Waitomo Energy Services Customer Trust

Consolidated Financial Statements
for the year ended 31 March 2020

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2020

	Note	Group 2020 $'000	Group 2019 Restated(*) $'000
Revenue from contracts with customers	1	52,532	44,133
Total Revenue from continuing Operations		52,532	44,133
Operating expenses	2	(27,155)	(25,855)
Depreciation and amortisation	9&10	(14,479)	(12,583)
Interest costs (net)	3	(2,752)	(2,548)
Impairment of assets	10	(527)	-
Other Expenses		(314)	(253)
Total expenses		(45,227)	(41,239)
Share of net loss of associate accounted for using the equity method	12	-	(542)
Reversal of impairment/(impairment) of associate and loan receivable	12	786	(3,211)
Profit/(loss) before tax		8,091	(859)
Income tax expense	4	(1,540)	(843)
Profit/(loss) for the year		6,552	(1,702)
Profit/(loss) for the year is attributable to:			
Equity holders of the parent		6,563	(1,689)
Non-controlling interest		(11)	(13)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Impairment of network assets, land and buildings	9	(14,734)	-
Income tax relating to revalued assets		4,125	-
Other comprehensive loss for the year		(10,609)	-
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge reserve		(975)	(150)
Income tax relating to cash flow hedges		273	41
Other comprehensive loss for the year, net of tax	13.2	(702)	(109)
Total comprehensive loss for the year		(4,759)	(1,811)
Total comprehensive loss is attributable to:			
Equity holders of the parent		(4,748)	(1,798)
Non-controlling interest		(11)	(13)

(*) Prior year comparatives were restated due to adoption of NZ IFRS 16 Leases -refer to Note 28

Chairperson Peter W Healy

Date 20/8/20

Trustee

Date 20 August 2020

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Consolidated Statement of Financial Position

as at 31 March 2020

	Note	Group 2020 $'000	Group 2019 Restated(*) $'000
Current assets			
Cash and cash equivalents	6	1,837	1,180
Trade and other receivables	7	4,665	3,805
Contract assets	1	3,462	2,613
Current tax asset	15	-	292
Inventories	8	1,884	1,670
		11,848	9,560
Non-current assets			
Property, plant and equipment	9	270,962	267,567
Intangible assets	10	14,653	4,895
		285,615	272,462
Total assets		**297,463**	**282,022**
Current liabilities			
Trade and other payables	18	4,398	6,884
Contract liabilities	1	1,570	2,190
Convertible notes issued by subsidiary	17	200	250
Bank borrowings	17	2,004	-
Lease liabilities	20	109	64
Current tax liability	15	1,758	-
Provision for staff entitlements	19	1,645	1,416
		11,684	10,804
Non-current liabilities			
Bank borrowings	17	88,495	68,456
Lease liabilities	20	479	234
Convertible notes issued by subsidiary	17	800	800
Subordinated debentures	17	2,000	2,000
Other financial liabilities	23	3,512	2,537
Deferred tax liability	16	49,024	50,962
		144,310	124,989
Total liabilities		**155,994**	**135,793**
Net assets		**141,469**	**146,229**
Equity			
Consolidated Equity	13	140,694	145,443
Non-controlling interest	14	775	786
Total equity		**141,469**	**146,229**

(*) Prior year comparatives were restated due to adoption of NZ IFRS 16 Leases -refer to Note 28

Consolidated Statement of Changes in Equity

for the year ended 31 March 2020

	Note	Share Capital $'000	Retained Earnings $'000	Cashflow Hedge Reserves $'000	Revaluation Reserves $'000	Total Attributable to Equity Holders $000	Non-controlling Interest $'000	Total Equity $'000
					Note 13.3			
Restated balance as at 31 March 2018		**13,246**	**53,997**	**(1,584)**	**81,582**	**147,241**	**799**	**148,040**
Loss for the year		-	(1,689)	-	-	(1,689)	(13)	(1,702)
Other comprehensive loss								
Interest rate swaps	13.2	-	-	(109)	-	(109)	-	(109)
Total other comprehensive loss		-	-	(109)	-	(109)	-	(109)
Transfer from retained earnings	13.3	-	957	-	(957)	-	-	-
Transactions with owners								
Distributions paid	11	-	-	-	-	-	-	-
Total transactions with owners		-	-	-	-	-	-	-
Restated Balance as at 31 March 2019		**13,246**	**53,265**	**(1,693)**	**80,625**	**145,443**	**786**	**146,229**
Profit for the year		-	6,563	-	-	6,563	(11)	6,552
Other comprehensive loss								
Interest rate swaps	13.2	-	-	(702)	-	(702)	-	(702)
Revaluation of network assets		-	-	-	(10,609)	(10,609)	-	(10,609)
Total other comprehensive loss		-	-	(702)	(10,609)	(11,311)	-	(11,311)
Transfer from retained earnings	13.3	-	655	-	(655)	-	-	-
Transactions with owners								
Distributions paid	11	-	(1)	-	-	(1)	-	(1)
Total transactions with owners		-	(1)	-	-	(1)	-	(1)
Balance as at 31 March 2020		**13,246**	**60,482**	**(2,395)**	**69,361**	**140,694**	**775**	**141,469**
Attributable to Trust Equity		**13,246**	**60,482**	**(2,395)**	**69,361**	**140,694**	**-**	**140,694**

Consolidated Statement of Cash Flow

for the year ended 31 March 2020

	Note	Group 2020 $'000	Group 2019 Restated(*) $'000
Operating activities			
Cash generated from operations	21	20,231	16,681
Interest and dividends received	3	30	20
Interest paid	3	(3,115)	(2,942)
Income taxes paid	15	(13)	(1,309)
Net cash inflow from operating activities		**17,133**	**12,451**
Investing activities			
Purchase of property plant and equipment		(19,888)	(23,465)
Acquisition due to business combinations	25	(18,333)	-
Purchase of intangible assets		(531)	(3,028)
Proceeds on disposal of property, plant and equipment		369	92
Net cash outflow in investing activities		**(38,383)**	**(26,401)**
Financing activities			
Capital distributions to customers	11	(1)	-
Lease liability paid	20	(85)	(77)
Convertible notes in subsidiary sold to non-controlling interest	17	(50)	(50)
Loan to equity accounted for associate		-	(452)
Bank borrowings advanced	17	22,043	14,517
Net cash inflow from financing activities		**21,907**	**13,938**
Net increase in cash and cash equivalents		657	(12)
Cash and cash equivalents at the beginning of the year		1,180	1,191
Cash and cash equivalents at the end of the year	**6**	**1,837**	**1,180**

(*) Prior year comparatives were restated due to adoption of NZ IFRS 16 Leases -refer to Note 28

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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 FCL Metering Ltd, GoodMeasure 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 20th August 2020.

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 16 Leases

Impact of this new standard has been disclosed in Note 28, Change in accounting policies. Prior year comparatives have been restated to reflect the adoption of NZ IFRS 16.

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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	Revenue recognition	Page **7**
Note 9	Valuation of network distribution system	Page **17**
Note 9	Generation property, plant and equipment	Page **18**
Note 19	Provisions	Page **28**
Note 23.2	Financial instruments	Page **33**

Notes to the Consolidated Financial Statements

for the year ended 31 March 2020

1. Revenue from contracts with customers

		Group 2020 $'000	Group 2019 $'000
Revenue recognised over time			
Network before discounts		45,723	42,527
Transition discount		(1,870)	(1,995)
Less network discount	11	(5,600)	(5,595)
Network revenue		**38,253**	**34,937**
Electricity meter revenue		**10,750**	**5,331**
Revenue from electrical contracts which were unsatisfied and included in contracts assets and liabilities		135	845
Revenue from completed electrical contracts		2,111	1,578
Electrical contracting revenue		**2,246**	**2,423**
Generation revenue		**1,283**	**1,442**
Revenue		**52,532**	**44,133**

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 2020 $'000	Group 2019 $'000
Electrical contracts assets due to percentage of completion	248	333
Network unbilled network revenue work in progress	3,214	2,280
Contract assets	**3,462**	**2,613**
Electrical contracts accrual due to percentage of completion	-	(376)
Network customer credit balances	(1,570)	(1,814)
Contract liabilities	**(1,570)**	**(2,190)**

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

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 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 prior 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 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 for the prior year 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).

• 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 2020 $'000	Group 2019 Restated(*) $'000
Transmission charges	6,495	6,797
Total staff cost recognised as expense	11,643	11,631
Cost of inventories recognised as expense	4,084	1,155
Professional fees	2,795	2,780
Low value or short term leases not included in leases (Note 20)	150	90
Property expenses	765	813
Directors fees and expenses	299	324
Gain on disposal of property, plant and equipment and software intangibles	(162)	(38)
Other expenses	1,086	2,303
Total	**27,155**	**25,855**

Fees paid to auditors	Group 2020 $'000	Group 2019 Restated(*) $'000
Financial statements audit fee	221	195
Regulatory audit fees	98	116
Regulatory agreed upon procedures	69	-
OAG fees	20	17
Regulatory and professional advice	36	11
Total	**444**	**339**

(*) Prior year comparatives were restated due to adoption of NZ IFRS 16 Leases -refer to Note 28

3. Interest costs (net)

	Group 2020 $'000	Group 2019 Restated(*) $'000
Interest on bank borrowings	2,956	2,749
Capitalised interest	(350)	(392)
Interest on lease liabilities	15	19
Interest on convertible notes issued by subsidiary	64	70
Interest on subordinated debentures	90	102
Other interest expense, principally IRD Use of Money	5	21
Interest income	(28)	(21)
Total	**2,752**	**2,548**

The weighted average interest rate on bank borrowings, including interest rate swap derivatives, is 3.70% (2019: 4.71%)

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

	Group 2020 $'000	Group 2019 restated (*) $'000
Interest costs (net)	2,752	2,548
Less accrued interest	(2)	-
Less lease liability interest	(15)	(19)
Add capitalised interest	350	392
Net interest paid per the statement of cash flow	3,085	2,921
Interest received per the statement of cash flow	(30)	(20)
Interest paid per the statement of cash flow	3,115	2,942
Total	**3,085**	**2,921**

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.

(*) Prior year comparatives were restated due to adoption of NZ IFRS 16 Leases -refer to Note 28

4. Income tax expense

Reconciliation of income tax expense	Group 2020 $'000	Group 2019 Restated(*) $'000
Profit/(loss) before income tax	8,091	(859)
Expenses that are non-deductible	261	627
Impairment of associate	(786)	3,211
Impairment of assets	527	-
Plus Imputation credits	(78)	-
Effect of Income that is non assessable	2	-
Taxable profit	8,017	2,978
Income tax expense at 28%	2,322	880
Income tax expense at 33%	27	(54)
Benefit of imputed dividends	(78)	-
Change in tax legislation regarding depreciation on buildings	(690)	-
Effect of prior period tax adjustment	(41)	17
Income tax expense	**1,540**	**843**
Effective tax rate (being total tax expense divided by profit before tax)	19%	-98%
Current tax expense	2,063	70
Deferred tax expense	(523)	773
Income tax expense	1,540	843
Attributable to:		
Continuing activities	1,540	843

(*) Prior year comparatives were restated due to adoption of NZ IFRS 16 Leases -refer to Note 28

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 directly to other comprehensive income	(4,398)	(41)
Total tax expense for the year recognised in other comprehensive income	(4,398)	(41)

Policies

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

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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 2020 is $5.89m (2019 – $7.67m).

5. Operational profit

	Group 2020 $'000	Group 2019 Restated(*) $'000
Earnings before interest, tax, depreciation and amortisation (EBITDA)		
Network	21,425	19,187
Meters and relays	7,367	3,122
Contracting	1,400	602
Generation	900	1,163
Investment	11	16
Corporate services	(6,029)	(6,591)
EBITDA	**25,074**	**17,498**
Depreciation and amortisation	(14,479)	(12,583)
Impairment of associate	786	(3,211)
Impairment of assets	(527)	-
Earnings before interest and tax (EBIT)	**10,854**	**1,704**
Interest costs (net)	(2,763)	(2,564)
Profit/(loss) before tax	**8,091**	**(859)**

(*) Prior year comparatives were restated due to adoption of NZ IFRS 16 Leases -refer to Note 28

6. Cash and cash equivalents

	Group 2020 $'000	Group 2019 $'000
Cash at bank on hand	1,837	1,180
Total	**1,837**	**1,180**

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.

7. Trade and other receivables

	Group 2020 $'000	Group 2019 $'000
Trade receivables		
Trade receivables	4,273	3,417
Less loss allowance (note 23.2)	(340)	(457)
Balance at 31 March	3,933	2,960
Other receivables		
Sundry debtors	27	351
Accrued interest	3	5
Prepayments	702	489
Balance at 31 March	732	845
Receivables balance at 31 March	**4,665**	**3,805**
Ageing of trade receivables		
Current to 90 days	4,499	3,510
Greater than 90 days	503	752
Total	**5,002**	**4,262**

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.

8. Inventories

	Group 2020 $'000	Group 2019 $'000
Network stock	1,375	1,083
Transformers	509	587
Total	**1,884**	**1,670**

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.

9. Property, plant and equipment

	Land $'000	Buildings $'000	Network Distribution System $'000	Meters & Relays $'000	Plant & Vehicles $'000	Generation $'000	Right of use asset $'000	Total $'000
Gross carrying value – Group								
At 31 March 2018 *	1,356	2,305	250,179	33,246	9,684	21,720	393	318,883
Additions	-	-	18,350	1,136	1,386	508	-	21,380
Disposals	-	-	-	-	(174)	-	-	(174)
Reclassification	11	239	(295)	(1,061)	7	21	-	(1,078)
Capital works in progress movement	-	106	2,237	-	-	134	-	2,477
At 31 March 2019 *	1,367	2,650	270,471	33,321	10,903	22,383	393	341,488
Additions	136	-	10,441	2,942	1,600	-	360	15,479
Disposals	-	(179)	-	-	(689)	-	-	(868)
Acquisition due to business combinations	-	-	-	10,424	131	-	-	10,555
Capital works in progress movement	-	-	5,088	-	-	-	-	5,088
At 31 March 2020	**1,503**	**2,471**	**286,000**	**46,687**	**11,945**	**22,383**	**753**	**371,742**
Accumulated amortisation and impairment - Group								
At 31 March 2018 *	(11)	(178)	34,157	17,145	7,276	4,422	55	62,866
Depreciation charge	-	46	9,045	1,685	857	585	66	12,284
Reclassification	11	194	-	(1,283)	66	(66)	-	(1,078)
Disposals	-	-	-	-	(151)	-	-	(151)
At 31 March 2019 *	-	62	43,202	17,547	8,048	4,941	121	73,921
Depreciation charge	-	48	8,009	3,088	980	595	66	12,786
Impairment	-	-	14,734	-	-	-	-	14,734
Disposals	-	-	-	-	(661)	-	-	(661)
At 31 March 2020	**-**	**110**	**65,945**	**20,635**	**8,367**	**5,536**	**187**	**100,780**
Carrying amount (Net book value) - Group								
At 31 March 2018 *	1,367	2,483	216,022	16,101	2,408	17,298	338	256,017
At 31 March 2019 *	1,367	2,588	227,269	15,774	2,855	17,442	272	267,567
At 31 March 2020	**1,503**	**2,361**	**220,055**	**26,052**	**3,578**	**16,847**	**566**	**270,962**
Carrying amount (Cost model) - Group								
At 31 March 2019 *	719	2,033	137,671	15,774	2,855	17,442	272	176,766
At 31 March 2020	**855**	**1,806**	**145,191**	**26,132**	**3,584**	**16,847**	**566**	**194,981**

(*) Prior year comparatives were restated due to adoption of NZ IFRS 16 Leases -refer to Note 28

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

Work in progress at the end of the year was $8.8 million (2019: $4.1 million).

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. While the group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the group.

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.

From 2019 right of use assets associated with lease liabilities have been in accordance with IFRS 16.

Depreciation begins once an asset is ready for use.

Depreciation of property, plant and equipment, 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

Right of use assets associated with lease assets are depreciated over the lease term.

Gain or loss on disposal is recognised in profit and loss. When revalued assets are sold the amounts included in the revaluation reserves are transferred to retained earnings.

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 $220.8 million at 31 March 2020.

This value was within the valuation range ($215.5 million – $226.2 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.

Assumptions	Valuation midpoint assumptions adopted	Low	High	Valuation impact $'000's
				-$12,787
Network revenue	-	-5%	5%	+$12,787
				+$9,470
Discount rate	5.1%	-0.5%	0.5%	-$9,028

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 reasonable change in any of the assumptions below would cause the carrying value of generation assets to exceed their recoverable amounts. The current impairment assessment includes avoided cost of transmission (ACOT) revenue indefinitely. Should there be a regulatory change regarding ACOT, the impairment assessment may be impacted.

Group generation assessment

Total asset value based on value-in-use $17.91 million

Assumptions - Group	Low	High	Negative value impact ($'000)	Positive value impact ($'000)
Price path – Energy Link	Energy Link – 25th percentile	Energy Link- 75th percentile	$4,840	$4,480
Generation volume	-10.0%	+10.0%	$2,050	$2,040
Operational costs	+20.0%	-20.0%	$830	$820
Discount rate	8.7%	6.7%	$2,630	$3,480

BTSR

10. Intangible assets

	Software	Land Easements	Resource Consents & Rights	GoodMeasure Intellectual Property	Customer Contracts	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost - Group						
At 31 March 2018	4,828	417	812		-	6,057
Additions	3,022	-	6	-	-	3,028
At 31 March 2019	**7,850**	**417**	**818**	**-**	**-**	**9,085**
Acquisition due to business combinations	-	-	-	655	10,661	11,316
Impairment	-	-	-	(527)	-	(527)
Additions	554	108	-	-	-	662
At 31 March 2020	**8,404**	**525**	**818**	**128**	**10,661**	**20,536**
Accumulated amortisation and impairment - Group						
At 31 March 2018	3,705	-	186	-	-	3,891
Amortisation charge for the year	299	-	-	-	-	299
At 31 March 2019	4,004	-	186	-	-	4,190
Amortisation charge for the year	621	-	-	-	1,072	1,693
At 31 March 2020	**4,625**	**-**	**186**	**-**	**1,072**	**5,883**
Carrying amount (net book value) - Group						
At March 2018	1,123	417	626	-	-	2,166
At March 2019	3,846	417	632	-	-	4,895
At March 2020	**3,779**	**525**	**632**	**128**	**9,589**	**14,653**

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.

GoodMeasure intellectual property has an indefinite life and are assessed annually for impairment.

Customer contract assets are contractual income streams assessed with the legacy metering business acquired (Note 25). These are depreciated over seven years in line with the expected rate of decline in revenue.

11. Distributions

On a review of the gazetted boundaries it was found that a Capital Distribution of $574 was owing from past distributions and was accrued for the 2020 year (2019: Nil)

During the year TLC agreed with the Trust to provide a network discount of $5.6 million (2019: $5.6 million) direct to eligible consumers (refer note 1).

12. Investments

12.1 Investment in subsidiaries

Name	Principal activity	Ownership Interest	
		2020	2019
		%	%
The Lines Company Ltd	Conveyance of electricity	100	100
FCL Metering Limited	Meter and relay assets	100	100
GoodMeasure Limited (incorporated 4 October 2019)	IoT connectivity solutions	100	-
Speedys Road Hydro Limited	Hydro generation scheme	75	75

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.

12.2 Investment in associates

Name	Principal activity	Ownership Interest		Nature of relationship	Measurement method	Carrying amount	
		2020	2019			2020	2019
		%	%			$'000	$'000
Embrium Holdings Limited	Meter support technology	-	36	Associate	Equity method	-	-

On the 26 September 2019, Embrium Holdings Limited went into liquidation and ceased trading. Assets and intellectual property associated with GoodMeasure were purchased by the Group (Note 25).

In the prior year the Embrium investment and associated loan were fully impaired.

	Group 2020 $'000	Group 2019 $'000
Reversal of impairment/(impairment) of associate and loan receivable	786	(3,211)
Share of net loss accounted for using the equity method	-	(542)

13. Equity and reserves

13.1. Total equity and minority interest

	Group 2020 $'000	Group 2019 $'000
Trust reserves	140,694	145,443
Minority interest share	775	786
Total Equity	141,469	146,229

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.

13.2. 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 2020 $'000	Group 2019 $'000
Opening balance	(1,827)	(1,718)
Changes in fair value of hedging instrument recognised in other comprehensive income (OCI)	(975)	(150)
Deferred tax	273	41
Closing balance	**(2,529)**	**(1,827)**

13.3. Revaluation reserve

	Network Distribution System $'000	Land & buildings $'000	Total Group $'000
Total at 31 March 2018	80,704	878	81,582
Transfer from retained earnings	(957)	-	(957)
Total at 31 March 2019	79,747	878	80,625
Transfer from retained earnings	(655)	-	(655)
Revaluation decreases	(14,734)	-	(14,734)
Deferred tax on revaluation	4,125	-	4,125
Total at 31 March 2020	**68,483**	**878**	**69,361**

14. Non-controlling interest

The following table summarises the financial information of Speedys Road Hydro Limited.

Summarised financial information of subsidiary with non-controlling interest	Group 2020 $'000	Group 2019 $'000
Summarised statement of financial position		
Total current assets	329	318
Total non-current assets	7,794	8,012
Total assets	8,123	8,330
Total current liabilities	1,081	1,083
Total noncurrent liabilities	3,942	4,102
Total liabilities	5,023	5,185
Net assets	3,100	3,145
Accumulated non-controlling interest	**775**	**786**
Summarised statement of comprehensive income		
Revenue	671	796
Total comprehensive loss	(44)	(52)
Loss allocated to non-controlling interest	**(11)**	**(13)**
Dividends paid to non-controlling interest	**-**	**-**
Summarised statement of cash flows		
Cash flows from operating activities	211	454
Cash flows from investing activities	(16)	(249)
Cash flows from financing activities	(200)	(200)
Net (decrease)/increase in cash and cash equivalents	(5)	5

15. Current tax (asset)/liability

	Group 2020 $'000	Group 2019 $'000
Opening balance	(292)	947
Tax payments and tax credits received	(13)	(1,309)
Current tax expense for the year	2,063	70
Closing balance	**1,758**	**(292)**

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.

16. Deferred tax (asset)/liability

	PPE and intangible assets $'000	Cash flow hedges $'000	Provisions $'000	Losses carried Forward/Imputation Credits not refundable	Total Group $'000
At 31 March 2018 *	51,304	(669)	(377)	(28)	50,230
Charged to income	809	-	18	(54)	773
Charged to other comprehensive income	-	(41)	-		(41)
At 31 March 2019 *	52,113	(710)	(359)	(82)	50,962
Charged to income related to change in tax legislation regarding buildings depreciation	(690)	-	-		(690)
Charged to income	268	-	(50)	(51)	167
Acquisition due to business combinations	2,984	-	-	-	2,984
Charged to other comprehensive income	(4,125)	(273)	-	-	(4,398)
At 31 March 2020	**50,550**	**(983)**	**(409)**	**(134)**	**49,024**

(*) Prior year comparatives were restated due to adoption of NZ IFRS 16 Leases -refer to Note 28

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 are carried forward with tax losses and calculated at 33 cents.

17. Bank borrowings, convertible notes and subordinated debentures

	Group 2020 $'000	Group 2019 $'000
Bank Borrowings	90,499	68,456
Convertible notes issued by subsidiary	1,000	1,050
Subordinated debentures:		
North King Country Development Trust	2,000	2,000
	93,499	71,506
Disclosed in the financial statements as:		
Current borrowings	2,204	250
Non-current borrowings	91,295	71,256
Total	**93,499**	**71,506**

Reconciliation of net debt

	Borrow. due within 1 year $'000	Borrow. due after 1 year $'000	Total Group $'000
Balance at 1 April 2018	250	56,789	57,039
Repayment of convertible note	(50)	-	(50)
Movement between current and non-current debt	50	(50)	-
Facility drawdown	-	14,517	14,517
Net debt at 31 March 2019	250	71,256	71,506
Repayment of convertible notes	(50)	-	(50)
Movement between current and non-current debt	2,004	(2,004)	-
Facility drawdown	-	3,300	3,300
New loan acquired due to business acquisition	167	18,743	18,910
Repayment of loans	(167)	-	(167)
Net debt as at 31 March 2020	**2,204**	**91,295**	**93,499**

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 term lending facilities of $77.4 million for three years, expiring 1 February 2023. The working capital portion of this facility is $8 million and is subject to annual renewal and expires on 31 December 2020.

Security held by the bank for these loans is a Composite General Security Agreement over certain assets of the Group.

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 (2020: 6.29%) (2019: 6.29%). The convertible notes issued to TLC are eliminated on consolidation in the Group financial statements.

On 1 October 2019, $200,000 of the convertible notes were repaid reducing the balance to $3 million to TLC and $1 million to the minority shareholder. $50,000 was paid 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	TLC $'000	Minority shareholder	2020 $'000
Tranche A1	30/09/2023	600	200	800
Tranche B	30/09/2024	600	200	800
Tranche C1	30/09/2020	600	200	800
Tranche D1	30/09/2021	600	200	800
Tranche E	30/09/2023	600	200	800
		3,000	1,000	4,000

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 (2019: 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, or until the Company is wound up.

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.

18. Trade and other payables

	Group 2020 $'000	Group 2019 $'000
Trade creditors	3,452	3,857
Interest accruals	304	309
Onerous loan	-	548
Other payables and accruals	642	2,170
Total	**4,398**	**6,884**

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.

19. Provision for staff entitlements

	Group 2020 $'000	Group 2019 $'000
Opening balance	1,416	1,214
Acquisition due to business combinations	23	-
Accrued	1,622	1,416
Utilised	(1,416)	(1,214)
Total	**1,645**	**1,416**

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.

20. Lease liabilities

	Group 2020 $'000	Group 2019 restated (*) $'000
Lease liabilities		
Current	109	64
Non-current	479	234
Total lease liabilities	**588**	**298**
Opening balance	298	356
New lease entered into during the year	360	-
Interest on lease liabilities (note 3)	15	19
Cash outflow for leases	(85)	(77)
Total lease liabilities	**588**	**298**

(*) Prior year comparatives were restated due to adoption of NZ IFRS 16 Leases -refer to Note 28

The Group leases various offices and warehouses. Rental contracts are typically made for fixed periods of 3 years to 13 years but may have extension options. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

• fixed payments (including in-substance fixed payments), less any lease incentives receivable

• variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee’s incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Right of use assets are disclosed in note 9.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an operating expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise office equipment. This is disclosed in note 2.

21. Cash generated from operations

	Group 2020 $'000	Group 2019 restated (*) $'000
Profit/(loss) before tax	8,091	(859)
Interest costs (net)	2,752	2,548
Net profit before interest	10,843	1,689
Adjustments for non-cash items		
Accrued interest	(2)	-
Depreciation and amortisation	14,479	12,583
Impairment of associate	(786)	3,211
Impairment of assets	527	-
Gain on disposal of property, plant and equipment and intangible assets	(162)	(38)
Movement in provision for doubtful debt	(117)	(105)
Share of losses retained by equity accounted associate	-	542
	24,782	17,882
Changes in net assets and liabilities		
Trade and other receivables	(743)	(1,147)
Contract assets and liabilities	(1,469)	(2,447)
Inventories	(59)	292
Trade and other payables	(2,486)	1,899
Provision for staff entitlements	206	202
Cash generated from operations	**20,231**	**16,681**

(*) Prior year comparatives were restated due to adoption of NZ IFRS 16 Leases -refer to Note 28

22. Capital Commitments, contingent assets and liabilities

Capital Commitments

The Trust's subsidiary The Lines Company Ltd has capital commitments $1.6 million (2019: $0.4 million) relating to metering and network assets.

Contingent assets

The Group has no contingent assets (2019: $0 million).

Contingent liabilities

Due to the Lines Co Ltd breach of SAIDI quality targets, the Commerce Commission are currently conducting an investigation for the reasons for those exceedances. The outcome of that investigation has yet to be decided but there is a possibility of a financial impact on FY2021 as a result of the investigation (2019: $0 million).

23. Financial risk management

Objectives

The Group 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 41% (2019: 44%) of the variable loan outstanding. The fixed interest rate of the swaps range between 2.13% and 5.12% (2019: 2.28% and 5.12%) and the variable rates of the loans between 2.49%% and 1.89%% (2019: 3.05% and 3.15%) above the 90-day bank bill rate which at the end of the reporting period was 1.35% (2019: 1.75%).

The swap contracts require settlement of net interest receivable or payable every 90 days. The settlement dates do coincide with the dates on which interest is payable on the underlying debt and are thus effective.

Effect of hedge accounting on the financial position and performance:

	Group 2020 $'000	Group 2019 $'000
Interest rate swaps		
Non-current liability	(3,512)	(2,537)
Mark to market fair value of interest rate swaps at 31 March	**(3,512)**	**(2,537)**
Notional amount	37,000	30,000
Maturity date	Jun 20 to Jun 26	May 19 to May 24
Hedge Ratio	1:1	1:1
Change in fair value of outstanding hedging instruments	(975)	(151)
Change in value of hedge item used to determine hedge effectiveness	975	151
Weighted average hedged rate for the year	3.85%	2.61%

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 2020 $'000	Group 2019 $'000
Impact on statement of comprehensive income		
- 1% change in interest rates	(385)	(205)
+ 1% change in interest rates	385	205
Impact on statement of financial position		
- 1% change in interest rates	(403)	(829)
+ 1% change in interest rates	403	829

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 2020 or 2019 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 12.2.

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 2020 and 31 March 2019 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. At the end of March 2020, NZ had entered into Level 4 lockdown due to the Covid-19 pandemic. Trade receivables are being assessed on a weekly basis for any sign of credit risk. The Group has not noted any further need to increase the expected loss ratio.

On that basis, the loss allowance as at 31 March 2020 and 31 March 2019 (on adoption of NZ IFRS 9) was determined as follows for both trade receivables and contracts assets:

31 March 2020	Less than 90 days past due	More than 90 days past due	Total Group
Expected loss rate	0%	68%	
Gross carrying amount - trade receivables	3,770	503	**4,273**
Gross carrying amount – contract assets	3,462	-	**3,462**
Loss allowance		**340**	**340**

31 March 2019	Less than 90 days past due	More than 90 days past due	Total Group
Expected loss rate	0%	61%	
Gross carrying amount - trade receivables	2,665	752	**3,417**
Gross carrying amount – contract assets	2,613	-	**2,613**
Loss allowance	**-**	**457**	**457**

The closing loss allowance for trade receivables as at 31 March 2020 reconciles to the opening loss allowances as follows:

	Group 2020 $'000	Group 2019 $'000
Opening balance	457	562
Increase in loss allowance recognised in profit and loss		-
Receivables written off during the year as uncollectible	(279)	(94)
Unused amount reversed	162	(11)
Loss allowance closing balance	**340**	**457**

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.

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
Group 2020				
Derivative financial liabilities	-	(3,512)	-	(3,512)
Group 2019				
Derivative financial liabilities	-	(2,537)	-	(2,537)

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

Financial instruments by category

2020	Financial assets at amortised cost $'000	Financial liabilities at amortised cost $'000	Financial liability at fair value through profit and loss $'000	Total Group $'000
Cash and bank balances	1,837	-	-	1,837
Trade and other receivables	3,963	-	-	3,963
Contract assets	3,462	-	-	3,462
Total financial assets	**9,262**	**-**	**-**	**9,262**
Trade and other payables	-	4,398	-	4,398
Contract liabilities	-	1,570	-	1,570
Lease liabilities	-	588	-	588
Borrowings	-	93,499	-	93,499
Other financial liabilities	-	-	3,512	3,512
Total financial liabilities	**-**	**100,055**	**3,512**	**103,567**
2019				
Cash and bank balances	1,180	-	-	1,180
Trade and other receivables	3,316	-	-	3,316
Contract assets	2,613	-	-	2,613
Total financial assets	7,109	-	-	7,109
Trade and other payables	-	6,884	-	6,884
Contract liabilities	-	2,190	-	2,190
Lease liabilities	-	298	-	298
Borrowings	-	71,506	-	71,506
Other financial liabilities	-	-	2,537	2,537
Total financial liabilities	-	80,878	2,537	83,415

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 2020, the Group's strategy, which was unchanged from 2019, was to maintain an equity/assets ratio of not less than 40%.

The ratio at March 2020 and 2019 were as follows:	Group 2020 $'000	Group 2019 restated (*) $'000
Average equity (including subordinated debentures)	145,849	149,134
Total assets at year end	297,597	283,173
Equity to Assets Ratio	**49.0%**	**52.7%**

(*) Prior year comparatives were restated due to adoption of NZ IFRS 16 Leases -refer to Note 28

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 2019 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 17, and equity attributable to equity holders of the parent, comprising issued capital, retained earnings and reserves as disclosed in note 13 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 Group $'000
Non-interest bearing	4,398	-	-	4,398
Variable interest rate instruments	-	2,204	92,807	95,011
At 31 March 2020	**4,398**	**2,204**	**92,807**	**99,409**
Non-interest bearing	6,884	-	-	6,884
Variable interest rate instruments	-	250	71,793	72,043
At 31 March 2019	6,884	250	71,793	78,927

The table includes both interest and principal cash flows.

Variable rate instruments includes the impact of derivatives.

There are $2.0 million of subordinated debentures (note 17) with no set maturity date.

Interest payable on these is excluded from this analysis.

The Group had access to the following borrowing facilities at the end of the reporting period:

	Group 2020 $'000	Group 2019 $'000
Total facility	85,400	75,400
Undrawn facility	13,644	6,944

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 1 February 2023. The working capital portion of the facility of $8 million is subject to review on 31 December 2020.

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.

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 2020 (2019: Nil)

Remuneration of key management personnel

Key management personnel of the Waitomo Energy Services Customer Trust for the years ended 31 March 2020 and 31 March 2019 are limited to the Trustees. Remuneration details set out below:

Transactions with key management personnel	**Group 2020 $'000**	**Group 2019 $'000**
Trustee Fees Paid	88	96
Outstanding at balance date	-	-
Transaction with Maru Energy Trust		
Donations to Maru Energy Trust	100	-
Transactions with Rula Developments Limited		
Interest paid on convertible notes	64	70
Balances with related parties		
Maru Energy Trust Payable	23	-
Convertible note with Rula Developments Limited	1,000	1,050
Subordinated debentures with Waitomo Energy Services Customer Trust	1,000	1,000

Sean Horgan is the Chief Executive of The Lines Company Limited, and he is also a director of Speedys Road Hydro Limited.

The Group purchased assets from Embrium (Note 25 and 12.2).

25. Acquisitions

During the current financial year the Group entered into two business combination acquisitions.

The first purchase related to the purchase of the GoodMeasure intellectual property and assets from Embrium on 9 October 2019. The purchase price was offset by the loan receivable in Embrium resulting in a reversal of impairment of $0.8 million (Note 12)

The second relating to the purchase of the of a legacy metering business consisting of approximately 121,000 installations from Trustpower for $18.1million on 15 November 2019. This was funded by bank borrowings.

	Legacy meter acquisition $'000	GoodMeasure $'000
Meters & relays (Note 9)	10,424	-
Plant & vehicles (Note 9)	100	31
GoodMeasure intellectual property	-	655
Customer contracts	10,661	-
Deferred tax liability	(2,984)	-
Provision for staff entitlements (Note 19)	(23)	-
Inventory	-	125
Work in progress	-	30
Total acquisition	**18,178**	**841**
Less offset of loan receivable previously impaired	-	(686)
Net cash outflow from business acquisitions	**18,178**	**155**

Transaction costs of $0.2million were incurred during the year relating to the acquisitions and are recognised in professional fees (Note 2).

No goodwill arose on either transaction.

GoodMeasure intellectual property was impaired subsequently after the purchase by $0.5 million (Note 10). This was a way to extract any remaining value from Embrium which is now liquidated.

The income statement was impacted by the above business acquisitions:

	2020 $'000
Revenue	4,793
EBITDA	3,277
EBIT	1,075
Net profit	663

The Group has not disclosed the revenue or profit or loss of the combined entity as though the acquisition had occurred from 1 April 2019, as it is impracticable to obtain information needed for this disclosure.

26. Subsequent events

In April 2020, the prices associated with network revenue were decreased in compliance with the new regulatory price path. The price change included moving prompt payment discounts into prices.

The Group currently use IMS payroll. The provider has identified a potential software issue with regards to calculation of holiday pay. The Group is currently investigating the issue to see whether there is an effect on the Group and, if relevant will need to go back six years.

The Electricity authority issued its decision regarding transmission pricing on the 10 June 2020. It has removed the regional coincident peak demand and high voltage direct current charges. These have been replaced with benefit based and residual charges. Transpower will need to develop a proposed new transmission pricing methodology for the Group to determine its effect.

27. COVID-19 pandemic

At the end of March 2020, NZ entered into a Level 4 lockdown due to the COVID-19 pandemic. Trade receivables are being assessed on a weekly basis for any sign of significant risk. The Group has not noted any need to increase the expected loss ratio.

Impairment assessments have been performed on network and generation assets (Note 9) and there has been no impact assessed due to COVID-19.

As part of the Group's response to the pandemic, residential variable charges were removed for the month of April to assist residential customers through a difficult time. This is expected to have $1.2 million impact on the results for FY2021.

The factors above have had no impact on the going concern status.

28. Change in accounting policies

This note explains the impact of adoption of NZ IFRS 16 Leases 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 16 Leases

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 has adopted NZ IFRS 16 from 1 April 2018 and has restated comparatives, using a full retrospective approach.

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.

Extract of consolidated statement of comprehensive income for 31 March 2019	**2019 Originally presented $'000**	**NZ IFRS 16 $'000**	**2019 Restated $'000**
Revenue	44,149	-	44,149
Operating expenses	(25,932)	77	(25,855)
Depreciation and amortisation	(12,517)	(66)	(12,583)
Interest costs (net)	(2,545)	(19)	(2,564)
Other expenses	(253)	-	(253)
Total expenses	(41,247)	(8)	(41,255)
Share of net loss of associate accounted for using the equity method	(542)	-	(542)
Impairment of associate	(3,211)	-	(3,211)
Loss before tax	(851)	(8)	(859)
Income tax expense	(845)	2	(843)
Loss for the year	(1,696)	(6)	(1,702)
Loss for the year is attributable to:			
Equity holders of the parent	(1,683)	(6)	(1,689)
Non-controlling interest	(13)	-	(13)

Extract of consolidated statement of financial position for 31 March 2019	2019 Originally presented $'000	NZ IFRS 16 $'000	2019 Restated $'000
Current Assets	9,560	-	9,560
Property, plant and equipment	267,295	272	267,567
Intangible assets	4,895	-	4,895
Deferred tax asset	1,151	-	1,151
Non-current assets	273,341	272	273,613
Total assets	**282,901**	**272**	**283,173**
Trade and other payables	6,884	-	6,884
Contract liabilities	2,190	-	2,190
Convertible notes issued by subsidiary	250	-	250
Other financial liabilities	2,537	(2,537)	-
Lease liabilities	-	64	64
Provision for staff entitlements	1,416	-	1,416
Current liabilities	13,277	(2,473)	10,804
Bank borrowings	68,456	-	68,456
Lease liabilities	-	234	234
Convertible notes issued by subsidiary	800	-	800
Subordinated debentures	2,000	-	2,000
Other financial liabilities	-	2,537	2,537
Deferred tax liability	52,120	(7)	52,113
Non-current liabilities	123,376	2,764	126,140
Total liabilities	**136,653**	**291**	**136,944**
Net assets	**146,248**	**(19)**	**146,229**
Equity	**146,248**	**(19)**	**146,229**

Extract of consolidated statement of cash flow for 31 March 2019	2019 Originally presented $'000	NZ IFRS 16 $'000	2019 Restated $'000
Operating activities			
Cash generated from operations	16,604	77	16,681
Interest received	20	-	20
Interest paid	(2,942)	-	(2,942)
Income taxes paid	(1,309)	-	(1,309)
Net cash inflow from operating activities	**12,374**	**77**	**12,451**
Investing activities	**(26,401)**	**-**	**(26,401)**
Financing activities			
Convertible notes in subsidiary sold to non-controlling interest	(50)	-	(50)
Loan to equity accounted for associate	(452)	-	(452)
Lease liability paid	-	(77)	(77)
Bank borrowing advanced	14,517	-	14,517
Net cash inflow from financing activities	**14,015**	**(77)**	**13,938**
Net decrease in cash and cash equivalents	(12)	-	(12)
Cash equivalents at the beginning of the year	1,191	-	1,191
Cash and cash equivalents at the end of the year	**1,180**	**-**	**1,180**

WAITOMO ENERGY SERVICES CUSTOMER TRUST

INCOME AND EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 MARCH 2020

	31 Mar 2020	31 Mar 2019
REVENUE	$	$
Interest Received		
The Lines Company Ltd	74,200	74,200
BNZ	10,576	15,612
Dividends Received (net of ICA credits)		
The Lines Company Ltd	200,000	-
Total Income	284,776	89,812
LESS EXPENSES		
Accountancy	13,354	11,713
Recruitment Advertising	2,918	3,891
Audit Fee	8,236	5,932
Bank Fees	51	60
Beneficiary Communications	11,856	10,757
Computer Expenses	334	655
Conference Expenses	6,799	14,774
Consultancy	55,636	12,201
Election Expenses	3,130	1,730
General Office Expenses	945	791
Legal Fees	16,911	9,800
Insurance	7,803	7,226
Interest	276	-
Meeting Expenses	1,786	1,579
Postage	199	233
Printing & Stationery	829	479
Subscriptions	10,561	6,852
Telephone	1,096	749
Travelling Expenses	6,985	6,697
Trustee Fees	87,644	95,871
Secretarial Fees	76,338	61,132
Total Expenses	313,686	253,122
Net Operating Surplus/(Deficit) before Depreciation & Taxation	(28,910)	(163,309)
Loss on Sale of Plant & Equipment	-	26
Less Depreciation	-	-
Net Operating Surplus/(Deficit) after Depreciation & before Taxation	(28,910)	(163,336)
Tax benefit/(expense)	(26,284)	53,900
Plus non-refundable imputation credits	77,777	-
Trust Income after Taxation	22,583	(109,436)
Net Profit/(Loss)	22,583	(109,436)

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 2020

	As at 31 Mar 2020 $	As at 31 Mar 2019 $
Current assets		
Bank of New Zealand Account	4,325	5,406
Bank of New Zealand On Call Account	78,714	49,216
Prepayments	-	10,145
Accrued Interest	3,156	5,188
Term Deposits	345,000	400,000
Current Tax Asset	42,157	29,082
Future tax benefit	133,833	82,340
	607,186	581,377
Non-current assets		
Plant and equipment	-	-
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
	59,663,880	59,663,880
Total assets	**60,271,066**	**60,245,257**
Current liabilities		
Accounts Payable	26,687	22,887
	26,687	22,887
Total liabilities	**26,687**	**22,887**
Net assets	**60,244,378**	**60,222,370**
EQUITY		
Trust Equity	60,244,378	60,222,370
Total equity	**60,244,378**	**60,222,370**

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 2020

	As at 31 Mar 2020 $	As at 31 Mar 2019 $
Income and Credits		
Balance at beginning	60,222,370	60,331,805
Net Profit/(Loss)	22,583	(109,436)
	60,244,952	60,222,370
Appropriated as follows		
Capital Distribution to owners	574	-
	574	-
	60,244,378	**60,222,370**

Trust Equity is made up of

Trust Capital	11,929,532	11,929,532
Revaluation Reserves	39,051,692	39,051,692
Retained Earnings	9,263,154	9,241,146
	60,244,378	**60,222,370**

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.

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STAPLES RODWAY

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 43, which comprise the consolidated statement of financial position as at 31 March 2020, 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 2020, 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) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* 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://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-7/

Baker Tilly

BAKER TILLY STAPLES RODWAY AUDIT LIMITED

Hamilton, New Zealand

20 August 2020