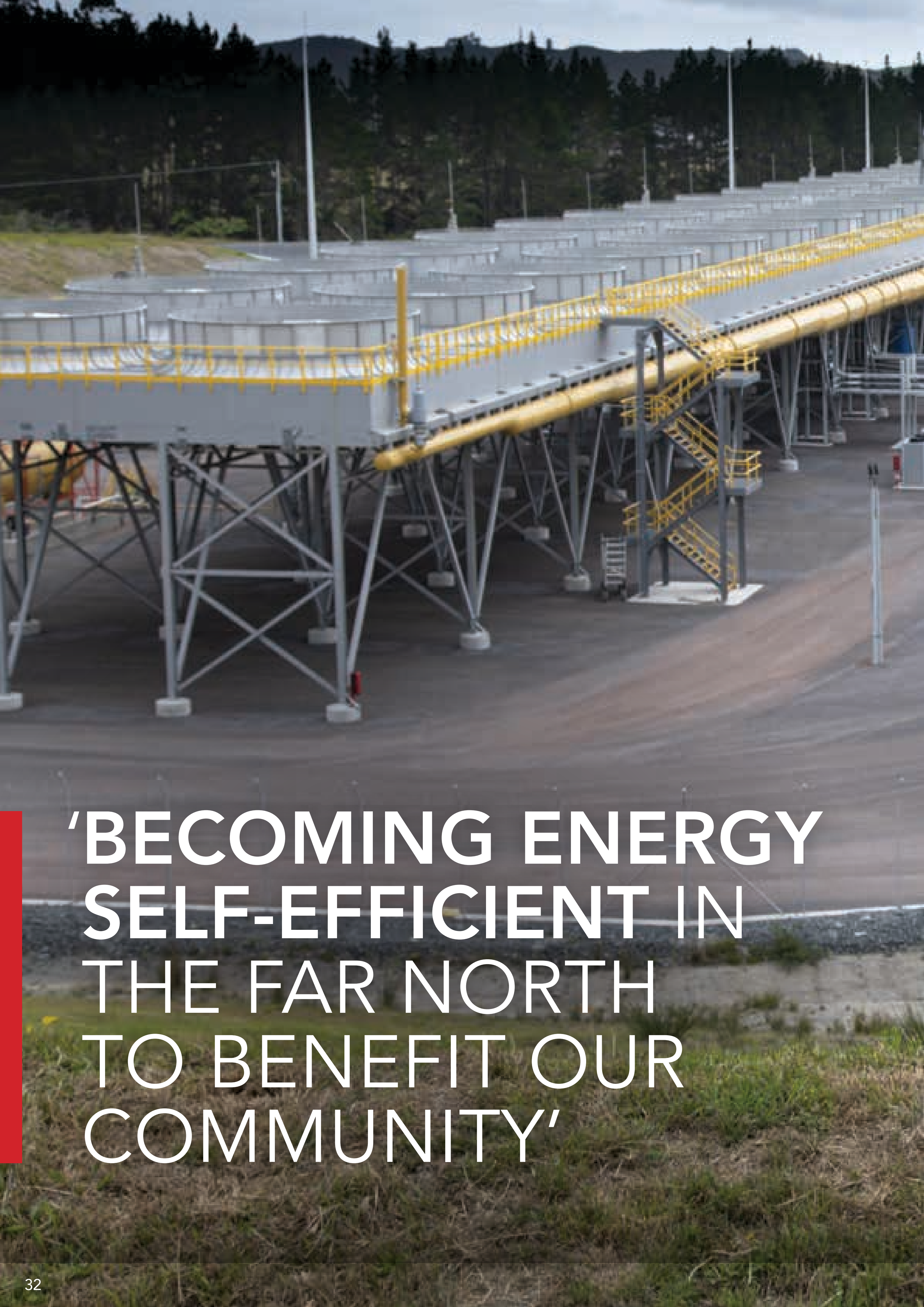
KEEPING THE NETWORK CLEAR OF VEGETATION

Trees are a major cause of power outages, with 79 tree-related outages reported over the year. Overgrown trees not only cause outages but also prevent our crews from repairing equipment quickly and delay the process of restoring power.

Top Energy spends $1.8m a year on tree management and working with tree owners to keep trees and vegetation away from the power lines, as ultimately it is their responsibility.

The Electricity (Hazards from Trees) Regulations 2003 set out our obligations and those of tree owners. The regulations prescribe the minimum safe distances for trees growing near network power lines. When we see trees growing too close to power lines, we are required to either trim them or notify the tree owner that they are required to trim their trees.

Our crews have been busy and, over the year, have cleared several thousand trees as well as bamboo and vegetation from our lines.



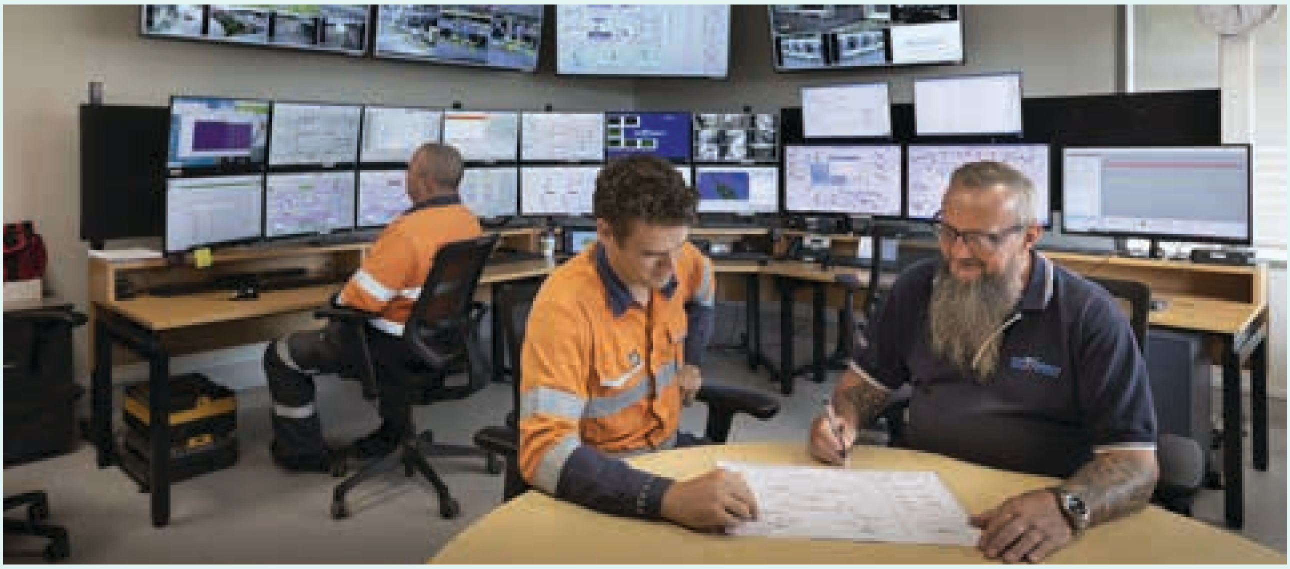
‘BECOMING ENERGY SELF-EFFICIENT IN THE FAR NORTH TO BENEFIT OUR COMMUNITY’

NGAWHA OPERATIONS

Maintaining normal operations while also commissioning the new 32MW geothermal power station (OEC4) at Ngawha 5 months earlier than planned kept General Manager – Generation, Ray Robinson, and his team busy.

Generation capacity at the Ngawha geothermal power station has now more than doubled to 57MW and will supply all of the Far North's electricity demand for 95% of the year. Excess power is exported to the rest of Northland via the national grid.

GM – Generation, Ray Robinson, in front of the new Ngawha geothermal power station.



Ngawha control room staff monitor power station operations 24/7.

There were extraordinary times while operating under COVID-19 restrictions and completing one of the largest infrastructure expansion projects in the Far North.

Ray and his team were not fazed by the task of keeping the power on and bringing a new station on stream.

The new 110kV connection line between Ngawha and Kaikohe was completed in August 2020, and commissioning of the power station and the fluid conveyance system got underway in October 2020.

This was a critical quality process to ensure that all systems and components of the station were designed, installed and tested before it became fully operational. The entire commissioning process took 3 months and involved specialist engineers from the power station supplier ORMAT, working with our project team.

Due to COVID-19 travel restrictions, Ngawha Generation Limited had to gain approval from the Ministry of Business, Innovation and Employment (MBIE) to allow the ORMAT engineers, from Israel, to enter the country as critical workers. They completed their 2-week managed isolation prior to arriving on site.

The commissioning team worked through the Christmas and New Year holiday period, with the station exporting its first power on New Year's Eve.

The station has continued to operate reliably since January. Performance tests have confirmed that the plant output exceeds the contract guarantees.

As part of the commissioning, steam was vented through the mufflers at the power station

Prior to OEC4 coming on stream, Ngawha Generation exported power south only about 2% of the time. With OEC4 operating, it will be exporting power 95% of the time.

The geothermal power station is owned and operated by Ngawha Generation Limited, a subsidiary of Top Energy Limited.

Monitoring of the Northland mudfish.

ENVIRONMENTAL MONITORING

Routine environmental monitoring of the Ngawha wetlands continued while construction of the new power station was underway. No adverse effects were observed, populations of the threatened Northland mudfish continue to flourish and fern bird surveys show encouraging growth.

The wetland area below the golf course has shown significant habitat improvement since the removal of livestock from this area.

COMMUNITY VISITS

There has been a great deal of community interest in the developments at the power station site.

Every year as part of the January Kaikohe A&P show, Top Energy takes busloads of people to the power station site. This year, two buses made 11 trips to the power station, where Top Energy and Ngawha Generation management were available to answer questions and explain how a geothermal power station operates.

The Kaikohe Business Association visited the Ngawha control room in October, where they received a geothermal powerplant 101 introduction from Ray Robinson.

In November, as part of the New Zealand Geothermal Association conference in the Bay of Islands, a site visit was organised for scientists, engineers, educators, specialist contractors, suppliers and media. The conference location had been chosen because of the proximity to our Ngawha power station.

SAFETY

This year, for the first time, we included external contractors working on our sites in our safety recording. Even with the one-off OEC4 construction project progressing, with over 250 contractors on site at its height, we achieved a total lost time injury rate of 1.

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

ANNUAL SHUTDOWN

Typically, the station runs to a monthly target of 98.8% availability. The exception is in October, when the annual shutdown occurs for routine maintenance and checks.

The stations are considered to be base-load generators, which means that they run continuously, except for planned maintenance periods. It is not unusual for us to exceed our monthly target, and last financial year was no different. Actual availability for the entire year was over 96%.

‘WORKING HARD FOR **OUR COMMUNITY**’

OUR PEOPLE

Top Energy acknowledges the effort and service of our people in ensuring our Far North community has access to a safe and reliable electricity supply for their homes and businesses.

SAFETY

Safety is second nature to the teams at Top Energy. It is one of our core values and embedded in our working practices. It ensures we get home safely every day. This year, we included external contractors working on our sites in our safety reporting. Even with the one-off OEC4 construction project progressing, with over 250 contractors on site per day at its height and approximately 330,000 work hours recorded this year, we achieved a total lost time injury record of 1.

PUBLIC SAFETY

To ensure effective controls are in place to safeguard our community, we operate a public safety management system (PSMS) certified to Electricity industry standard NZS 7901. Its review process is considered industry 'best practice', and this year's external audit was again completed successfully.

HEALTH AND SAFETY DISCUSSION FORUMS

The health, safety & welfare committee meets monthly to encourage staff engagement in workplace health and safety and to drive continual improvement. It provides representatives with the opportunity to discuss significant health and safety concerns with the Chief Executive, ensures health and safety concerns receive management's attention and creates the means to relay management decisions back to staff via their representatives.

MENTAL HEALTH INITIATIVES

Mental health challenges are common in New Zealand, affecting the wellbeing of one in five people. Left undiagnosed, they can have a profound impact on a person's home life and reduce their ability to perform work safely and effectively. Given the everyday challenges of our types of work, especially as essential frontline workers during COVID-19, we have made a significant effort to improve our awareness in this area.

Following on from the success of the visit last year by mental health advocate Mike King, we invited him back to speak to our staff and their families at two well attended sessions held in Kaitaia and Kerikeri.

The key message was about vulnerability and how showing it was a sign of strength not weakness, that by showing our young people our vulnerability, we make it easier for them to communicate with us in times of need. He reiterated the need to focus on the positives, to praise people for the good things they do and not dismiss all their hard work by focusing on the one thing they did wrong. The sessions have had a lasting positive effect on our people and given us the opportunity to strengthen the supportive environment we strive for at work.

Images above: Left: Mike King presenting. Right: Charles Palmer (left) and Christopher Low attend the mental health awareness session

WELLBEING

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

TRACKSUIT-INC

The company's online wellness programme 'Tracksuit-Inc' was well supported, with 78% of staff participating in the programmes, topics and challenges focused on creating a healthier lifestyle while having some fun. These programmes included the following:

Global Challenges

This year, staff participated in four fun challenges designed to get people from across the world thinking, motivated and active throughout the year.

Let's Get Quizzical

Every Friday for 7 weeks, four Top Energy teams pitted their general knowledge levels against others in the challenge.

Mental Agility – The Brain Games

Two teams shared first place out of seven teams competing in this global challenge testing mental agility through numerical, visual and logical puzzles, riddles and brain teasers.

Spring Team Challenge

Internationally, 155 teams took on 3 weeks of steps, mindfulness and quizzes to build physical and mental health. One of the four Top Energy teams entered in this global challenge was placed 23rd.

Shift – Around the World

Seven Top Energy teams of between three and six people competed in this 4-week challenge. They 'virtually' walked across the globe, tracking their steps each day and getting back into a fitness regimen after the summer holidays.

SPORTING EVENTS

Kerikeri Half Marathon

On Saturday 21 November 2020, 30 Top Energy staff and their families ran or walked alongside approximately 1,300 other participants in the 5km and 21km events that make up the iconic Kerikeri Half Marathon.

Image above: Accounts Payable Officer Jody Wills looking like she could run another marathon.

Family Fun Day

After a stressful year with COVID-19 and severe weather, it was great to see staff and their families enjoy a relaxing day together.

Tom and Joe Jackson at the Family Fun Day.

LONG SERVICE RECOGNITION

Three employees were recognised for achieving significant long service milestones, accumulating 100 years of work experience between them: Richard Jurisich (40 years), John Alexander (35 years) and Shelley Masters (25 years). Aaron Birt and Ronald Wihongi have also provided 15 years' great service to the company.

Image above: In recognition of their long service (left to right): Ronald Wihongi, Richard Jurisich, Shelley Masters, John Alexander, Aaron Birt.

RETIREMENT

Nick Wallace

December 2020 saw the retirement of Nick Wallace, lead operator at the Ngawha power station, after 30 years of service to the company. Originally a line mechanic, Nick was considered to be the 'face of Ngawha' and an integral part of the team by many of the staff. His knowledge, fine sense of humour and willingness to pitch in and help will be missed. Nick was farewelled with a lunch in his honour.

REWARDS AND RECOGNITION

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

Key facts for the last year

116 Employees displaying positive actions

62 Employees successfully achieving stretch targets

47 Employees making outstanding contributions to the business

Some examples of these include:

For the effort put in since we have been in government lockdown level 4 alert.

For consistently going the extra mile to assist, even outside of normal working hours.

For efforts in resolving a recurring safety and operational issue that has been affecting the vegetation team.

Reducing the outstanding fault paperwork significantly over the last 4 months – a significant feat.

Championed the generation fuel replenishment programme during the recent 110kV maintenance outage.

Image top left: CEO Russell Shaw presents William Robson with his Ultimate Leader certificate.

Image top right: Some of those who have been promoted from within, left to right, Michael Boocock, Matthew Kennedy, Brendon Francis, Cathie Carr, Elaine Collinson, Brendan Delear, Vula Vakacegu.

STAFF DEVELOPMENT

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

- NZ Certificate in Electricity Supply (Power Technician) Level 5
- Level 4 Field Operations Geothermal
- Level 3 Certificate in Arboriculture
- Advanced Diploma in Applied Electrical Engineering
- Line Mechanic block 4
- NZ Certificate in Electricity Supply (Introductory)

Three staff members continue to work towards a Graduate Diploma in Business Studies, one staff member is working towards an MBA through Massey University and another now holds a dual trade as a registered line mechanic and electrician.

The Ultimate Team Leader

Thirteen staff members from across the business participated in the 'Ultimate Team Leader', a 6-day Employers and Manufacturers Association course, run over several weeks. The course provided team leaders, foremen and supervisors practical tips on how to manage effective teams and gave them a chance to share their knowledge and learn from each other.

Promotion From Within

Offering employees the opportunity to grow their knowledge and experience is one of the main reasons we continue to retain good people.

Last year, three contractors secured permanent positions with the company and five staff were promoted, one as the result of a secondment.

- Brendan Delear, Operation Technology Engineer, ICS
- Todd Campbell, Network Controller
- Elaine Collinson, GIS Team Leader, ICS
- Vula Vakacegu, Maintenance Engineer, Substations
- Matthew Kennedy, Operation Technology Coordinator
- Andrew Donaldson, Foreman
- Brendon Francis, Digital Systems Engineer, ICS
- Cathie Carr, Property and Fleet Coordinator
- Michael Boocock, Network Field Operator

TRAINEE SELECTION DAY

At Top Energy, we are always on the lookout for talented people from within our local community to join us. Our recent trainee selection day took shortlisted candidates for the position of trainee line mechanic, through their paces.

The tasks included carrying a ladder, assembling a crossarm, digging a hole, and going up in a bucket truck to ensure they were not afraid of heights. To finish the morning off, they sat safety, verbal, and numerical reasoning tests and completed a personality profile.

All candidates who met the necessary criteria will be invited to a panel interview for the position.

CAREER PROFILE

Shelley Masters

Shelley is the Corrective Maintenance team leader based at the Kaitaia depot. She joined Top Energy 25 years ago, a mum returning to the workforce, as an administrator and meter reader temp.

Recognised for being well organised, direct and a stickler for detail, she held a variety of roles at the depot that included managing the stores and estimating jobs before becoming a Construction Supervisor managing teams in the field. Each role complemented the next, giving her a good overall view of the business, and a handle on what people needed to do to achieve a good outcome.

Three years ago, Shelley stepped up to manage the newly created Corrective Maintenance team. Responsible for ensuring network assets are always in good working order, the team manages maintenance workflows and engages with many parts of the business. Shelley's knowledge and experience gained from her years at Top Energy has come in handy as she works to continuously improve the processes and technology her team use to do their job.

Shelley has been recognised by her peers and managers many times over the years for her contribution to the business. Most recently, she was given an Applaud Award for Excellence by her manager for excelling in building and developing team processes and workflows back to the field teams.

'THROUGHOUT THE COMMUNITY'

SPONSORSHIP

Our $450k sponsorship programme is designed to support as many in our community as possible, from kids learning to swim, to college students exploring business ideas, budding engineers heading off to university, innovative businesses looking for an extra boost and help for those struggling with electricity costs and uninsulated homes.

BUSINESS DEVELOPMENT FUND

Since its inception in 2014, the twice annual $30k Business Development Fund has helped local businesses to grow or provide the seed funding for fresh and innovative start-ups.

The application process is competitive and rigorous, with the main proviso being that the business must have the potential to grow or diversify for the benefit of the Far North economy, through employment or training.

THIS YEAR'S WINNERS!

Toru Biomedicals

The commercial potential of hemp products is being explored by Toru Biomedicals, a start-up venture that has established a manufacturing and proprietary, environmentally friendly extraction operation in Waipapa.

Founder and director Albert Woo-Jung Kim, who is qualified in pharmaceutical chemistry, says the company will provide whole plant processing to produce hemp products across medicine, food and fibre categories for domestic and international markets. Ultimately, the manufacturing operation will provide a local point of sale for independent growers wishing to enter the industry.

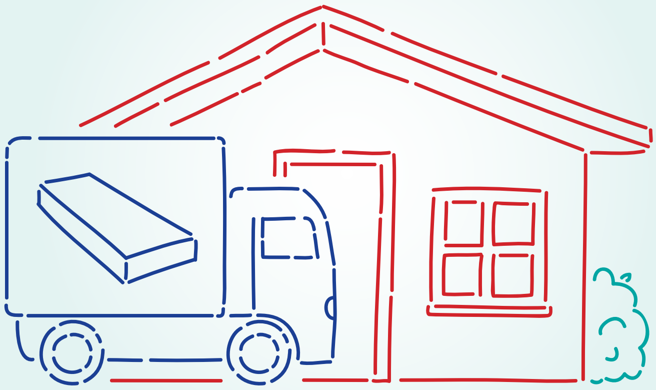
Messina Trustees (2013) Limited – A Great Catch for Local Growth

Local brothers Adam and Nat Davey of Messina Trustees (2013) Limited have a strong commitment to growth in Northland. Operating under the Medea Fishing Company Limited, the brothers have been working in the Northland fishing industry since they left school. Messina Trustees (2013) Limited is a commercial fish receiver and owner of two commercial fishing vessels.

Over the last 20 years, the Davey brothers have employed and paid for local youth to get their Deckhands Certificate and Skipper's Ticket, creating opportunities for their future and providing a formal education that many lacked. The Daveys have worked with careers advisors and the Far North Police Youth at Risk programme. Many of the young men have gone on to skipper their own boats, both in New Zealand and offshore.

The Top Energy $30k grant was used to boost the technological fish-finding capability of their fishing fleet, with a WASSP Multibeam that can profile the seabed up to 100 times faster than other systems. This will support their commercial operation and contribute to employment and economic opportunities locally.

Image above: Adam (in shorts) and Nat Davey, standing in front of 'Manakai' a 23-metre commercial, fishing vessel being built by Opua-based Bluefix Boatworks.



ENERGYMATE – TACKLING ENERGY POVERTY ON THE FRONTLINE

All Kiwis should live in warm dry homes with affordable energy costs. No family should have to choose between putting food on the table and turning their heater on.

EnergyMate, an initiative of the Electricity Retailers' Association, is a free in-home energy-coaching service helping families at high risk of energy hardship.

The national service is being trialled in Kaitaia by financial mentors from Kaitaia Family Budgeting Service and sponsored locally by Top Energy.

The local target is 100 in-home visits over the first year. So far, over 47 households have benefited from the practical advice on how to save power and what is the most cost-effective electricity plan.

There's not one family that we haven't been able to assist in some way.

The sponsorship is a wonderful example of what can be achieved when the electricity sector partners with the organisations working on the frontline to alleviate hardship.

Image above: Tania Sneddon (centre) from Kaitaia Budgeting.

HEALTHY HOMES TAI TOKERAU

We continue our support of the Warm Up New Zealand: Healthy Homes programme.

OVER
8000
HOMES

have benefited from quality, eco-friendly insulation since 2011

535
HOMES

insulated since 1 July 2020

STAYING SAFE IN THE WATER

Water safety skills are vital for those living in our coastal communities, and the earlier they start to learn them, the better. We are a proud sponsor of the Northland WaterSafe programme, which has been teaching water safety and 'swim to survive' skills to primary- and intermediate-aged children for over 20 years. The goal is to achieve zero preventable drownings and reduce the number of hospitalisations due to near drownings in Northland.

About WaterSafe

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

Key achievements for this season

11 11 schools received the full Top Energy WaterSafe Programme during 2020 term 4.

27 An additional 27 schools received the full Top Energy WaterSafe Programme during 2021 term 1

42 **3955** 42 primary and intermediate schools participated, involving just on 3,955 students from the Mid/Far North region, receiving dryland sessions in class on water safety.

324 adults/teachers attended the dryland sessions as part of their professional learning development.

ALL All schools had access to online water safety training via Drowning Prevention Auckland.

YOUNG ENTERPRISE SCHEME

We love celebrating our enterprising youth in the Far North!

This year, the Top Energy Young Enterprise Scheme (YES) Northland competition was won by Kerikeri High School student Max Donaldson. Under his business GreenKiwi, Max developed the first New Zealand-grown olive leaf supplement and headed to Wellington to compete with other finalists from around the country. Max was inspired after discovering that an olive oil extract supplement he had been using when he was sick was made from imported olive leaves.

Another Kerikeri High School student, who took home a stack of awards, was Rosie Robinson with her plant-based snack company called Snackish. Rosie won the business management, sales, marketing and communication, financial management, sustainability and young managing director awards.

Top Energy has proudly sponsored YES in this form since 2009 and under its previous names for more than 20 years.

Image above: Max Donaldson of GreenKiwi pictured with Top Energy Chief Executive Russell Shaw.

Image below: Rosie Robinson of Snackish with Top Energy Chief Executive Russell Shaw.

ENGINEERING SCHOLARSHIP

Over the last 5 years, Top Energy's annual Engineering Scholarship has set talented and smart students on the path to becoming engineers – and will continue to do so into the future.

The scholarship provides $8,000 a year for a maximum of 4 years towards an Engineering Degree with Honours and also offers students the opportunity for work experience at Top Energy.

Our latest winner, Elisha Alexander from Kerikeri High School, is heading off to Auckland University. She is shown with previous winners, Lauren Harrell and Lucia Avery, who gained work experience at the Ngawha geothermal power station in Kaikohe.

Craig Nelder, our 2017 engineering scholarship recipient, has chosen to major in civil engineering. He spent time in the Top Energy offices working on the Advanced Distribution Management Solution (ADMS) that replaced the Supervisory Control and Data Acquisition (SCADA) system. The new system presents real-time information from the customer, field and network, enabling a more efficient outage restoration response.

Image above (from left: Lauren Harrell (2020), Elisha Alexander (2021), Lucia Avery (2019). All three women are graduates of @ KerikeriHighschool.

** The Far North Science & Technology Fair was cancelled in 2020 due to COVID-19 restrictions but will recommence in 2021.*

NORTHLAND RESCUE HELICOPTERS

The Electricity Rescue Helicopter is an essential lifeline for remote rural communities and is one of our longstanding sponsorships, in partnership with neighbouring electricity lines company Northpower. Despite COVID-19, community support for the service in 2020 was stronger than ever, with generous donations and $150k added by the sponsors.

Key figures

1,115

Callouts (Jan-Dec 2020)

1,139

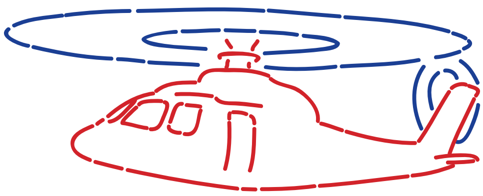
Flying hours

$334 THOUSAND

Total donations (as at Jan 2021)

$200 THOUSAND

Donations matched by sponsors (to date)



‘WE ARE ACTIVE IN OUR COMMUNITY’

COMMUNITY

Owned by the people of the Far North, we actively engage with our residential and commercial consumers at community events throughout the year.

COMMUNITY EVENTS

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

The community events at Kaitaia and Kaikohe were a great opportunity to talk about safety around our network and the issues caused when trees get into the lines. We also took the time to answer questions on power consumption and how to reduce energy costs. The response we received from people at the shows was very positive.

This year we offered evening tours of the newly commissioned Ngawha power station from the Kaikohe A & P show. This gave everyone an opportunity to learn more about our geothermal generation and see the new power station in operation.

THE KAITAIA SHOW

THE NORTH HOKIANGA AGRICULTURAL & PASTORAL SHOW AT BROADWOOD

THE KAIKOHE AGRICULTURAL, PASTORAL & HORTICULTURAL

GIRLS IN INFRASTRUCTURE

Over 70 female students from across Northland attended this Women's Infrastructure Network event held at the Golden Bay Cement in Portland.

Established to provide greater insight to jobs in the infrastructure industry, attendees had the opportunity to talk to us about careers in electricity.

We fielded many enquiries about the scholarships and programs run by Top Energy, and helped many students see the value of pursuing a career in infrastructure.

COMMERCIAL CUSTOMER ENGAGEMENT

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

In October, before our new power station was commission at Ngawha, members of the Kaikohe Business Association were invited to tour the facility. General Manager at Ngawha Generation, Ray Robinson talked attendees through how the power station works, the geothermal resource, and how we work with the local community and council. They visited the control centre and viewed progress of the new power station build, from the site's lookout point.

In March, Paihia Business Association members and Paihia locals joined CEO Russell Shaw and Commercial and Pricing Manager Simon Bocock to hear them talk about:

- What the Ngawha expansion means for the Far North now and in the future
- Time of Use and transmission pricing, the role retailers play in pricing and the benefits of using the Powerswitch service
- Right sizing solar installations, batteries and how solar will work with the Top Energy network

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

We are grateful to the support of the Paihia Business Association for hosting us and to the Kaikohe Business Association for visiting us at the Ngawha power station.

Top Energy Group

FINANCIAL STATEMENTS

FINANCIAL REPORT FOR THE YEAR ENDED **31 MARCH 2021**

DIRECTORS' REPORT

The Directors present the annual report of the Top Energy Limited Group, incorporating the financial statements and the auditor's report, for the year ended 31 March 2021.

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

The Board of Directors of the Company authorised the financial statements presented on pages 54 to 87 for issue on 15 June 2021.

For and on behalf of the Board.

R Krogh
Chair

D Sullivan
Chair ARC

15 June 2021

Consolidated statement of comprehensive income

For the year ended 31 March 2021

	Notes	**2021** *$'000*	2020 *$'000*
Operating revenue	*4*	72,791	77,589
Operating expenses	*5*	(31,522)	(30,286)
Construction related COVID-19 expenses	*5*	(2,931)	-
Earnings before interest, tax, depreciation, amortisation, and fair value movements of financial assets (EBITDAF)		**38,338**	**47,303**
Depreciation and amortisation	*5*	(19,427)	(18,786)
Finance costs		(7,787)	(6,940)
Earnings before tax and fair value movements of financial assets (EBTF)		**11,124**	**21,577**
Fair value gains (losses) on financial assets	*6*	(73,723)	(15,284)
Profit (Loss) before income tax		**(62,599)**	**6,293**
Income tax credit (expense) from continuing operations	*7*	18,258	(1,199)
Profit (Loss) from continuing operations		**(44,341)**	**5,094**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Gain (loss) on revaluation of generation plant	*14*	1,578	(4,513)
Reversal of revaluation surplus on disposal of revalued assets	*14*	–	(20)
Income tax relating to revaluation of non-current assets	*7*	(442)	1,269
Other comprehensive income (Loss) for the year, net of tax		**1,136**	**(3,264)**
Total comprehensive income (Loss) for the year		**(43,205)**	**1,830**
Profit (loss) is attributable to:			
Equity holders of Top Energy Limited		(44,341)	5,094
		(44,341)	**5,094**
Total comprehensive income for the year is attributable to:			
Equity holders of Top Energy Limited		(43,205)	1,830
		(43,205)	**1,830**

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

Consolidated statement of financial position

As at 31 March 2021

	Notes	2021 $'000	2020 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	145	101
Receivables	9	12,142	9,942
Inventories	10	2,025	1,817
Current tax benefit	11	407	–
Intangible assets	13	223	770
Derivative financial instruments	12	124	1,461
Total current assets		**15,066**	**14,091**
Non-current assets			
Property, plant and equipment	14	637,404	585,588
Intangible assets	15	22,588	19,498
Derivative financial instruments	12	–	627
Right-of-use lease assets	16	5,342	5,745
Total non-current assets		**665,334**	**611,458**
TOTAL ASSETS		**680,400**	**625,549**
LIABILITIES			
Current liabilities			
Payables	17	25,156	20,448
Interest bearing liabilities	18	4,718	1,737
Current tax liabilities	19	–	2,240
Provisions	20	298	385
Derivative financial instruments	12	58,667	3,901
Right-of-use lease liabilities	16	513	407
Total current liabilities		**89,352**	**29,118**
Non-current liabilities			
Interest bearing liabilities	21	325,312	286,650
Derivative financial instruments	12	74,404	57,410
Deferred tax liabilities	22	25,983	43,337
Right-of-use lease liabilities	16	5,051	5,446
Total non-current liabilities		**430,750**	**392,843**
TOTAL LIABILITIES		**520,102**	**421,961**
NET ASSETS		**160,298**	**203,588**
EQUITY			
Contributed equity	24	25,267	25,267
Reserves	25	64,145	75,622
Retained earnings	25	70,886	102,699
TOTAL EQUITY		**160,298**	**203,588**

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

Consolidated statement of changes in equity

For the year ended 31 March 2021

CONSOLIDATED ONLY	Notes	Share capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance as at 1 April 2020		**25,267**	**75,622**	**102,699**	**203,588**
Comprehensive income					
Profit (loss) for the year		–	–	(44,341)	(44,341)
Revaluation of generation plant	*14*	–	1,578	–	1,578
Income tax relating to components of other comprehensive income	*7*	–	(442)	–	(442)
Transfers between reserves	*25*	–	(12,613)	12,613	–
Total comprehensive income		**–**	**(11,477)**	**(31,728)**	**(43,205)**
Transactions with owners					
Dividends	*26*	–	–	(85)	(85)
Total transactions with owners		**–**	**–**	**(85)**	**(85)**
Balance as at 31 March 2021		**25,267**	**64,145**	**70,886**	**160,298**
Balance as at 1 April 2019		**25,267**	**78,886**	**97,745**	**201,898**
Comprehensive income					
Profit (loss) for the year		–	–	5,094	5,094
Revaluation of generation plant	*14*	–	(4,513)	–	(4,513)
Reversal of revaluation on disposal of revalued assets	*14*	–	(20)	–	(20)
Income tax relating to components of other comprehensive income	*7*	–	1,269	–	1,269
Total comprehensive income		**–**	**(3,264)**	**5,094**	**1,830**
Transactions with owners					
Dividends	*26*	–	–	(140)	(140)
Total transactions with owners		**–**	**–**	**(140)**	**(140)**
Balance as at 31 March 2020		**25,267**	**75,622**	**102,699**	**203,588**

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

Consolidated cash flow statement

For the year ended 31 March 2021

	Notes	2021 $'000	2020 $'000
Cash flows from operating activities			
Receipts from customers (exclusive of goods and services tax)		69,548	77,670
Payments to suppliers and employees (exclusive of goods and services tax)		(28,581)	(25,574)
		40,967	**52,096**
Interest received		8	8
Interest paid		(7,875)	(7,279)
Income taxes paid		(2,175)	(2,050)
Net cash inflow from operating activities	33	**30,925**	**42,775**
Cash flows from investing activities			
Purchases of property, plant and equipment		(70,902)	(117,982)
Proceeds from sale of property, plant and equipment		81	1,325
Purchase of ETS units		(1,495)	–
Increase / (repayment) of loan from parent		15	(30)
Net cash inflow / (outflow) from investing activities		**(72,301)**	**(116,687)**
Cash flows from financing activities			
Proceeds from (repayment of) borrowings		41,750	73,940
Dividends paid to the Group's shareholders	26	(85)	(140)
Repayment of Right-of-use leases		(123)	(175)
Net cash inflow / (outflow) from financing activities		**41,542**	**73,625**
Net increase (decrease) in cash and cash equivalents		**166**	**(287)**
Cash at bank and on hand at the beginning of the financial year		(89)	198
Cash and cash equivalents at end of year	**8**	**77**	**(89)**

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

[1] General information

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

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

These financial statements were approved for issue by the Board of Directors on 15 June 2021.

[2] Summary of significant accounting policies

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

(a) Basis of preparation

(i) Statutory base

Top Energy Limited is registered under the Companies Act 1993. These financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Companies Act 1993 and the Energy Companies Act 1992. These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for entities that fall within the Tier 1 for-profit category.

(ii) Going Concern

The Group recorded a loss after tax of $44.3m, with an underlying operational profit (EBITDAF) of $38.3m.

The cause of the loss after tax was principally due to $53.1m (net of tax) fair value loss on derivatives, covering interest rate swaps, forward exchange contracts, 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 2021 and the following:

- The Group's operations consist primarily of electricity generation and distribution, which are considered essential services;
- The construction of OEC4 is now complete and the plant is performing above expectations;
- The actual operational result for the period, at an EBITDAF level, was more favourable than the position identified during COVID-19;
- Cash flow from operating activities was $30.9m for the period;
- 10-year forecasts have been reviewed including relevant sensitivity analysis;
- The balance sheet for the period, which currently shows a net working capital deficit is driven by fair value loss on financial derivatives and higher accruals for fixed price option on carbon and final OEC4 commitments. Trade payables in comparison to prior year, have significantly reduced with the completion of the construction project;
- As described in note 14(a), the carrying value of the Generation assets have had an external valuation completed to ensure that the appropriate judgements can be made. A positive adjustment of $1.6m was made. As a result of the improved certainty on the future electricity wholesale price path, the Group has adopted the mid point of the valuation range;
- The Group is forecast to operate within the conditions of its banking facilities as disclosed in note 21(b).
- Funding facility limits as disclosed in note 21 are expected to be sufficient to cover any working capital requirements.

At the date of signing these financial statements, the country is in Alert Level-1. The Group is able to undertake normal business activities as an essential service at all Alert Levels.

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

(iii) Entities reporting

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

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

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

(iv) Historic cost convention

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

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

(v) Comparative figures

To ensure consistency with the current period, comparative figures have been restated where appropriate in accordance with NZ IFRS requirements. There were no reclassifications or restatements in these financial statements in respect of the year ended 31 March 2020.

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

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

(b) Accounting estimates and assumptions

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

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

(c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Top Energy Limited (the 'Company' or 'parent entity') as at 31 March 2021 and the results of all subsidiaries for the year then ended. Top Energy Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date when control ceases.

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

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

(d) Borrowing costs

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

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

(e) Cash and cash equivalents

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

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

(f) Contract work in progress

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

Where income has been received in respect of contract work and the work has not been completed by the reporting date, the total of such held on account is included in trade payables as Revenue received in advance.

(g) Derivatives and hedging activities

Derivatives are recognised initially at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The resulting gain or loss is recognised in profit or loss.

(h) Dividend distributions

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

(i) Employee benefits

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

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

(iii) Retirement benefit obligations

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

(j) Fair value estimation

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

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

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

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

(k) 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.

(l) 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.

(m) 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).

(n) 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.

(o) Intangible assets

(i) Goodwill

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

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

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

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

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

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

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

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

(p) Interest bearing liabilities

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

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

(q) 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.

(r) Investments and other financial assets

(i) Classification
The Group classifies its financial assets in the following measurement categories:

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

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

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

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

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

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

Debt instruments
Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- **Amortised cost**: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

- **Fair value through profit or loss**: Assets that are not held for collection of contractual cash flows and for selling the financial assets are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of profit or loss within other gains/(losses) in the period in which it arises.

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

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

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

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

(iv) Recognition and derecognition
Regular 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.

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

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

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

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

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

(vi) Impairment
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

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

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

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

(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.

(s) Leases
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 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.

(t) 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.

The net revaluation results are presented within other comprehensive income and are accumulated to an asset revaluation reserve in equity.

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 2021 and the resulting values have been incorporated into these financial statements.

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

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

Depreciation
Land is not depreciated.

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

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

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

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

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

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

(u) 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.

(v) Revenue recognition

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

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

Revenue is recognised as follows:
(i) Electricity line revenue and Electricity sales revenue
Electricity line revenue is recognised in profit or loss on the basis of amounts received and receivable by the Parent for line function services supplied to customers in the ordinary course of business. The right to payment corresponds directly with the pattern of distribution and electricity consumption. Electricity line revenue is based on actual and assessed meter readings and includes an allowance for unread meters at the reporting date, as this is the most faithful measure of consumption. Revenue is recognised over time as the customer receives and consumes the benefits on an ongoing basis.

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

Critical judgements in applying this accounting policy
Part of the network charges are based on normalisation, where consumption is estimated by the retailers who supply the consumer, to the end of the billing period based on historical actual electricity usage, as this is the most faithful measure of consumption. Occasionally, historical electricity usage data is not consistent and subsequent adjustments are made. These adjustments are immaterial compared with total network revenue.

(ii) Capital contributions
Funds received from customers, as a contribution towards the cost of uneconomic supply facilities, are recognised in profit or loss as soon as any obligations attaching to the contributions have been met. For contributions that are refundable, there is a period of 5 years from the date of receipt (10 years for contributions received prior to 1 September 2011) within which a part or all of the contribution may be refunded to the customer. Revenue is recognised at a point in time being the date of completion which is when the business has the right for payment of the work, and the time that the customer takes over control of the asset.

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

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

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

(w) Trade and other payables

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

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

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

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

(x) Trade and other receivables

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

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

A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'other expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the consolidated income statement.

(y) 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.

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

Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Group
There are a number of Standards, Amendments and Interpretations which have been approved. The Group expects to adopt these when they become mandatory.

[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 energy price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial and energy 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 energy price risks and ageing analysis for credit risk.

Risk management is carried out by senior management under policies approved 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. Management identifies and evaluates relevant financial risks and acts to manage these, where possible, within the parameters set out by the Board. Management report on risk issues to the Board, on a regular basis.

(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 2021 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$2,585,000 (2020: US$4,587,000) 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 2021 and adjusted for credit risk. This has created an unrealised loss 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 2021, US$2,585,000 mature prior to the Group's next annual reporting date (2020: US$4,587,000).

(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 2021 and 2020, the Group's borrowings at variable rate were denominated in New Zealand dollars.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts, calculated by reference to the agreed notional principal amounts.

Interest rate risk arises in respect of the portion of the Group's borrowings that is not covered by interest rate swaps. The element of Group borrowings at the reporting dates presented in these financial statements is sufficiently small such that, if interest rates had changed by +/- 1% (=100bp) from the average period rate of 5.73% (2020: 6.28%) 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 less than $500,000.

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 +$17,349,000/ -$18,964,000 respectively (2020: +$21,743,000/ -$23,865,000).

(iii) Energy market risk

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 2021, the notional amount of current contracts totalled $129,153,000 (31 March 2020: $85,985,000). The settlement dates coincide with the dates on which spot prices are receivable on the underlying electricity generation, being 20th of the following month.

(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.

One customer comprised 98% of the Group's total trade accounts receivable as at 31 March 2021 (2020: Two customers comprising 48% of the Group's total trade accounts receivable). Subsequent to the reporting dates, the amounts then due were cleared. The Group does not expect the non-performance of any material obligations as at the reporting date.

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises on derivative financial instruments with unrealised gains. Unrealised gains are presented as derivative financial instrument assets within note 12.

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

(c) Liquidity risk

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

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

	Less than 1 year $'000	Between 1 & 2 years $'000	Between 2 & 5 years $'000	Over 5 years $'000
At 31 March 2021				
Bank overdrafts and loans	8,637	8,568	332,684	–
Right-of-use lease liabilities	413	438	1,224	3,489
Other loans	1,603	–	–	–
Trade and other payables	25,157	–	–	–
At 31 March 2020				
Bank overdrafts and loans	9,589	9,398	300,748	–
Right-of-use lease liabilities	409	415	1,327	3,705
Other loans	1,598	–	–	–
Trade and other payables	22,120	–	–	–

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

		Less than 1 year $'000	Between 1 & 2 years $'000	Between 2 & 5 years $'000	Over 5 years $'000
At 31 March 2021					
Forward foreign exchange contracts	– inflow	–	–	–	–
	– outflow	(3,652)	–	–	–
Interest rate swaps	– inflow	–	–	–	–
	– outflow	(10,809)	(10,405)	(26,175)	(21,479)
Electricity CFDs	– inflow	–	–	–	–
	– outflow	(58,438)	(22,372)	(20,241)	–
At 31 March 2020					
Forward foreign exchange contracts	– inflow	–	–	–	–
	– outflow	(6,283)	–	–	–
Interest rate swaps	– inflow	–	–	–	–
	– outflow	(10,571)	(9,712)	(26,185)	(24,950)
Electricity CFDs	– inflow	43	189	487	–
	– outflow	(3,281)	(5,078)	(662)	–

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

(d) Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the relevant reporting date. Quoted market prices or dealer quotes for similar instruments are used as the basis for valuing interest rate swaps, electricity CFDs and forward foreign exchange contracts. Additional credit and debit value adjustments are made to the market prices in order to arrive at fair values as defined by NZ IFRS 13 Fair Value Measurement. The Group employs specialist independent valuers to calculate these valuations. The carrying value, less impairment provision, of trade receivables and payables is a reasonable approximation of their fair values due to the short-term nature of trade receivables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise equity investments quoted on a recognised stock exchange that are classified as trading securities or Fair Value through Other Comprehensive Income.

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

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

Specific valuation techniques used to value financial instruments include:

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

The following table presents the Group's assets and liabilities that are measured at fair value. Refer to note 14 for disclosures of generation plant that is measured at fair value.

	Level 1 *$'000*	**Level 2** *$'000*	**Level 3** *$'000*	**Total balance** *$'000*
At 31 March 2021				
Assets				
Financial assets at fair value through profit or loss				
– Trading derivatives - electricity CFDs	–	–	–	–
– Trading derivatives - forward FX contracts	–	124	–	124
Total assets	**–**	**124**	**–**	**124**
Liabilities				
Financial liabilities at fair value through profit or loss				
– Trading derivatives - interest rate swaps	–	32,626	–	32,626
– Trading derivatives - electricity CFDs	–	100,370	–	100,370
– Trading derivatives - forward FX contracts	–	75	–	75
Total liabilities	**–**	**133,071**	**–**	**133,071**
At 31 March 2020				
Assets				
Financial assets at fair value through profit or loss				
– Trading derivatives - electricity CFDs	–	670	–	670
– Trading derivatives - forward FX contracts	–	1,418	–	1,418
Total assets	**–**	**2,088**	**–**	**2,088**
Liabilities				
Financial liabilities at fair value through profit or loss				
– Trading derivatives - interest rate swaps	–	52,599	–	52,599
– Trading derivatives - electricity CFDs	–	8,712	–	8,712
Total liabilities	**–**	**61,311**	**–**	**61,311**

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

(e) Financial instruments by category

FINANCIAL ASSETS as per statement of financial position	**Financial assets at Amortised cost** *$'000*	**Financial assets at Fair value through profit or loss** *$'000*	**Other** *$'000*	**Total** *$'000*
At 31 March 2021				
Derivative financial instruments - electricity CFDs	–	–	–	–
Derivative financial instruments - forward FX contracts	–	124	–	124
Trade and other receivables	11,460	–	–	11,460
Other financial assets	–	–	2,919	2,919
Cash and cash equivalents	145	–	–	145
	11,605	**124**	**2,919**	**14,648**
At 31 March 2020				
Derivative financial instruments - electricity CFDs	–	670	–	670
Derivative financial instruments - interest rate swaps	–	2,272	–	2,272
Derivative financial instruments - forward FX contracts	–	1,418	–	1,418
Trade and other receivables	8,224	–	–	8,224
Other financial assets	–	–	2,027	2,027
Cash and cash equivalents	100	–	–	100
	8,324	**4,360**	**2,027**	**14,711**

FINANCIAL LIABILITIES as per statement of financial position	**Financial liabilities at Amortised cost** *$'000*	**Financial liabilities at Fair value through profit or loss** *$'000*	**Total** *$'000*
At 31 March 2021			
Borrowings	330,030	–	330,030
Derivative financial instruments - forward FX contracts	–	75	75
Derivative financial instruments - interest rate swaps	–	32,626	32,626
Derivative financial instruments - electricity CFDs	–	100,370	100,370
Right-of-use lease liabilities	5,564	–	5,564
Trade and other payables	9,043	–	9,043
	344,637	**133,071**	**477,708**
At 31 March 2020			
Borrowings	288,197	–	288,197
Derivative financial instruments - interest rate swaps	–	52,599	52,599
Derivative financial instruments - electricity CFDs	–	8,712	8,712
Right-of-use lease liabilities	5,854	–	5,854
Trade and other payables	17,376	–	17,376
	311,427	**61,311**	**372,738**

[4] Revenue

From continuing operations	**2021** *$'000*	2020 *$'000*
Electricity line revenue	52,768	60,858
Network line charge discount	(7,054)	(5,444)
Capital contributions	2,197	2,092
Electricity sales	22,328	17,131
Contracting services	2,417	2,762
Other revenue	135	190
Total revenue from continuing operations	**72,791**	**77,589**

[5] Expenses

	2021 $'000	2020 $'000
Expenses, excluding depreciation, amortisation and finance costs, included in the Statement of Comprehensive Income classified by nature		
Raw materials and consumables used	2,277	3,242
Employee benefits expense	14,120	14,217
Other expenses	10,481	7,972
Transmission charges	4,644	4,855
Construction related COVID-19 expenses	2,931	–
	34,453	**30,286**
Profit before income tax includes the following specific expenses:		
Depreciation		
Distribution system	8,122	7,684
Generation plant	8,294	8,550
Plant and equipment	779	880
Vehicles	572	634
Buildings	147	128
Right-of-use leased assets	555	529
Total depreciation	**18,469**	**18,405**
Amortisation		
Software	741	206
Resource consents	217	175
Total amortisation	**958**	**381**
Total depreciation and amortisation	**19,427**	**18,786**
Net loss (gain) on disposal of property, plant and equipment	**58**	**140**
Rental expense relating to operating leases		
Minimum lease payments	117	276
Employee benefit expense		
Wages and salaries, including restructuring costs and termination benefits	13,218	13,359
ACC levies and employee medical insurance	476	421
Pension costs - defined contribution plans	426	437
	14,120	**14,217**
Construction related COVID-19 expenses		
COVID-19 Alert Level 4 costs	2,931	–

Other non-operating costs of $2,931,000 in the period ended 31 March 2021 directly relate to COVID-19 Alert Level 4 costs incurred as a result of the Ngawha Expansion Project being locked down during its construction stage. The costs were expensed on the basis that suspension in construction activity was an abnormal delay for an extended period of time.

Auditors' fees

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

	2021 $'000	2020 $'000
Audit services		
Audit of the financial statements - Deloitte Limited	166	156
Total remuneration for audit services	**166**	**156**
Audit of regulatory statements - Deloitte Limited	61	61
Total remuneration for assurance services	**227**	**217**

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

	2021 $'000	2020 $'000
Net (loss) gain on interest rate swaps	19,974	(22,613)
Net (loss) gain on electricity Contract For Differences	(92,328)	8,183
Net gain on forward foreign currency contracts	(1,369)	(854)
	(73,723)	**(15,284)**

[7] Income tax expense

(a) Income tax expense

	2021 *$'000*	2020 *$'000*
Current tax		
Current tax on profits for the year	(404)	3,845
Adjustments in respect of prior years	(60)	78
Total current tax	**(464)**	**3,923**
Deferred tax		
Origination and reversal of temporary differences	(17,292)	(3,917)
Exclude: element arising on fixed asset revaluation	(442)	1,269
Under (over) provided in prior years	(60)	(76)
Total deferred tax	**(17,794)**	**(2,724)**
Income tax expense / (benefit)	**(18,258)**	**1,199**
Profit/(Loss) from continuing operations	(18,258)	1,199
Deferred income tax expense (benefit) included in income tax expense comprises:		
(Increase) decrease in deferred tax assets	(20,039)	(4,155)
Increase (decrease) in deferred tax liabilities (note 22)	2,245	1,431
	(17,794)	**(2,724)**

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

	2021 *$'000*	2020 *$'000*
Profit/(Loss) from continuing operations before income tax expense	(62,599)	6,293
	(62,599)	**6,293**
Tax at the New Zealand tax rate of 28% (2020: 28%)	(17,528)	1,762
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenditure	3	15
Income not subject to tax	(615)	(848)
Other reconciling items		
Adjustment in respect of prior years	(118)	2
Other	–	268
Income tax expense	**(18,258)**	**1,199**

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

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

	Before tax $'000	Tax (expense) / benefit $'000	After tax $'000
31 March 2021			
Fair value gains:			
Revaluation of generation plant	1,578	(442)	1,136
Other comprehensive income	**1,578**	**(442)**	**1,136**
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)**

[8] Current assets – Cash and cash equivalents

	2021 *$'000*	2020 *$'000*
Cash on hand	1	1
Bank balances	44	–
Deposits at call	100	100
	145	**101**

(a) Reconciliation to cash at the reporting date

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

	2021 *$'000*	2020 *$'000*
Balances as above	145	101
Bank overdrafts (note 18)	(68)	(190)
Cash and cash equivalents	**77**	**(89)**

(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.

[9] Current assets – Trade and other receivables

	2021 *$'000*	2020 *$'000*
Net trade receivables		
Trade debtors	11,460	8,225
GST receivable	–	1,312
Provision for doubtful receivables	(424)	(507)
Net trade receivables	**11,036**	**9,030**
Sundry prepayments	1,106	912
Total current receivables	**12,142**	**9,942**

(a) Impaired receivables

	2021 *$'000*	2020 *$'000*
Movements in the provision for impairment of trade receivables are as follows:		
At 1 April	(507)	(397)
Provision for impairment arising during the year	–	(116)
Provision for impairment released in the year	80	–
Charge (credit) to profit and loss during the period	3	6
At 31 March	(424)	(507)

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

(b) Foreign exchange and interest rate risk

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

(c) Fair value

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

[10] Current assets – Inventories

	2021 *$'000*	2020 *$'000*
Raw materials		
Raw materials at cost	1,749	1,604
Contract costs incurred less recognised losses	276	213
	2,025	**1,817**

[11] Current assets – Current tax benefit

	2021 *$'000*	2020 *$'000*
Tax benefit of losses	407	–
	407	**–**

[12] Derivative financial instruments

	2021 $'000	2020 $'000
Current assets		
Forward foreign exchange contracts - at fair value through profit or loss - see below ((a)(i))	124	1,418
Electricity Contract for Differences - see below ((a)(iii))	–	43
Total current derivative financial instrument assets	124	1,461
Non-current assets		
Electricity Contract For Differences - see below ((a)(iii))	–	627
Total non-current derivative financial instrument assets	–	627
Total derivative financial instrument assets	**124**	**2,088**
Current liabilities		
Forward foreign exchange contracts - at fair value through profit or loss - see below ((a)(i))	(75)	–
Interest rate swaps - at fair value through profit or loss - see below ((a)(ii))	(262)	(692)
Electricity Contract For Differences - see below ((a)(iii))	(58,330)	(3,209)
Total current derivative financial instrument liabilities	(58,667)	(3,901)
Non-current liabilities		
Interest rate swaps - at fair value through profit or loss - see below ((a)(ii))	(32,364)	(51,907)
Electricity Contract For Differences - see below ((a)(iii))	(42,040)	(5,503)
Total non-current derivative financial instrument liabilities	(74,404)	(57,410)
Total derivative financial instrument liabilities	**(133,071)**	**(61,311)**
Net (liabilities) in relation to derivative financial instruments	**(132,947)**	**(59,223)**

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 at 31 March 2021, the NZ Dollar equivalent of the US Dollar commitment US$2,585,000 (31 March 2020: US$4,587,000) was NZ$3,652,000 (31 March 2020: NZ$6,283,000). The remaining contracts mature during the year ended 31 March 2022.

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 2021 the notional principal amount of current contracts totalled $319,000,000 (31 March 2020: $359,000,000). At 31 March 2021 the Parent had 4 remaining forward starting contracts (31 March 2020: 7), with a total notional principal value of $57,000,000 (2020: $102,000,000), to replace maturing contracts.

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

(iii) Electricity Contract for Differences

The Group has entered into electricity Contract For Differences (CFDs) under which it receives a fixed amount based on a notional quantity of electricity generation. At 31 March 2021, the notional amount of current contracts totalled $129,153,000 (31 March 2020: $85,985,000). The settlement dates coincide with the dates on which spot prices are receivable on the underlying electricity generation, being 20th of the following month.

(b) Credit risk exposures

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

[13] Current assets – Intangible assets

	2021 *$'000*	2020 *$'000*
Emission Trading Scheme Units	223	770
	223	**770**

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

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

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

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

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

	Distribution system $'000	Capital work in progress $'000	Generation plant $'000	Plant and equipment $'000	Motor vehicles $'000	Freehold land $'000	Buildings $'000	Total $'000
Year ended 31 March 2021								
Opening net book amount	227,686	195,979	147,500	2,681	2,782	7,505	1,455	585,588
Additions	13,734	1,284	54,820	240	234	295	289	70,896
Disposals	(280)	–	–	(175)	(333)	–	(217)	(1,005)
Transfers and reclassifications	17,496	(190,931)	170,278	(27)	–	–	1,452	(1,732)
Depreciation charge	(8,122)	–	(8,294)	(779)	(572)	–	(147)	(17,914)
Depreciation released on disposals	194	–	–	165	294	–	215	868
Revaluation of generation plant	–	–	703	–	–	–	–	703
Closing net book amount	**250,708**	**6,332**	**365,007**	**2,105**	**2,405**	**7,800**	**3,047**	**637,404**
At 31 March 2021								
Cost	440,794	6,332	3,033	12,567	9,656	7,800	3,928	484,110
Valuation	–	–	361,999	–	–	–	–	361,999
Accumulated depreciation	(190,086)	–	(25)	(10,462)	(7,251)	–	(881)	(208,705)
Net book amount	**250,708**	**6,332**	**365,007**	**2,105**	**2,405**	**7,800**	**3,047**	**637,404**
At 1 April 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**
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 previous revaluation on disposals	–	–	(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**

(a) Critical accounting estimates and assumptions

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

The carrying value of the distribution network at 31 March 2021 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 2021 using an approach based principally on discounted predicted future cash flows over a 15 year period to 31 March 2036 using a post tax WACC of 6.56% 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 2021 valuation, the Mid Point valuation was adopted (2020: Low Point). The mid point, which was the original point adopted for valuations, was adopted for the period as the impact of COVID-19 on demand and price path is better understood and the closure of Tiwai has been announced for 2025. The industry taking proactive steps to find a new use for the availability generation and the Government is also encouraging electrification, which is beneficial for the industry and supports demand growth. These factors now create greater certainty in the price path.

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

(b) Valuation of generation plant

Independent valuations of the Group's generation plant were performed by valuers to determine its fair value as at 31 March 2021. The revaluation adjustment net of applicable deferred income taxes was credited to other comprehensive income and is shown in 'reserves' in shareholders equity (note 25).

The carrying amount of the generation plant that would have been recognised at 31 March 2021 had those assets been carried under the cost model is $289,709,000 (31 March 2020: $55,707,000).

(c) Valuation processes of the Group

The Group has engaged external, independent and qualified valuers to determine the fair value of the Group's generation plant assets. As at 31 March 2021, the fair values of the generation plant assets were determined by a specialist team within PricewaterhouseCoopers, Auckland.

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

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

Description	Fair value at 31 March 2021 *($'000)*	Valuation technique(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Generation plant	369,500	Discounted cash flow	Projected Wholesale Price Path (revenue) taking into consideration ASX futures prices and a combination of short to medium term factors including an assessment of the Long Run Marginal Cost (LRMC) of electricity generation in New Zealand.	The higher the revenue, the higher the fair value.
			Operating Costs, taking into account management's experience and knowledge of the asset's condition and required maintenance plans.	The higher the operating costs, the lower the fair value.
			Capital expenditure, taking into account management's experience and knowledge of the asset's condition.	The higher the capital expenditure, the lower the fair value.
			Weighted average cost of capital, determined using a Capital Asset Pricing Model post tax WACC of 6.56%.	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 +/- 13% and -9.4% / +11.7% respectively.

The average impact on the mid-point valuation of a movement of 5% in operating costs is +/- 7%. The valuation is relatively insensitive to movements in terminal growth rate and capital expenditure.

(e) Capitalised borrowing costs

Capital work in progress during the periods reported above includes capital projects which have an expected cost in excess of $500,000 and a planned duration of longer than three months. Interest on borrowings raised to finance those projects has been capitalised. The amount capitalised by the Group during the year ended 31 March 2021 was $11,553,000 (2020: $8,605,000).

Interest capitalised was at the average rate of 5.73% for the year ended 31 March 2021 (2020: 6.28%).

[15] Non-current assets – Intangible assets

	Goodwill $'000	Resource consents $'000	Computer software $'000	Easements $'000	Emission Trading Scheme units $'000	Total $'000
Year ended 31 March 2021						
Opening net book amount	811	5,421	2,122	9,887	1,257	19,498
Additions	–	6	–	42	1,495	1,543
Transfers and reclassifications	–	1,417	(42)	314	–	1,689
Disposals	–	–	(1,317)	–	–	(1,317)
Reclassification between current and non-current ETS units	–	–	–	–	(56)	(56)
Amortisation charge (note 5)	–	(217)	(742)	–	–	(959)
Amortisation released on disposals	–	–	1,316	–	–	1,316
Revaluation of generation plant	–	874	–	–	–	874
Closing net book amount	**811**	**7,501**	**1,337**	**10,243**	**2,696**	**22,588**
At 31 March 2021						
Cost	811	–	5,503	10,243	2,696	19,253
Valuation	–	7,501	–	–	–	7,501
Accumulated amortisation	–	–	(4,166)	–	–	(4,166)
Net book amount	**811**	**7,501**	**1,337**	**10,243**	**2,696**	**22,588**
At 1 April 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**
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
Reclassifications between current and non-current ETS units	–	–	–	–	(618)	(618)
Amortisation charge (note 5)	–	(175)	(206)	–	–	(381)
Transfers and reclassifications	–	–	778	937	–	1,715
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**

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

(a) Allocation of goodwill between cash-generating units

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

	Ngawha Generation Ltd $'000	Total $'000
At 31 March 2021		
Cost at 1 April 2020	811	811
At 31 March 2021	**811**	**811**
At 31 March 2020		
Cost at 1 April 2019	811	811
At 31 March 2020	**811**	**811**

(b) Impairment testing of goodwill

As described in note 2(o) 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 2031, and a post-tax discount rate of 6.56% (2020: 7%).

At 31 March 2021 and 2020 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.

[16] 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:

	2021 *$'000*	2020 *$'000*
Right-of-use lease assets net book value		
Properties	3,997	4,341
Equipment	49	65
Well sites	1,297	1,339
	5,343	**5,745**
Right-of-use lease liabilities		
Current	513	407
Non-current	5,051	5,446
	5,564	**5,853**

(b) Amounts recognised in the statement of comprehensive income

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

	2021 *$'000*	2020 *$'000*
Depreciation charge of Right-of-use assets		
Properties	474	446
Equipment	39	41
Well sites	42	42
	555	**529**
Interest on Right-of-use leases		
Interest expense (included in finance cost)	320	245
	320	**245**

The total cash outflow for Right-of-use leases in the year ended 31 March 2021 was $675,000 (2020: $644,000)

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

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

[17] Current liabilities – Trade and other payables

	2021 *$'000*	2020 *$'000*
Trade payables	3,421	13,813
GST payable	1,313	57
ACC levies, PAYE and other payroll taxes	291	297
Payroll creditors	1,572	1,587
Accruals	14,801	2,951
Revenue received in advance	3,758	1,743
	25,156	**20,448**

[18] Current liabilities – Interest-bearing liabilities

	2021 *$'000*	2020 *$'000*
Secured		
Bank overdrafts	68	190
Bank loans	3,088	–
Total interest bearing bank borrowings	**3,156**	**190**
Loan from parent entitiy	1,562	1,547
Total other interest bearing borrowings	**1,562**	**1,547**
Total current interest bearing borrowings	**4,718**	**1,737**

The Group's borrowings are subject to covenants agreed with its lenders. Details are provided at note 21.

[19] Current liabilities – Current tax liabilities

	2021 *$'000*	2020 *$'000*
Income tax payable	–	2,240
	–	**2,240**

[20] Current liabilities – Provisions

	2021 *$'000*	2020 *$'000*
Employee benefits	298	385
	298	**385**

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.

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

	2021 $'000	2010 $'000
Bank loans	325,312	286,650
Total non-current interest bearing liabilities	**325,312**	**286,650**

* Further information relating to loans from related parties is set out in note 30.

(a) Liabilities subject to negative pledges given over assets

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

	2021 $'000	2010 $'000
Bank overdrafts and bank loans	328,468	286,840
Total liabilities covered by the negative pledges	**328,468**	**286,840**

(b) Banking covenants

The bank loans and overdraft are subject to identical negative pledges given to all of the Group's banks. The pledges impose certain covenants on a "Guaranteeing Group". The Guaranteeing Group comprises all Group companies as at 31 March 2021. 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) Consolidated net to consolidated EBITDA be no greater than 8.0:1.0,

(ii) consolidated EBITDA (earnings before borrowing costs, taxation, depreciation and amortisation, extraordinary items, 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) less Capital Expenditure (measured over the preceding 12 month period) shall not be greater than 1.375:1.0 of net interests costs,

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

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

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

[22] Non-current liabilities – Deferred tax liabilities

	2021 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	63,487	60,529
Intangible assets	352	(10)
Financial assets at fair value through profit or loss	(37,239)	(16,583)
Other temporary differences	(617)	(599)
Net deferred tax liabilities	**25,983**	**43,337**
Movements		
Balance at 1 April	43,337	47,330
Charged / (credited) to profit or loss	(17,796)	(2,724)
Tax charged/(credited) directly to equity (note 7)	442	(1,269)
Closing balance at 31 March	**25,983**	**43,337**
Expected maturity of deferred tax liabilities		
Within 12 months	(17,022)	(1,283)
In excess of 12 months	43,005	44,620
	25,983	**43,337**

The tax rate applied in calculating the deferred tax provision was 28% at 31 March 2021 and 2020.

[23] Imputation credits

	2021 *$'000*	2020 *$'000*
Balances		
Imputation credits available for subsequent reporting periods based on a tax rate of 28% (2020: 28%)	17,118	17,587
	17,118	**17,587**

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

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

[24] Contributed equity

(a) Share capital

	2021 *Shares 000s*	2020 *Shares 000s*	**2021** *$'000*	2020 *$'000*
Ordinary shares				
Authorised, issued and fully paid	25,000	25,000	25,267	25,267
Total contributed equity			**25,267**	**25,267**

(b) Ordinary shares

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

(c) Capital risk management

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

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

[25] Reserves and retained earnings

(a) Reserves

	2021 *$'000*	2020 *$'000*
Property, plant and equipment revaluation reserve	64,145	75,622
Movements		
Property, plant and equipment revaluation reserve		
Balance at 1 April	75,622	78,886
Revaluation - before tax	1,578	(4,513)
Deferred tax on the revaluation	(442)	1,269
Reversal of revaluation surplus on disposal of revalued assets	–	(20)
Transfer between reserves (Note 2(t))	(12,613)	–
Balance at 31 March	**64,145**	**75,622**

(b) Retained earnings

Movements in retained earnings were as follows:

	2021 *$'000*	2020 *$'000*
Balance at 1 April	102,699	97,745
Net profit for the year	(44,341)	5,094
Dividends	(85)	(140)
Net transfer between reserves (Note 2(t))	12,613	–
Balance at 31 March	**70,886**	**102,699**

[26] Dividends

(a) Ordinary shares

	2021 *$'000*	2020 *$'000*
Dividend of 0.34 cents per ordinary share paid on 31 March 2021	85	–
Dividend of 0.56 cents per ordinary share paid on 31 March 2020	–	140
	85	**140**

(b) Dividend imputation

The dividends paid by Top Energy Ltd on 31 March 2021 and 31 March 2020 were not imputed.

[27] Director disclosures

The following persons were directors of Top Energy Limited during the financial year ended 31 March 2021:

(i) Chairman - non-executive

- Mr Richard Krogh

(ii) Other non-executive directors

- Mr Jason McDonald
- Mr David Sullivan
- Mr Paul White
- Mr Simon Young

(iii) Directors of other Group companies

Three Top Energy Ltd directors are also directors of Ngawha Generation Ltd (marked with *). Three directors are also directors of Top Energy Ngawha Spa Ltd (marked with #).

Details of the remuneration of each director of the Top Energy Limited Group are set out in the following tables.

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

	Cash salary and fees ($)	Total ($)
Year to 31 March 2021		
Directors of Top Energy Ltd		
– R Krogh*#	108,200	108,200
– J McDonald	49,700	49,700
– D Sullivan*	66,000	66,000
– P White#	49,700	49,700
– S Young*#	59,000	59,000
Directors of other Group companies		
– R Kirkpatrick	49,700	49,700
– R Shaw	–	–
– K Tempest	49,700	49,700
Total	**432,000**	**432,000**
Year to 31 March 2020		
Directors of Top Energy Ltd		
– R Krogh	105,291	105,291
– J McDonald (from 17 June 2019)	39,306	39,306
– G Steed (to 25 June 2019)	15,392	15,392
– D Sullivan	63,150	63,150
– P White	49,463	49,463
– S Young	57,900	57,900
Directors of other Group companies		
– R Kirkpatrick	49,463	49,463
– R Shaw	–	–
– K Tempest (from 17 June 2019)	39,306	39,306
Total	**419,271**	**419,271**

R. Shaw is an employee of Top Energy Ltd and is remunerated by that company.

(a) Directors' interests in other entities

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

Director	Entity	Total
Mr R Krogh	PKW Farms GP Limited	Chair
	Port Taranaki Limited	Chair
	Energia Limited	Managing Director
	First Gas Limited Group of Companies	Director
	Gas Services NZ Limited Group of Companies	Director
	Rockgas Limited	Director
	Liquigas Limited	Director
Dr R Kirkpatrick	RKP Limited	Director
Mr J McDonald	Orion New Zealand Ltd	Director
	Connetics Ltd	Director
	Mevo Ltd	Director
	Jaspen Ventures Ltd	Director
	Helios Energy Ltd	Director
	Jason McDonald Consulting Ltd	Director
Mr D Sullivan	Matakana Olive Oil Co-operative Ltd	Director
	Mahurangi Olives Ltd	Director
	Cognition Education Limited	Director
Mr K Tempest	Bay Venues Limited	Director
	GAP Business Solutions Ltd	Director
Mr P White	Torea Tai Consultants Limited	Director
	Matapihi Executive Ltd	Director
	TRTTK Ltd	Director
	GNS Science Ltd	Director
Mr S Young	The Karo Group Ltd	Director
	Jimmi Interests Ltd	Director
	Smith & Young Nominees Ltd	Director
	Carbon One Ltd	Director
	Utilise Limited	Director
	Jimmi Limited	Director
	Jimmi Holdings Limited	Director

[28] Contingencies

As at 31 March 2021 a "Guaranteeing Group" had executed identical security deeds in favour of ANZ Bank New Zealand Limited, Bank of New Zealand Limited, and China Construction Bank (New Zealand) Limited. The Guaranteeing Group comprises all Group companies. The security arrangement imposes a liability on each subsidiary company within the Group, where each subsidiary is liable to repay all or any part of the guaranteed indebtedness should any of the guaranteeing group fail to meet its obligations under the Facility Agreement. The Security Deed was executed on 28 November 2018 and the Facility Agreement was executed on 19 December 2017.

A Deed of Amendment and Restatement was entered into on 26 May 2020.

The Group has provided guarantees to unrelated third parties in respect of the costs of existing and potential future obligations arising from its business activities. At 31 March 2021 the total value entered into by the Group was $6,348,000 (2020: $1,348.000).

[29] Commitments

(a) Capital commitments

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

	2021 *$'000*	2020 *$'000*
Property, plant and equipment	691	33,257
	691	**33,257**

Of the capital commitments, $242,000 relate to the Ngawha Generation subsidiary (2020: $31,492,000). The 2020 value was 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.

[30] Related party transactions

(a) Parent entity

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

The Company paid a dividend of $85,000 to the Trust during the year ended 31 March 2021 (2020: $140,000). These dividends were to assist with the Trust's running costs. The Company continued to pay interest to the Trust on the balance of funds loaned, totaling $73,000 in the year ended 31 March 2021 (2020: $80,000).

As at 31 March 2021, a balance of $1,562,000 was owed by the Company to the Trust (31 March 2020: $1,547,000) and this has been included in current liabilities in the statement of financial position. All transactions between the Company and the Trust are made on normal business terms

(b) Directors

The names of persons who were directors of the company at any time during the financial year are given at note 27.

(c) Key management personnel remuneration

	Short-term benefits *$'000*	Post-employment benefits *$'000*	Other long-term benefits *$'000*	Termination benefits *$'000*	Total *$'000*
Year ended 31 March 2021	**4,928**	**127**	**121**	**–**	**5,176**
Year ended 31 March 2020	4,964	128	77	73	5,242

There were no contracts for share-based payments during the years ended 31 March 2021 and 2020.

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

There were no other transactions with key management personnel or entities related to them, other than the payment of remuneration, during the year ended 31 March 2021 (2020: $Nil).

(e) Subsidiaries

The Group's interests in its subsidiaries are set out in note 31. All transactions between the Parent and its subsidiaries are made on normal business terms and have been eliminated on consolidation.

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

Movements in the loan were as follows:

	2021 *$'000*	2020 *$'000*
Balance due to the Trust at 1 April	1,547	1,577
Loan advanced from (repaid to) the Trust	(58)	(110)
Interest charged by the Trust	73	80
Balance due to the Trust at 31 March	**1,562**	**1,547**

(g) Guarantees

Details of security made by the Group to its lenders are given at note 21.

(h) Terms and conditions

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

[31] Investments in subsidiaries

The Group had the following subsidiaries at 31 March 2021:

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

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

[32] Events occurring after the reporting period

At the date of signing these financial statements, the country is in Alert Level-1. The Group is classified as an essential service and can operate at all Alert Levels.

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

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

	2021 *$'000*	2020 *$'000*
Profit for the year	**(44,341)**	**5,094**
Adjustments made for:		
Depreciation and amortisation	19,427	18,786
Net (loss) gain on sale of non-current assets	58	(140)
Movement in provision for doubtful debts	(83)	110
Fair value (gains) losses on other financial assets at fair value through profit or loss	73,723	15,283
Interest on Right-of-use leases	(320)	(245)
Changes in working capital:		
Decrease (increase) in trade debtors	(3,233)	89
Decrease (increase) in inventories	(208)	(406)
Decrease (increase) in other operating assets	409	(187)
Increase (decrease) in trade creditors	(5,807)	5,810
Increase (decrease) in other operating liabilities	11,742	(565)
Increase (decrease) in income taxes payable	(2,240)	1,868
Increase (decrease) in provision for deferred income tax	(18,202)	(2,722)
Net cash inflow from operating activities	**30,925**	**42,775**

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF TOP ENERGY LIMITED GROUP'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 31 MARCH 2021

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

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 54 to 87, that comprise the statement of financial position as at 31 March 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on page 27.

In our opinion:

- the financial statements of the Group:
    - present fairly, in all material respects:
        - its financial position as at 31 March 2021; and
        - its financial performance and cash flows for the year then ended; and
    - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards.
- the performance information of the Group presents fairly, in all material respects, the Group's achievements measured against the performance targets adopted for the year ended 31 March 2021.

Our audit was completed on 15 June 2021. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance;
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 3 to 52, but does not include the financial statements and the performance information, and our auditor's report thereon.

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

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

Independence

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

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

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

DIRECTORY

Principal business

Electricity generation and lines distribution

Directors

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

Officers

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

Registered office

Level 2, John Butler Centre, 60 Kerikeri Road, Kerikeri 0230

Auditor

Brett Tomkins of Deloitte Limited on behalf of the Auditor-General

Bankers

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

Website

www.topenergy.co.nz

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