

# **Waitomo Energy Services Customer Trust**

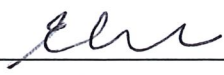
## **Consolidated Financial Statements**

for the year ended 31 March 2019

## Consolidated Statement of Comprehensive Income

for the year ended 31 March 2019

	Notes	Group 2019 \$'000	Group Restated 2018 \$'000
Revenue from contracts with customers	1,26	44,133	44,214
Investment income		16	15
Total revenue		44,149	44,229
Operating expenses	2	(25,932)	(22,991)
Depreciation and amortisation	10&11	(12,517)	(10,745)
Interest costs (net)	3	(2,545)	(2,649)
Impairment of assets		-	(214)
Other Expenses		(253)	(213)
Total expenses		(41,247)	(36,812)
Other income	4	-	1,886
Share of net loss of associate accounted for using the equity method	13	(542)	(326)
Impairment of associate	13	(3,211)	-
(Loss)/profit before tax		(851)	8,977
Income tax expense	5	(845)	(4,464)
<b>(Loss)/profit for the year</b>		<b>(1,696)</b>	<b>4,513</b>
(Loss)/profit for the year is attributable to:			
Equity holders of the parent		(1,683)	4,563
Non-controlling interest		(13)	(50)
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Revaluation of network assets, land and buildings	10	-	590
Income tax relating to revalued assets		-	(125)
Other comprehensive income for the year		-	465
<b>Items that may be subsequently reclassified to profit or loss</b>			
Cash flow hedge reserve		(150)	247
Income tax relating to cash flow hedges		41	(69)
Other comprehensive (loss)/income for the year, net of tax	14	(109)	178
<b>Total comprehensive (loss)/income for the year</b>		<b>(1,805)</b>	<b>5,156</b>
Total comprehensive (loss)/income is attributable to:			
Equity holders of the parent		(1,792)	5,206
Non-controlling interest		(13)	(50)

Chair   
Date 24 October 2019

Trustee   
Date 24 October 2019

# Consolidated Statement of Financial Position

as at 31 March 2019

	Notes	Group 2019 \$'000	Group Restated 2018 \$'000
<b>Current assets</b>			
Cash and cash equivalents	7	1,180	1,191
Trade and other receivables	8	3,805	2,554
Contract assets	1	2,613	131
Current tax asset	16	292	-
Inventories	9	1,670	1,962
		9,560	5,838
<b>Non-current assets</b>			
Property, plant and equipment	10	267,295	255,679
Intangible assets	11	4,895	2,166
Investments in equity accounted associate	13	-	2,753
Deferred tax asset	17	1,151	1,074
Other financial assets		-	31
		273,341	261,704
<b>Total assets</b>		<b>282,901</b>	<b>267,542</b>
<b>Current liabilities</b>			
Trade and other payables	19	6,884	4,437
Contract liabilities	1	2,190	2,155
Convertible notes issued by subsidiary	18	250	250
Other financial liabilities	23	2,537	2,306
Current tax liability	16	-	947
Provision for staff entitlements	20	1,416	1,214
		13,277	11,309
<b>Non-current liabilities</b>			
Bank borrowings	18	68,456	53,939
Other financial liabilities	23	-	81
Convertible notes issued by subsidiary	18	800	850
Subordinated debentures	18	2,000	2,000
Deferred tax liability	17	52,120	51,309
		123,376	108,179
<b>Total liabilities</b>		<b>136,653</b>	<b>119,488</b>
<b>Net assets</b>		<b>146,248</b>	<b>148,054</b>
<b>Equity</b>			
Consolidated equity		145,462	147,255
Non-controlling interest	15	786	799
<b>Total equity</b>		<b>146,248</b>	<b>148,054</b>

## Consolidated Statement of Changes in Equity

for the year ended 31 March 2019

	Share Capital \$'000	Retained Earnings \$'000	Cashflow Hedge Reserves \$'000	Revaluation Reserves \$'000	Total Attributable to Owners of Parent \$'000	Non-controlling Interest \$'000	Total Equity \$'000
(Note 14.3)							
<b>Restated balance as at 31 March 2017</b>	<b>13,246</b>	<b>49,447</b>	<b>(1,762)</b>	<b>81,117</b>	<b>142,049</b>	<b>849</b>	<b>142,899</b>
Profit for the year	-	4,563	-	-	4,563	(50)	4,513
<b>Other comprehensive income</b>							
Interest rate swaps	-	-	178	-	178	-	178
Revaluation of land and buildings	-	-	-	465	465	-	465
<b>Total other comprehensive income</b>	-	-	178	465	643	-	643
<b>Balance as at 31 March 2018</b>	<b>13,246</b>	<b>54,010</b>	<b>(1,584)</b>	<b>81,582</b>	<b>147,255</b>	<b>799</b>	<b>148,054</b>
Loss for the year	-	(1,683)	-	-	(1,683)	(13)	(1,696)
<b>Other comprehensive income</b>							
Interest rate swaps	-	-	(109)	-	(109)	-	(109)
Revaluation of land and buildings	-	-	-	-	-	-	-
<b>Total other comprehensive income</b>	-	-	(109)	-	(109)	-	(109)
Transfer from retained earnings	-	957	-	(957)	-	-	-
<b>Total transactions with owners</b>	-	-	-	-	-	-	-
<b>Balance as at 31 March 2019</b>	<b>13,246</b>	<b>53,284</b>	<b>(1,693)</b>	<b>80,625</b>	<b>145,462</b>	<b>786</b>	<b>146,248</b>
<b>Attributable to Trust Equity</b>	<b>13,246</b>	<b>53,284</b>	<b>(1,693)</b>	<b>80,625</b>	<b>145,462</b>	-	<b>145,462</b>

## Consolidated Statement of Cash Flows

for the year ended 31 March 2019

	Notes	Group 2019 \$'000	Group 2018 \$'000
<b>Operating activities</b>			
Cash generated from operations	21	16,603	21,533
Interest received	3	20	2
Interest paid	3	(2,942)	(2,888)
Income taxes paid	16	(1,309)	(2,413)
<b>Net cash inflow from operating activities</b>		<b>12,373</b>	<b>16,234</b>
<b>Investing activities</b>			
Purchase of property plant and equipment		(23,465)	(17,426)
Purchase of intangible assets		(3,028)	(621)
Proceeds on disposal of property, plant and equipment		92	142
<b>Net cash outflow in investing activities</b>		<b>(26,401)</b>	<b>(17,905)</b>
<b>Financing activities</b>			
Convertible notes in subsidiary sold to non-controlling interest	18	(50)	(50)
Loan to equity accounted for associate		(452)	-
Bank borrowings advanced	18	14,517	1,700
<b>Net cash inflow from financing activities</b>		<b>14,015</b>	<b>1,650</b>
Net increase/(decrease) in cash and cash equivalents		(12)	(21)
Cash and cash equivalents at the beginning of the year		1,191	1,212
<b>Cash and cash equivalents at the end of the year</b>		<b>1,180</b>	<b>1,191</b>

## Notes to the Consolidated Financial Statements

### General Information

The Waitomo Energy Services Customer Trust (“the Trust”) is an Energy Power Trust established under the Energy Companies Act 1992. The Trust’s principal activity is investment in the electricity industry. It owns 100% of the shares in The Lines Company Ltd. The Group consists of The Trust, The Lines Company (“the Company”) and its subsidiaries (being Financial Corporation Ltd and Speedys Road Hydro Ltd “the Group”).

The company’s principal activities are the conveyance of electricity through its distribution network, supply of metering and relay equipment, electrical contracting and electricity generation. Those principal activities are substantially carried out in the greater King Country region of New Zealand.

In accordance with the requirements of Generally Accepted Accounting Practice in New Zealand (NZ GAAP), where a reporting entity prepares consolidated financial statements, the parent disclosures are not required.

The Consolidated financial statements were authorised for issue by the Trustees on 24 October 2019.

### Summary of significant accounting policies

#### Basis of preparation

The consolidated financial statements (“financial statements”) of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP).

The Group is a for-profit entity for the purposes of complying with NZ GAAP. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

They are prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments measured at fair value.

The presentation currency is New Zealand Dollar (\$). All financial information has been rounded to the nearest thousand, unless otherwise stated.

In the current year the Group has adopted the following new accounting standards:

NZ IFRS 15 Revenue from contracts with customers  
NZ IFRS 9 Financial Instruments

Impact of these new standards has been disclosed in Note 26, Change in accounting policies.

### Significant accounting policies, estimates and judgements

The Board and management are required to make judgements, estimates and apply assumptions that affect the amounts reported in the financial statements. They are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in the future periods.

Judgements and estimates which are material to the financial statements are found in the following notes:

Note 1	<b>Revenue recognition</b>	<b>Page 7</b>
Note 10	Valuation of network distribution system	Page <b>15</b>
Note 10	Generation property, plant and equipment	Page <b>15</b>
Note 20	Provisions	Page <b>27</b>
Note 23.2	Financial instruments	Page <b>31</b>

**Notes to the Consolidated Financial Statements**

for the year ended 31 March 2019

**1. Revenue from contracts with customers**

		Group 2019 \$'000	Group 2018 \$'000
<b>Revenue recognised over time</b>			
Network before discounts		42,527	41,053
Transition discount		(1,995)	-
Less network discount	12	(5,595)	(5,600)
<b>Network revenue</b>		<b>34,937</b>	<b>35,453</b>
<b>Electricity meter revenue</b>			
		<b>5,331</b>	<b>4,551</b>
Revenue from electrical contracts which were unsatisfied and included in contracts assets and liabilities		845	-
Revenue from completed electrical contracts		1,578	2,027
<b>Electrical contracting revenue</b>		<b>2,423</b>	<b>2,027</b>
<b>Generation revenue</b>			
		<b>1,442</b>	<b>2,183</b>
<b>Revenue</b>		<b>44,133</b>	<b>44,214</b>

**Contracting assets and liabilities**

The following table reflects the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as at the end of the reporting period.

		Group 2019 \$'000	Group 2018 \$'000
<b>Contract assets</b>			
Electrical contracts assets due to percentage of completion		333	131
Network unbilled network revenue work in progress		2,280	-
<b>Contract assets</b>		<b>2,613</b>	<b>131</b>
<b>Contract liabilities</b>			
Electrical contracts accrual due to percentage of completion		(376)	(836)
Network customer credit balances		(1,814)	(1,319)
<b>Contract liabilities</b>		<b>(2,190)</b>	<b>(2,155)</b>

Management expects that 100% of the transaction price to be allocated to the unsatisfied contracts to revenue in the next reporting period.

Contract assets have changed significantly from one year to the next due to the change in the pricing methodology in the current financial year, as discussed in network revenue.



## Policies

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 GST. All revenue is incurred within New Zealand.

The Group has four streams of revenue

- Network revenue
- Electricity meter revenue
- Generation revenue
- Electrical contracting revenue

**Network revenue** results from the conveyance of electricity through its distribution network. The Lines Company invoices its customers (predominantly the end user) for electricity delivered across the region's line network. Customers do not have extended terms of payment and can terminate on short notice.

The Group's obligation is to provide a single performance obligation of continuous service to which the customer benefits over time. Revenue is recognised at the price per kilowatt-hour (kWh) delivered to the customer in that period, incorporating variable pricing and reflects demand and deduction for losses and discounts. In the current year pricing moved from a demand-based pricing methodology to a time-of-use based pricing methodology for all customers excluding major customers. The time-of-use pricing methodology came into effect on 1 October 2018. Payments terms are within 30 days.

To assist customers with the transition from demand-based billing to time-of-use billing a transition discount has been established. The transition discount is offered for a year from 1 October 2018. It caps the time-of-use bill to an increase of 20% of the demand-based bill for the prior period.

Network revenue is subject to a prompt payment discount. A 10% prompt payment discount is offered when customers pay within a specific time period.

A network discount is approved annually and paid in December. This is accrued on a monthly basis.

**Electricity meter revenue** relates to the monthly tariffs received from customers (mainly energy retailers and property developers) for the data provided via the electricity meters owned by the Group. Prices are charged on a fixed-tariff rate each month based on number of days. Revenue is recognised over time as and when the services are provided. Payment terms are within 30 days.

**Generation revenue** is derived from the generation of electricity associated with our hydro plants which is sold on the wholesale market. As electricity is generated over time, revenue is recognised over time. Payment terms are within 30 days.

**Electrical contracting revenue** relates to the installation of street lights, lines and connection to the national grid are met for customers. Revenue is recognised based on the stage of completion of the contract applying the cost-to-cost method, i.e. based on the proportion of contract costs incurred to work performed to date relative to the estimated total contract cost. The directors consider this input method as an appropriate measure of the progress towards complete satisfaction of the performance obligations under IFRS 15, i.e. recognised over time.

General payment terms are that a 50% deposit is paid before work commences and final payment is made on completion of the contract. This may result in a contract asset or liability on the balance sheet when

comparing the payment received and the percentage of completion revenue. Where a contract liability is recognised it is not considered to be a significant financing component as the period between milestone payments and revenue under the cost-to-cost method is less than a year.

### Key judgements

Management must apply judgement where:

- Part of the network charges are based on normalisation, where demand is assessed based on historical actual meter readings. Occasionally the meter reading history data is not consistent and subsequent adjustments are made to customers' accounts, where further charges are applied or refunds given, these adjustments are not material compared with total network revenue. This applied up until September 2018 for all customers excluding major customers.
- From 1 October 2018 the pricing methodology changed to time-of-use. Revenue is calculated based on kWh used. Customers are billed according to the billing cycles which results in customers not billed for all kWh used at financial year end. An accrual is raised for unbilled revenue. Unbilled revenue is recognised on an estimate of expected consumption utilised during the unbilled days. This is applied to the price plan set for that installation control point (ICP).
- As part of the transition plan changing from demand-based pricing to time-of-use, a transition discount has been offered. An accrual for the expected transition discount is raised at year end for revenue incurred to date. This is calculated by comparing billed and unbilled revenue under time-of-use to that on demand-based pricing increased by 20%. The difference is accrued for as transition discount.
- A prompt payment discount accrual is raised at year end. A calculation is done based on what is expected to be paid on outstanding revenue within payment terms. An assessment is performed on what was previously claimed as prompt payment and this percentage is applied to the accrual.
- Electrical contracting projects percentage of completion is assessed based on cost-to-cost basis. Judgement is used for the estimated final cost. Variations to contracts are assessed in the estimated final cost but these are minimal.

## 2. Operating expenses

	Group 2019 \$'000	Group 2018 \$'000
Transmission charges	6,797	7,044
Total staff cost recognised as expense	11,631	9,675
Cost of inventories recognised as expense	1,155	1,134
Professional fees	2,780	2,609
Property expenses	921	830
Directors fees and expenses	324	284
Gain on disposal of PPE and software intangibles	(38)	(17)
Other expenses	2,362	1,433
<b>Total</b>	<b>25,932</b>	<b>22,991</b>

	Group 2019 \$'000	Group 2018 \$'000
<b>Fees paid to auditors</b>		
Financial statements audit fee	195	164
Regulatory audit fees	116	85
OAG fees	17	17
Regulatory advice	11	11
<b>Total</b>	<b>339</b>	<b>277</b>

**3. Interest costs (net)**

	Group 2019 \$'000	Group 2018 \$'000
Interest on bank borrowings	2,749	2,715
Capitalised interest	(392)	(237)
Interest on convertible notes issued by subsidiary	70	75
Interest on subordinated debentures	102	96
Other interest expense, principally IRD Use of Money	21	2
Interest income	(5)	(2)
<b>Total</b>	<b>2,545</b>	<b>2,649</b>

The weighted average interest rate on bank borrowings, including interest rate swap derivatives, is 4.71% (2018: 5.18%)

**Interest paid/(received) per the statement of cash flow**

	Group 2019 \$'000	Group 2018 \$'000
Interest costs (net)	2,529	2,649
Add capitalised interest	392	237
Net interest paid per the statement of cash flow	2,921	2,886
Interest received per the statement of cash flow	(20)	(2)
Interest paid per the statement of cash flow	2,942	2,888
<b>Total</b>	<b>2,921</b>	<b>2,886</b>

**Policies**

Interest income/expense is recognised as it accrues, using the effective interest rate method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation. Borrowing costs not directly attributable to qualifying assets is recognised as interest expense.

**4. Other income**

	Group 2019 \$'000	Group 2018 \$'000
Gifted assets	-	1,883
Corporate services	-	3
<b>Total</b>	<b>-</b>	<b>1,886</b>

## 5. Income tax expense

	Group 2019 \$'000	Group 2018 \$'000
<b>Reconciliation of income tax expense</b>		
(Loss)/profit before income tax	(852)	8,977
Expenses that are non-deductible	627	6,399
Impairment of associate	3,211	-
Impairment of assets	-	197
Effect of income that is not assessable	-	(5)
Taxable profit	2,986	15,568
Income tax expense at 28% for the company	882	4,395
Income tax expense at 33% for the trust	(54)	49
Benefit of Imputed Dividends	-	(78)
Effect of prior period tax adjustment	17	98
<b>Income tax expense</b>	<b>845</b>	<b>4,464</b>
Effective tax rate (being total tax expense divided by profit before tax)	(99%)	50%
Current tax expense	70	2,736
Deferred tax expense	775	1,728
Income tax expense	845	4,464
Attributable to:		
Continuing activities	845	4,464

### Amounts recognised directly in other comprehensive income

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit and loss component of the statements of comprehensive income but directly debited and credited to other comprehensive income.

Deferred tax - (credited)/debited directly to other comprehensive income	(41)	194
Total tax expense for the year recognised in other comprehensive income	(41)	194

## Policies

Income tax expense comprises current and deferred tax and is calculated using tax rates enacted or substantively enacted at balance sheet date.

Current and deferred tax is recognised in profit and loss unless the tax relates to items in other comprehensive income, in which case the tax is recognised as an adjustment in other comprehensive income against the item to which it relates.

### Imputation credits

The parent entity is a Trust and therefore not required to maintain an imputation credit account. Any tax paid by the parent is a final tax on the income received. In respect to the companies within the group, imputation credits are gained through tax paid and are available to attach to future dividends. The value of imputation credits available for subsequent reporting periods as at 31 March 2019 \$7.67m (2018 – \$7.72m).

## 6. Operational profit

	Group 2019 \$'000	Group 2018 \$'000
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>		
Network	19,185	22,542
Meters and relays	3,047	2,382
Contracting	602	1,472
Generation	1,163	1,224
Investment	16	15
Corporate services	(6,591)	(5,051)
<b>EBITDA</b>	<b>17,422</b>	<b>22,584</b>
Depreciation and amortisation	(12,517)	(10,745)
Impairment of associate	(3,211)	-
Impairment of assets	-	(214)
<b>Earnings before interest and tax (EBIT)</b>	<b>1,693</b>	<b>11,625</b>
Interest costs (net)	(2,545)	(2,649)
<b>(Loss)/profit before tax</b>	<b>(851)</b>	<b>8,977</b>

## 7. Cash and cash equivalents

	Group 2019 \$'000	Group 2018 \$'000
Cash at bank on hand	1,180	1,191
<b>Total</b>	<b>1,180</b>	<b>1,191</b>

## Policies

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

## 8. Trade and other receivables

	Group 2019 \$'000	Group Restated 2018 \$'000
<b>Trade receivables</b>		
Trade receivables	3,417	2,432
Less loss allowance (note 22)	(457)	(562)
<b>Balance at 31 March</b>	<b>2,960</b>	<b>1,870</b>

<b>Other receivables</b>		
Sundry debtors	356	243
Prepayments	489	441
Balance at 31 March	845	684
<b>Receivables balance at 31 March</b>	<b>3,805</b>	<b>2,554</b>
<b>Ageing of trade receivables</b>		
Current to 90 days	3,495	2,234
Greater than 90 days	752	865
<b>Total</b>	<b>4,247</b>	<b>3,099</b>

Trade receivables are amounts due from customers for services performed in the ordinary course of business. They are generally settled within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional.

A loss allowance is assessed in note 23.2.

### Policies

Trade and sundry receivables are non-interest bearing and are generally settled within a 30-day term. Therefore the carrying value of trade receivables approximates their fair value.

The simplified approach to measuring expected credit losses is applied which uses a lifetime expected loss allowance for all trade receivables.

## 9. Inventories

	<b>Group 2019 \$'000</b>	<b>Group 2018 \$'000</b>
Network stock	1,083	1,594
Transformers	587	368
<b>Total</b>	<b>1,670</b>	<b>1,962</b>

### Policies

Inventories are stated at the lower of cost and net realisable value.

Cost includes the cost of direct materials and other charges, e.g. freight incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

## 10. Property, plant and equipment

	Land \$'000	Buildings \$'000	Network Distribution System \$'000	Meters & Relays \$'000	Plant & Vehicles \$'000	Generation \$'000	Total \$'000
<b>Gross carrying value</b>							
<b>At 31 March 2017</b>	1,356	2,256	234,962	30,256	9,193	21,701	299,723
Additions	-	49	15,700	2,405	881	12	19,047
Disposals	-	-	(161)	-	(382)	-	(543)
Reclassification	-	-	(346)	-	-	-	(346)
Capital works in progress	-	-	24	585	-	7	616
<b>At 31 March 2018</b>	1,356	2,305	250,179	33,246	9,692	21,720	318,498
Additions	-	-	18,350	1,136	1,386	508	21,380
Disposals	-	-	-	-	(182)	-	(182)
Reclassification	11	239	(295)	(1,061)	7	21	(1,078)
Capital works in progress	-	106	2,237	-	-	134	2,477
<b>At 31 March 2019</b>	<b>1,367</b>	<b>2,650</b>	<b>270,471</b>	<b>33,321</b>	<b>10,903</b>	<b>22,383</b>	<b>341,095</b>
<b>Accumulated amortisation and impairment</b>							
<b>At 31 March 2017</b>	-	222	27,151	15,725	6,672	3,771	53,541
Depreciation charge	-	38	7,376	1,420	948	585	10,367
Impairment	-	-	(346)	-	-	-	(346)
Revaluation	(11)	(332)	-	-	(66)	66	(343)
Disposals	-	(106)	(24)	-	(272)	-	(402)
<b>At 31 March 2018</b>	(11)	(178)	34,157	17,145	7,282	4,422	62,817
Depreciation charge	-	46	9,045	1,685	857	585	12,218
Reclassification	11	194	-	(1,283)	66	(66)	(1,078)
Disposals	-	-	-	-	(157)	-	(151)
<b>At 31 March 2019</b>	<b>-</b>	<b>62</b>	<b>43,202</b>	<b>17,547</b>	<b>8,048</b>	<b>4,941</b>	<b>73,800</b>
<b>Carrying amount (Net book value)</b>							
<b>At 31 March 2017</b>	1,356	2,034	207,811	14,531	2,521	17,929	246,182
<b>At 31 March 2018</b>	1,367	2,483	216,022	16,101	2,410	17,298	255,679
<b>At 31 March 2019</b>	<b>1,367</b>	<b>2,588</b>	<b>227,269</b>	<b>15,774</b>	<b>2,855</b>	<b>17,442</b>	<b>267,295</b>
<b>Carrying amount (Cost model)</b>							
<b>At 31 March 2018</b>	719	1,928	125,095	16,101	2,408	17,298	163,549
<b>At 31 March 2019</b>	<b>719</b>	<b>2,033</b>	<b>137,671</b>	<b>15,774</b>	<b>2,855</b>	<b>17,442</b>	<b>176,494</b>

The table represents the carrying amounts that would have arisen had all property, plant and equipment (PPE) been carried under the cost model.



## Policies

Property, plant and equipment other than land and buildings and network distribution system are initially measured at cost, and subsequently stated at cost less depreciation and any impairment losses.

Land and buildings and network distribution assets are held at their fair value. Fair values are determined based on valuations adjusted for subsequent purchase costs, disposals, depreciation and impairment.

Expenditure is capitalised if the asset is technically and commercially feasible, future economic benefits are probable and the Company intends to use or sell the asset.

Capitalisation occurs immediately once an asset is acquired or installed.

Depreciation begins once an asset is ready for use.

Depreciation of PPE, other than land, is calculated on a straight line basis and expensed over the life of the asset.

Estimated useful asset lives are as follows:

Buildings 40 – 100 years

Network distribution system 5 – 60 years

Meters & relays 4 – 15 years

Plant & vehicles 1 – 10 years, Generation 10 – 75 years

Gain or loss on disposal is recognised in profit and loss.

## Judgements

### Land and buildings

The land and buildings of the Group, comprising the vacant land and depots at Waitete Road Te Kuiti, Te Peka Street Taumarunui, Old Station Road Ohakune, the residential dwellings at Te Peka Street Taumarunui and head office at King Street East Te Kuiti were revalued to \$3.5 million at 31 March 2018. Revaluations are performed every three years.

These valuations were prepared by Doyle Valuations Ltd (A.N.Z.I.V, S.N.Z.P.I), an independent valuer with local experience. These valuations were carried out in accordance with API and PINZ Professional Practice and International Valuation Standards. Cost summation, market rate and income approaches were used for the valuation.

The fair value measurements above are considered to be Level 2 as per NZ IFRS 13, as they are derived from valuation techniques that include inputs for the assets that are based on observable market data.

### Network distribution system

The Group estimates the fair value of the distribution network through independent valuers using the discounted cash flow method every three years.

Network distribution system assets, excluding meters and relays, were valued to \$214.7 million at 31 March 2018.

This value was within the valuation range (\$201.2 million – \$217.1 million) independently prepared by Deloitte and the key assumptions used are shown in the table below. In all cases an element of professional

judgement is required. The valuation is based on revenue and cost assumptions applied against a combination of discount rates and distribution revenues.

The carrying value of the network was reviewed at 31 March 2019 to confirm it is materially consistent with fair value, and no adjustment was required

Assumptions	Valuation midpoint assumptions adopted	Low	High	Valuation impact \$'000's
				-\$1,239
Distribution revenue	-	-5%	5%	+\$3,596
				+\$8,106
Discount rate	6.2%	-0.5%	0.5%	-\$7,739

Consistent with prior years, the valuer has assumed the terminal value equal to forecast Regulatory Asset Base (RAB) based on information disclosures, as it is believed that the terminal value would approximate the RAB value in a steady state regulatory environment.

The fair valuation measurements above are considered to be Level 3 as per NZ IFRS 13, as they are derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

#### Generation assets

The carrying value of the Group's generation assets is assessed for impairment annually.

The basis of the impairment assessment is the value-in-use discounted cash flow analysis of the future earnings of the assets. The major inputs that are used in the value-in-use model that required judgement include the forward price path of electricity, sales volume forecasts, projected operational and capital expenditure profiles, discount rates and life assumptions for each generation station.

The directors consider that no reasonably possible change in any of the assumptions below would cause the carrying value of generation assets to exceed their recoverable amounts.

#### Group generation assessment

##### Total impairment based on value-in-use \$22.79 million

Assumptions - Group	Low	High	Negative value impact (\$'000)	Positive value impact (\$'000)
Price path – Energy Link	Energy Link – 25 <sup>th</sup> percentile	Energy Link- 75 <sup>th</sup> percentile	\$4,064	\$4,129
Generation volume	-10.0%	+10.0%	\$2,249	\$2,249
Operational costs	+20.0%	-20.0%	\$1,405	\$1,405
Discount rate	8.5%	7.5%	\$1,860	\$2,203

## 11. Intangible assets

	Software	Land Easements	Resource Consents & Rights	Total
	\$'000	\$'000	\$'000	\$'000
<b>Cost</b>				
<b>At 31 March 2017</b>	4,288	417	732	5,437
Additions	540	-	80	620
<b>At 31 March 2018</b>	4,828	417	812	6,057
Additions	3,022	-	6	3,028
<b>At 31 March 2019</b>	<b>7,850</b>	<b>417</b>	<b>818</b>	<b>9,085</b>
<b>Accumulated amortisation and impairment</b>				
<b>At 31 March 2017</b>	3,327	-	169	3,496
Amortisation charge for the year	378	-	-	378
Impairment	-	-	17	17
<b>At 31 March 2018</b>	3,705	-	186	3,891
Amortisation charge for the year	299	-	-	299
<b>At 31 March 2019</b>	<b>4,004</b>	<b>-</b>	<b>186</b>	<b>4,190</b>
<b>Carrying amount (net book value)</b>				
<b>At March 2017</b>	961	417	563	1,941
<b>At March 2018</b>	1,123	417	626	2,166
<b>At March 2019</b>	<b>3,846</b>	<b>417</b>	<b>632</b>	<b>4,895</b>

## Policies

Software is amortised on a straight line basis over its estimated useful life of 1 – 8 years.

Land easements have an indefinite life due to the right existing in perpetuity and are therefore not amortised and are required to be assessed for impairment annually.

Resource consents include the rights to construct small hydro schemes. These consents are classified as having an indefinite life due to the recognition of monitoring and renewal costs as operating expenses and are therefore tested for impairment annually.

## 12. Distributions

No Capital Distribution was paid to the beneficiaries in the current year (2018: Nil)

During the year TLC agreed with the Trust to provide a network discount of \$5.6 million (2018: \$5.6 million) direct to eligible consumers (refer note 1). At the same time it was agreed that the dividend paid would be reduced.

## 13. Investments

### 13.1 Investment in subsidiaries

Name	Principal activity	Ownership Interest	
		2019 %	2018 %
The Lines Company	Conveyance of electricity	100	100
Financial Corporation Limited	Meter and relay assets	100	100
Speedys Road Hydro Limited	Hydro generation scheme	75	75

On 1 February 2018 Financial Corporation Limited issued an additional 2.0 million shares for \$2 million to The Lines Company Limited.

### Policies

Subsidiaries are 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 Group. They are deconsolidated from the date that control ceases.

Intra-group transactions are eliminated on consolidation.

### Balance dates

All subsidiaries have financial year end of 31 March.

### Geography

All subsidiaries are incorporated in New Zealand.

### 13.2 Investment in associates

Name	Principal activity	Ownership Interest		Nature of relationship	Measurement method	Carrying amount	
		2019 %	2018 %			2019 \$'000	2018 \$'000
Embrum Holdings Limited	Meter support technology	36	36	Associate	Equity method	-	2,753

In August 2016 Financial Corporation Limited purchased a 36% shareholding in Embrum Holdings Limited.

The principal place of business of Embrum Holdings Limited is Wellington. Embrum Holdings Limited is a technology company and its principal activities are the development of products and services for advanced metering. It is a strategic investment for the Group and complements the services provided by Financial Corporation Limited.

The following table summarises the financial information of Embrum Holdings Limited as included in their own unaudited financial statements.

Summarised financial information of equity accounted associate	2019 \$'000	2018 \$'000
Cash and cash equivalents	68	1,064
Total current assets	525	640
Total non-current assets	56	54
<b>Total assets</b>	<b>649</b>	<b>1,758</b>
Total current liabilities	588	192
Total non-current liabilities	-	-
<b>Total liabilities</b>	<b>588</b>	<b>192</b>
<b>Net assets</b>	<b>61</b>	<b>1,566</b>
<b>Group's share of net assets</b>	<b>22</b>	<b>564</b>
Goodwill acquired on acquisition of equity accounted investee	2,189	2,189
Impairment of investment	(2,211)	-
<b>Carrying amount of equity accounted investee</b>	<b>-</b>	<b>2,753</b>
Loan provided to associate at amortised cost	452	-
Onerous contract recognised in trade and other payables	548	-
Impairment of loan to associate at amortised cost	(1,000)	-
<b>Loan to associate at amortised cost</b>	<b>-</b>	<b>-</b>
Revenue	271	481
Depreciation and amortisation	16	13
Interest expense/(income)	2	(44)
<b>Net loss before tax</b>	<b>(1,722)</b>	<b>(1,025)</b>
Tax credit	217	120
<b>Net loss after tax</b>	<b>(1,505)</b>	<b>(905)</b>
<b>Group's share of net loss after tax</b>	<b>(542)</b>	<b>(326)</b>
<b>Impairment of associate</b>	<b>(3,211)</b>	<b>-</b>
<b>Reconciliation to carrying amounts:</b>		
Opening net assets	1,566	2,471
Profit/(loss) for the period	(1,505)	(905)
Closing net assets	61	1,566
Group's share in %	36%	36%
Group's share in closing net assets	22	564
Goodwill	2,189	2,189
Impairment of investment	(2,211)	-
<b>Carrying amount</b>	<b>-</b>	<b>2,753</b>

## Policies

The equity method of accounting is used the investment over which the group has significant influence but not a controlling interest.

Under the equity method, the investment in the associate is carried at cost plus post-acquisition changes in the group's share of net assets of the associate less impairment losses. Goodwill relating to the associate is included in the carrying amount of the investment.

The group's share of the change to associate's post-acquisition profits or losses is recognised in the income statement. The post-acquisition movements are included after adjustments to align the accounting policies with those of the Group.

## Judgements

Through the shareholder agreement, Financial Corporation Limited is guaranteed two seats on the board of Embrium and participates in all significant financial and operating decisions. With the loan provided the directors appointed by Financial Corporation Limited were given a casting vote. This vote does not extend to the shareholder's agreement and arrangements will fall back into place once a new shareholder or shareholders are brought to the company. The Group has therefore determined that it has significant influence over this entity, however with 36% shareholding it does not have a controlling interest.

The carrying value of the investment is reviewed annually for impairment. The directors' review of this investment resulted in the investment and the loan to associate being fully impaired. This is due to the current uncertainty of future cash flows and revenues.

## 14. Equity and reserves

### 14.1. Total equity and minority interest

	Group 2019 \$'000	Group 2018 \$'000
Trust reserves	145,462	147,255
Minority interest share	786	799
Total Equity	146,248	148,054

## Minority Interest

Waitomo Energy Services Customer Trust holds 100% of the shares in The Lines Company Ltd but the Lines Company Ltd has only a 75% interest in Speedys Road Hydro Ltd. The minority interest share relates to the other 25% of Speedys Road Hydro Ltd that is not owned by the group.

## 14.2. Hedge reserves

Hedge reserves comprise the cash flow hedge reserve associated to interest rate swaps. These derivative instruments are only used for hedging purposes and not as speculative investments.

### Policies

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The accounting for the changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group currently hedges a particular risk associated with the cash flows of recognised assets and liabilities that have highly probable transactions (cash flow hedges). At inception of the hedge relationship, the Group documents the economic relationship between the hedging instrument and hedged item including whether changes in cash flows of the hedging instruments are expected to offset changes in cash flows of hedged items. The Group documents its risk management objective and strategy undertaking its hedged transactions.

The fair values of derivative financial instruments designated in hedging relationships are disclosed in note 23.1. The effective portion in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised on the cash flow hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other gains/(losses).

Upon meeting all the relevant criteria, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. This will effectively result in recognising interest expense at a fixed interest rate for the hedged floating rate loans.

### Interest rate swaps

	Group 2019 \$'000	Group 2018 \$'000
Opening balance	(1,718)	(1,896)
Changes in fair value of hedging instrument recognised in other comprehensive income (OCI)	(150)	247
Deferred tax	41	(69)
<b>Closing balance</b>	<b>(1,827)</b>	<b>(1,718)</b>

## 14.3. Revaluation reserve

	Network Distribution System \$'000	Land & buildings \$'000	Total \$'000
<b>Total at 31 March 2017</b>	80,704	413	81,117
Revaluation increases	-	590	590
Deferred tax on revaluation	-	(125)	(125)
<b>Total at 31 March 2018</b>	80,704	878	81,582
Transfer from retained earnings	(957)	-	(957)
Revaluation increases	-	-	-
Deferred tax on revaluation	-	-	-
<b>Total at 31 March 2019</b>	<b>79,747</b>	<b>878</b>	<b>80,625</b>

## 15. Non-controlling interest

The following table summarises the financial information of Speedys Road Hydro Limited as included in their own audited financial statements.

Summarised financial information of non-controlling interest	2019 \$'000	2018 \$'000
<b>Summarised statement of financial position</b>		
Total current assets	318	686
Total non-current assets	8,012	7,998
<b>Total assets</b>	<b>8,330</b>	<b>8,684</b>
<b>Total current liabilities</b>	<b>1,083</b>	<b>1,197</b>
<b>Total non current liabilities</b>	<b>4,102</b>	<b>4,291</b>
<b>Total liabilities</b>	<b>5,185</b>	<b>5,488</b>
<b>Net assets</b>	<b>3,145</b>	<b>3,196</b>
<b>Accumulated non-controlling interest</b>	<b>786</b>	<b>799</b>
<b>Summarised statement of comprehensive income</b>		
Revenue	796	858
<b>Total comprehensive loss</b>	<b>(52)</b>	<b>(200)</b>
<b>Loss allocated to non-controlling interest</b>	<b>(13)</b>	<b>(50)</b>
<b>Dividends paid to non-controlling interest</b>	<b>-</b>	<b>-</b>
<b>Summarised statement of cash flows</b>		
Cash flows from operating activities	454	250
Cash flows from investing activities	(249)	(126)
Cash flows from financing activities	(200)	(200)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>5</b>	<b>(76)</b>



**16. Current tax (asset)/liability**

	<b>Group 2019 \$'000</b>	<b>Group 2018 \$'000</b>
Opening balance	947	623
Tax payments and tax credits received	(1,309)	(2,413)
Current tax expense for the year	70	2,736
<b>Closing balance</b>	<b>(292)</b>	<b>947</b>

**Policies**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**17. Deferred tax (asset)/liability**

	<b>Loss carried forward \$'000</b>	<b>PPE \$'000</b>	<b>Cash flow hedges \$'000</b>	<b>Provisions \$'000</b>	<b>Imputation Credits not refundable \$'000</b>	<b>Total \$'000</b>
<b>At 31 March 2017</b>	-	49,501	(738)	(451)	-	48,312
Charged to income	-	1,683	-	74	(28)	1,675
Charged to other comprehensive income	-	125	69	-	-	194
<b>At 31 March 2018</b>	-	51,309	(669)	(377)	(28)	50,181
Charged to income	(54)	811	-	18	-	775
Charged to other comprehensive income	-	-	(41)	-	-	(41)
<b>At 31 March 2019</b>	<b>(54)</b>	<b>52,120</b>	<b>(710)</b>	<b>(359)</b>	<b>(28)</b>	<b>50,969</b>

**Policies**

Deferred tax is:

- Recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.
- Determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to be applied when the related deferred income tax asset is realised or the deferred income tax liability is settled.
- Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

- The non refundable imputation credits recognised in the parent entity which are carried forward as tax losses calculated at 33 cents.

## 18. Bank borrowings, convertible notes and subordinated debentures

	Group 2019 \$'000	Group 2018 \$'000
Bank Borrowings	68,456	53,939
Convertible notes issued by subsidiary	1,050	1,100
Subordinated debentures:		
North King Country Development Trust	2,000	2,000
	71,506	57,039
Disclosed in the financial statements as:		
Current borrowings	250	250
Non-current borrowings	71,256	56,789
<b>Total</b>	<b>71,506</b>	<b>57,039</b>

### Reconciliation of net debt

	Borrow. due within 1 year \$'000	Borrow. due after 1 year \$'000	Total \$'000
<b>Balance at 1 April 2017</b>	250	55,139	55,389
Cash flows	-	1,650	1,650
<b>Net debt at 31 March 2018</b>	250	56,789	57,039
Cash flows	-	14,467	14,467
<b>Net debt as at 31 March 2019</b>	<b>250</b>	<b>71,256</b>	<b>71,506</b>

### Policies

Borrowings are initially measured at fair value, less transaction costs and are subsequently measured at amortised cost, using the effective interest rate method.

The subordinated debentures are stated at their fair values.

### Bank borrowings

The Trust's subsidiary The Lines Company Ltd has total bank lending facilities of \$75.4m for three years. The facility expires on 31 May 2020. The working capital portion of this facility is \$3 million and is subject to annual renewal and expires on 31 December 2019.

The Directors estimate the fair value of the Group's bank loans approximate their book value, because they are floating rate loans.

### Convertible notes

Speedys Road Hydro Limited (SRHL) had issued \$3.75 million of convertible notes to TLC and \$1.25 million of convertible notes to the minority shareholder. The proceeds were used to repay debt owed to TLC. The convertible notes are interest bearing (2019: 6.29%) (2018: 6.28%). The convertible notes issued to TLC are eliminated on consolidation in the Group financial statements.

On 20 October 2018, \$200,000 of the convertible notes were repaid reducing the balance to \$3.15 million to TLC and \$1.05 million to the minority shareholder.

The holder may either elect to convert the notes to shares, redeem the notes for cash or extend the maturity date of the notes. The election notice is subject to agreement by the SRHL board of directors and who are entitled to act in what they reasonably consider to be in the best interests of SRHL.

	Maturity date	2019 \$'000
Tranche A1	30/09/2023	800
Tranche B	30/09/2019	1,000
Tranche C1	30/09/2020	800
Tranche D1	30/09/2021	800
Tranche E	30/09/2023	800

SRHL reserves the right to defer interest payments in perpetuity while it does not have sufficient cash to make the payment.

The fair value of the convertible notes are not considered to be materially different from its principal value as the terms of the notes are such that comparable market instruments would not differ materially in value.

### Subordinated debentures

The North King Country Development Trust (NKCDT) loan has a principal value of \$2,000,000 and had fixed interest of 5.00% per annum (2018: 5.00%).

The subordinated debenture is unsecured and has no specified maturity date. Repayment of the subordinated debenture is not permitted until full repayment of all other borrowings of the Company.

The fair value of the NKCDT debenture is not considered to be materially different from its principal value as the terms of the debenture are such that comparable instruments would not differ materially in value.

There are no specified repayment terms in relation to subordinated debentures.

## 19. Trade and other payables

	Group 2019 \$'000	Group 2018 \$'000
Trade creditors	3,857	2,501
Interest accruals	309	327
Onerous loan	548	-
Other payables and accruals	2,170	1,609
<b>Total</b>	<b>6,884</b>	<b>4,437</b>

### Policies

Trade and other payables are:

- Recognised at fair value when the Group becomes obligated to make future payments resulting from the purchases of goods and services and are subsequently measured at amortised cost using the effective interest rate method.
- Comprise amounts outstanding for trade purchases and ongoing costs.
- Carrying amount approximates to their fair value because the amounts due will be settled within one year's time for their carrying value.

## 20. Provision for staff entitlements

	Group 2019 \$'000	Group 2018 \$'000
Opening balance	1,214	1,474
Accrued	1,416	1,214
Utilised	(1,214)	(1,474)
<b>Total</b>	<b>1,416</b>	<b>1,214</b>

### Policies

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, trainee bonds and gratuities when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made that are expected to be settled within 12 months are measured at their amounts expected to be paid using the remuneration rate expected at the time of settlement.

Provisions made that are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to balance date.

The carrying amount of the provision for staff entitlements approximates to their fair value as most of the entitlement is due to be settled within one year.

## 21. Cash generated from operations

	Group 2019 \$'000	Group 2018 \$'000
<b>(Loss)/profit before tax</b>	(851)	8,977
Interest costs (net)	2,529	2,649
<b>Net profit before interest</b>	1,678	11,626
<b>Adjustments for non-cash items</b>		
Depreciation and amortisation	12,517	10,745
Non cash asset replacement (gifted asset)	-	(1,883)
Impairment of associate	3,211	-
Impairment of assets	-	214
Gain on disposal of PPE and intangible assets	(38)	-
Movement in provision for doubtful debt	(105)	(65)
Share of losses retained by equity accounted associate	542	326
	17,805	20,953
<b>Changes in net assets and liabilities</b>		
Trade and other receivables	(1,148)	342
Contract assets and liabilities	(2,447)	-
Inventories	292	(195)
Trade and other payables	1,899	683
Provision for staff entitlements	202	(260)
<b>Cash generated from operations</b>	<b>16,603</b>	<b>21,533</b>

## 22. Contingent assets and liabilities

The Trust's subsidiary The Lines Company Ltd has capital commitments of \$0.4 million including \$0.2 million relating to the Hangatiki project and \$0.2 million of metering equipment (2018: \$4.2 million).

The Group has no contingent liabilities (2018: \$0 million).

The Lines Company Limited leases office space under a non-cancellable operating lease expiring within two years. The lease has varying terms and renewal rights. On renewal, the terms of the lease are renegotiated.

	Group 2019 \$'000	Group 2018 \$'000
No later than one year	73	63
Later than one year and no later than five years	17	14
Later than five years	-	-
<b>Total</b>	<b>90</b>	<b>77</b>

## 23. Financial risk management

### Objectives

The Trust's subsidiary The Lines Company Ltd manages financial risks by complying with the policies set by the Board. The risks outlined in the policy include:

- Interest rate risk
- Credit risk
- Capital risk
- Liquidity risk
- Electricity price risk.

Any new risks are referred to the Board for consideration as they become known. Each risk is monitored and reported to the board on a quarterly basis.

#### 23.1 Interest rate risk

The Group's main interest rate risk is through its borrowing activities with variable rates, which expose the Group to cash flow interest rate risk.

The Group's policy with regards to fixing its floating rate is depicted below:

Period	Minimum	Maximum
0-1 year	40%	100%
1-3 years	30%	80%
3-5 years	15%	60%

Generally the Group enters into 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. The Group's borrowings are only in New Zealand dollars.

The Group's borrowings and receivables are carried at amortised cost. The borrowings are repriced every three months and as such exposed to the risk of future changes in interest rates.

Swaps currently in place cover 44% (2018: 74%) of the variable loan outstanding. The fixed interest rate of the swaps range between 2.28% and 5.12% (2018: 4.59% and 5.14%) and the variable rates of the loans between 3.05% and 3.15% (2018: 3.07% and 3.16%) above the 90-day bank bill rate which at the end of the reporting period was 1.75% (2018: 1.75%).

The swap contracts require settlement of net interest receivable or payable every 90 days. The settlement dates do not coincide with the dates on which interest is payable on the underlying debt, however due to the stability of the interest rate in New Zealand the ineffectiveness is considered immaterial.

Effect of hedge accounting on the financial position and performance:

	Group 2019 \$'000	Group 2018 \$'000
<b>Interest rate swaps</b>		
Current liability	(2,537)	(2,306)
Non-current liability	-	(81)
<b>Mark to market fair value of interest rate swaps at 31 March</b>	<b>(2,537)</b>	<b>(2,387)</b>
Notional amount	30,000	40,000
Maturity date	May 19 to May 24	Aug 18 to May 24
Hedge Ratio	1:1	1:1
Change in fair value of outstanding hedging instruments	(151)	247
Change in value of hedge item used to determine hedge effectiveness	151	(247)
Weighted average hedged rate for the year	2.61%	2.57%

## Sensitivity

Sensitivity analysis is determined based on the exposure to interest rates for both derivatives and non-derivative instruments at balance sheet date.

A 100 basis point increase or decrease is used to assess interest rate and this represents management's assessment of the reasonably possible change in interest rates.

	Group 2019 \$'000	Group 2018 \$'000
Impact on statement of comprehensive income		
- 1% change in interest rates	(205)	(100)
+ 1% change in interest rates	205	100
Impact on statement of financial position		
- 1% change in interest rates	(829)	(598)
+ 1% change in interest rates	829	598

Hedge ineffectiveness is determined at inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedged instrument.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, maturities and notional amount. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was 100% effective.

Hedged ineffectiveness may occur due to:

- Difference in critical terms between the interest rate swaps and loans; and

- The credit value/debit value adjustment on the interest rate swaps which is not matched by the loan.

There was no ineffectiveness during 2019 or 2018 in relation to interest rate swaps.

## 23.2 Credit risk

The Group's principal financial assets are cash and cash equivalents, trade and other receivables, contract assets and related party loans, which represent the Group's maximum exposure to credit risk in relation to financial assets.

Credit risk is managed on a Group basis. For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted. Thus impact on cash and cash equivalents is deemed immaterial.

Related parties are assessed for impairment with the relevant investment, see Note 13.2.

### Impairment of financial assets

The Group applies NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same contract types. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 12 months from 31 March 2019 and 1 April 2018 respectively and the corresponding historical credit losses experienced within this period. The Group's customer base is mainly focused in the King Country and as such macroeconomic factors are considered within this particular environment and the credit loss adjusted accordingly.

On that basis, the loss allowance as at 31 March 2019 and 1 April 2018 (on adoption of NZ IFRS 9) was determined as follows for both trade receivables and contracts assets:

	Less than 90 days past due	More than 90 days past due	Total
<b>31 March 2019</b>			
Expected loss rate	0%	61%	
Gross carrying amount - trade receivables	2,665	752	<b>3,417</b>
Gross carrying amount – contract assets	2,613	-	<b>2,613</b>
<b>Loss allowance</b>	<b>-</b>	<b>457</b>	<b>457</b>
	Less than 90 days past due	More than 90 days past due	Total
<b>1 April 2018</b>			
Expected loss rate	0%	65%	
Gross carrying amount - trade receivables	1,567	865	<b>2,432</b>
Gross carrying amount – contract assets	131	-	<b>131</b>
<b>Loss allowance</b>	<b>-</b>	<b>562</b>	<b>562</b>



**The closing loss allowance for trade receivables as at 31 March 2019 reconciles to the opening loss allowances as follows:**

	<b>Group 2019 \$'000</b>	<b>Group 2018 \$'000</b>
Opening balance	562	627
Amounts restated through opening retained earnings	-	-
<b>Restated balance</b>	<b>562</b>	<b>627</b>
Increase in loss allowance recognised in profit and loss	-	11
Receivables written off during the year as uncollectible	(94)	(76)
Unused amount reversed	(11)	-
<b>Loss allowance closing balance</b>	<b>457</b>	<b>562</b>

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 120 days past due.

The prior year policy was that a provision for impairment was recognised when there is evidence that the Group will be unable to collect the debt.

### **23.2a Fair value of financial instruments**

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments
- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve derived from quoted interest rates for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

#### **Fair value measurements recognised in the balance sheet**

The following table provides an analysis of financial instruments that are measured at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Group 2019</b>				
Derivative financial liabilities	-	(2,537)	-	(2,537)
<b>Group 2018</b>				
Derivative financial liabilities	-	(2,387)	-	(2,387)

There were no transfers between Level 1, 2 and 3 during the year.

### 23.2b Financial instruments by category

	Financial assets at amortised cost \$'000	Financial liabilities at amortised cost \$'000	Derivatives designated as cash flow hedges \$'000	Total \$'000
<b>2019</b>				
Cash and bank balances	1,180	-	-	1,180
Trade and other receivables	3,316	-	-	3,316
Contract assets	2,613	-	-	2,613
<b>Total financial assets</b>	<b>7,109</b>	<b>-</b>	<b>-</b>	<b>7,109</b>
Trade and other payables	-	6,884	-	6,884
Contract liabilities	-	2,190	-	2,190
Borrowings	-	71,506	-	71,506
Other financial liabilities	-	-	2,537	2,537
<b>Total financial liabilities</b>	<b>-</b>	<b>80,580</b>	<b>2,537</b>	<b>83,117</b>
<b>2018</b>				
Cash and bank balances	1,191	-	-	1,191
Trade and other receivables	2,113	-	-	2,113
Contract assets	131	-	-	131
<b>Total financial assets</b>	<b>3,435</b>	<b>-</b>	<b>-</b>	<b>3,435</b>
Trade and other payables	-	4,437	-	4,437
Contract liabilities	-	2,155	-	2,155
Borrowings	-	57,039	-	57,039
Other financial liabilities	-	-	2,387	2,387
<b>Total financial liabilities</b>	<b>-</b>	<b>63,631</b>	<b>2,387</b>	<b>66,018</b>

### Policies

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

The Group's credit risk is primarily attributable to its trade receivables and contract assets.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with AA credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

### 23.3 Capital risk

During 2019, the Group's strategy, which was unchanged from 2018, was to maintain an equity/assets ratio of not less than 40%.

The ratio at March 2019 and 2018 were as follows:	Group 2019 \$'000	Group 2018 \$'000
Average equity (including subordinated debentures)	149,151	149,476
Total assets at year end	282,901	267,542
<b>Equity to Assets Ratio</b>	<b>52.7%</b>	<b>55.9%</b>

### Policies

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2018 and is based on risk management strategies and treasury management policies set and monitored by the Board.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, and equity attributable to equity holders of the parent, comprising issued capital, retained earnings and reserves as disclosed in note 14 and statement of changes in equity respectively.

Debt covenants have been complied with during the year.

### 23.4 Liquidity risk

#### Financial liability maturity analysis

	Less than 1 month \$'000	1 month to 1 year \$'000	1 to 5 years \$'000	Total \$'000
Non-interest bearing	6,861	-	-	6,861
Variable interest rate instruments	-	2,787	69,256	72,043
<b>At 31 March 2019</b>	<b>6,861</b>	<b>2,787</b>	<b>69,256</b>	<b>78,904</b>
Non-interest bearing	4,393	-	-	4,393
Variable interest rate instruments	146	2,410	54,870	57,426
<b>At 31 March 2018</b>	<b>4,539</b>	<b>2,410</b>	<b>54,870</b>	<b>61,819</b>

The table includes both interest and principal cash flows.

## Waitomo Energy Services Customer Trust

Variable rate instruments includes the impact of derivatives.

There are \$2.0 million of subordinated debentures (note 18) with no set maturity date.

Interest payable on these is excluded from this analysis.

The Lines Company Limited had access to the following borrowing facilities at the end of the reporting period:

	2019 \$'000	2018 \$'000
Total facility	75,400	75,400
Undrawn facility	6,944	21,461

The bank facilities may be drawn at any time and are reviewed every three years. Subject to the continuance of satisfactory credit ratings. The bank facilities are due for review on 31 May 2020. The working capital portion of the facility of \$3 million is subject to review on 31 December 2019.

### Policies

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

## 23.5 Electricity price risk

### Policies

The Group is exposed to electricity price risk on its electricity generation activities.

The Group has entered in to a fixed-term contract to supply electricity at agreed rates. This contract is fixed until 31 December 2019.

## 24. Related party transactions

### Transactions with The Lines Company Ltd

Waitomo Energy Services Customer Trust is the ultimate parent of The Lines Company Ltd as the Trust directly holds 100% of the shares in The Lines Company Ltd. All subsidiary companies of The Lines Company Group are considered related parties with Waitomo Energy Services Customer Trust.

No related party debts were forgiven or written off during 2019 (2018: Nil)

### Remuneration of key management personnel

Key management personnel of the Waitomo Energy Services Customer Trust for the years ended 31 March 2019 and 31 March 2018 are limited to the Trustees. Remuneration details set out below:

Transactions with key management personnel	2019 \$'000	2018 \$'000
Trustee Fees Paid	96	81
Outstanding at balance date	-	16

Simon Young and Craig Richardson are Directors of The Lines Company Ltd, Financial Corporation Limited and Embrium Holdings Limited. Financial Corporation Limited holds a 36% shareholding in Embrium Holdings Limited.

Sean Horgan is the Chief Executive of The Lines Company Limited. He was a Director of Embrium Holdings Limited until September 2018. He is a director of the holding company Financial Corporation Limited which holds a 36% shareholding in Embrium Holdings Limited. He is also a director of Speedys Road Hydro Limited.

## 25. Subsequent events

On the 23 August 2019, Westpac New Zealand Limited extended the Multi Option Credit Line from 31 May 2020 expiry date to 31 August 2020. The facility was also increased by \$5 million, increasing the total facility to \$77.4 million.

## 26. Change in accounting policies

This note explains the impact of adoption of NZ IFRS 9 Financial instruments and NZ IFRS 15 Revenue from Contracts with Customers on the Group's financial instruments.

As a result of the change in the entity's accounting policies, prior year financial statements had to be restated.

### NZ IFRS 15 Revenue from contracts with customers

NZ IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from a good or service. The Group adopted NZ IFRS 15 on 1 April 2018. The application of the new standards has resulted in no changes to revenue recognition.

The Group has used the modified retrospective approach to transition with impact on the prior periods being adjusted through opening equity, however it is noted that no adjustment was required.

The impact of the adoption of NZ IFRS 15 includes the followings changes in presentation:

- Contract assets and liabilities have been separately disclosed on the face of the statement of financial position, this has impacted trade payables and trade and other receivables.
- A gifted asset previously disclosed as revenue has been moved to other income.

#### NZ IFRS 9 Financial Instruments

The adoption of the new financial instruments standard NZ IFRS 9 Financial Instruments, the impact of the adoption is:

- The interest rate swaps in place as at 31 March 2018 qualified as cashflow hedges under NZ IFRS 9. The Group's risk management and strategies and hedge documentation are aligned with the requirements of NZ IFRS 9 and these relationships are therefore treated as continuing hedges.
- There have been no changes made to the classification of the Group's financial assets as a result of the adoption of NZ IFRS 9.
- 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 receivable. The Group has assessed the impact of the adoption of this approach and there is no change to the provision for losses for trade receivables and contract assets.

Extract of statement of comprehensive income for 31 March 2018	Originally presented \$'000	NZ IFRS 15 \$'000	Restated \$'000
<b>Revenue</b>	46,115	(1,886)	44,229
Operating expenses	(22,991)	-	(22,991)
Depreciation and amortisation	(10,745)	-	(10,745)
Interest costs (net)	(2,649)	-	(2,649)
Impairment of assets	(214)	-	(214)
Other expenses	(213)	-	(213)
Total expenses	(36,812)	-	(36,812)
Other income	-	1,886	1,886
Share of net loss of associate accounted for using the equity method	(326)	-	(326)
Profit before tax	8,977	-	8,977
Income tax expense	(4,464)	-	(4,464)
<b>Profit for the year</b>	4,513	-	4,513
Profit for the year is attributable to:			
Equity holders of the parent	4,563	-	4,563
Non-controlling interest	(50)	-	(50)

## Waitomo Energy Services Customer Trust

Extract of statement of financial position for 31 March 2018	Originally presented \$'000	NZ IFRS 15 \$'000	Restated \$'000
<b>Current Assets</b>			
Cash and cash equivalents	1,191	-	1,191
Trade and other receivables	2,685	(131)	2,554
Contract assets	-	131	131
Inventories	1,962	-	1,962
	5,838	-	5,838
<b>Non-current assets</b>	261,704		261,704
<b>Total assets</b>	267,542	-	267,542
<b>Current liabilities</b>			
Trade and other payables	6,592	(2,155)	4,437
Contract liabilities	-	2,155	2,155
Convertible notes issued by subsidiary	250	-	250
Other financial liabilities	2,306	-	2,306
Current tax liability	947	-	947
Provision for staff entitlements	1,214	-	1,214
	11,309	-	11,309
<b>Non-current liabilities</b>	108,179	-	108,179
<b>Total liabilities</b>	119,488	-	119,488
<b>Net assets</b>	148,054	-	148,054
<b>Equity</b>	148,054	-	148,054

## Accounting Standards not yet adopted

New accounting standards and interpretations not yet adopted. The following standards and interpretations which are considered relevant but not yet effective for the year ended 31 March 2019 have not been applied in preparing the financial statements:

### NZ IFRS 16 Leases (Effective date: periods beginning on or after 1 January 2019)

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The standard is effective for accounting periods beginning on or after 1 January 2019. The Group intends to adopt NZ IFRS 16 on its effective date.

We have assessed our current operating leases, the biggest impact is the lease of The Lines Company Ltd offices in Hamilton at the Waikato Innovation Park. The impact of NZ IFRS 16 results in a right-of-use asset being brought onto the statement of financial position with a corresponding lease liability. We have estimated that the approximate impacts on the 31 March 2019 financial statements are as follows:

	2019 \$'000
<b>Statement of comprehensive income</b>	
Increase in depreciation	68
Increase in interest	18
Decrease in operating expenses	(78)
	8
<b>Statement of financial position</b>	
Increase in non- current assets	251
Increase in non-current liabilities	204
Increase in current liabilities	66
<b>Increase in net assets</b>	(19)
<b>Decrease in equity</b>	(19)



## Glossary of Terms

EBITDA	Earnings before interest, tax, depreciation and amortisation.
EBIT	Earnings before interest and tax.
Net assets	Total assets, less total liabilities.
Shareholder funds	Shareholder equity plus subordinated debentures.
Debt to asset ratio	(Total liabilities less deferred tax liabilities) divided by total assets.
Capital ratio	Shareholder equity divided by total assets.
Return on average equity	(Profit for the year to equity holders) divided by ((opening shareholder equity plus closing shareholder equity) divided by 2).
Return on average net assets	(EBIT multiplied by the applicable tax rate) divided by ((opening total assets plus closing total assets) divided by 2).

# WAITOMO ENERGY SERVICES CUSTOMER TRUST

## INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

	31 Mar 2019	31 Mar 2018
	\$	\$
<b>REVENUE</b>		
Interest Received		
The Lines Company Ltd	74,200	74,200
BNZ	15,612	15,164
Dividends Received (net of ICA credits)		
The Lines Company Ltd	-	200,000
<b>Total Income</b>	<b>89,812</b>	<b>289,364</b>
<b>LESS EXPENSES</b>		
Accountancy	11,713	12,672
Recruitment Advertising	3,891	5,962
Audit Fee	5,932	4,503
Bank Fees	60	157
Beneficiary Communications	10,757	-
Computer Expenses	655	276
Conference Expenses	14,774	5,857
Consultancy	12,201	-
Election Expenses	1,730	10,292
General Office Expenses	791	500
Legal Fees	9,800	14,579
Insurance	7,226	6,349
Meeting Expenses	1,579	4,031
Postage	233	190
Printing & Stationery	479	1,797
Subscriptions	6,852	6,852
Telephone	749	1,226
Travelling Expenses	6,697	7,023
Trustee Fees	95,871	81,359
Secretarial Fees	61,132	49,094
<b>Total Expenses</b>	<b>253,122</b>	<b>212,719</b>
<b>Net Operating Surplus/(Deficit) before Depreciation &amp; Taxation</b>	<b>(163,309)</b>	<b>76,644</b>
Loss on Sale of Plant & Equipment	26	-
Less Depreciation	-	8
<b>Net Operating Surplus/(Deficit) after Depreciation &amp; before Taxation</b>	<b>(163,336)</b>	<b>76,636</b>
Plus Tax benefit	53,900	-
Plus non-refundable imputation credits	-	28,439
<b>Trust Income after Taxation</b>	<b>(109,436)</b>	<b>105,075</b>
<b>Net Profit/(Loss)</b>	<b>(109,436)</b>	<b>105,075</b>

The above information is a summary of the income and expenditure of the Trust. The information above is not consolidated and should be read in conjunction with the consolidated financial statements and the notes to those financial statements.

# WAITOMO ENERGY SERVICES CUSTOMER TRUST

## BALANCE SHEET

AS AT 31 MARCH 2019

	As at 31 Mar 2019 \$	As at 31 Mar 2018 \$
<b>Current assets</b>		
Bank of New Zealand Account	5,406	24,815
Bank of New Zealand On Call Account	49,216	80,584
Prepayments	10,145	11,752
Accrued Interest	5,188	4,903
Term Deposits	400,000	520,000
Current Tax Asset	29,082	41,453
Future tax benefit	82,340	28,439
	<b>581,377</b>	<b>711,946</b>
<b>Non-current assets</b>		
Plant and equipment	-	26
Investments:		
Shares - The Lines Company Ltd (11,846,808)	58,663,880	58,663,880
Debenture to The Lines Company Ltd	1,000,000	1,000,000
	<b>59,663,880</b>	<b>59,663,906</b>
<b>Total assets</b>	<b>60,245,257</b>	<b>60,375,852</b>
<b>Current liabilities</b>		
Accounts Payable	22,887	44,047
	<b>22,887</b>	<b>44,047</b>
<b>Total liabilities</b>	<b>22,887</b>	<b>44,047</b>
<b>Net assets</b>	<b>60,222,370</b>	<b>60,331,805</b>
<b>EQUITY</b>		
Trust Equity	60,222,370	60,331,805
<b>Total equity</b>	<b>60,222,370</b>	<b>60,331,805</b>

The above information is a summary of the balance sheet of the Trust. The information above is not consolidated and should be read in conjunction with the consolidated financial statements and the notes to those financial statements.

**WAITOMO ENERGY SERVICES CUSTOMER TRUST**  
**CAPITAL ACCOUNT**  
**FOR THE YEAR ENDED 31 MARCH 2019**

	<b>As at 31 Mar 2019</b>	<b>As at 31 Mar 2018</b>
	<b>\$</b>	<b>\$</b>
<b>Income and Credits</b>		
Balance at beginning	60,331,804	60,226,729
Net Profit/(Loss)	(109,436)	105,075
	<b>60,222,370</b>	<b>60,331,804</b>

**Trust Equity is made up of**

Trust Capital	11,929,532	11,929,532
Revaluation Reserves	39,051,692	39,051,692
Retained Earnings	9,241,146	9,350,580
	<b>60,222,370</b>	<b>60,331,804</b>

The above information is a summary of the Equity of the Trust. The information above is not consolidated and should be read in conjunction with the consolidated financial statements and the notes to those financial statements.

## INDEPENDENT AUDITOR'S REPORT

### To the Trustees of Waitomo Energy Services Customer Trust

#### Report on the Audit of the Consolidated Financial Statements

##### Opinion

We have audited the consolidated financial statements of Waitomo Energy Services Customer Trust and its subsidiary ('the Group') on pages 1 to 39, which comprise the consolidated statement of financial position as at 31 March 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS').

Our report is made solely to the Trustees of the Group. Our audit work has been undertaken so that we might state to the Trustees of the Group those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustees of the Group as a body, for our audit work, for our report or for the opinions we have formed.

##### Basis for Opinion

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

Other than in our capacity as auditor we have no relationship with, or interests in, Waitomo Energy Services Customer Trust or its subsidiary.

**Responsibilities of the Trustees for the Consolidated Financial Statements**

The Trustees are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS, and for such internal control as the Trustees determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board's website at:

<https://xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/>

The engagement partner on the audit resulting in this independent auditor's report is G Ghuman.



**BAKER TILLY STAPLES RODWAY AUDIT LIMITED**

**Hamilton, New Zealand**

24 October 2019