Waitomo Energy Services Customer Trust

Consolidated Financial Statements

For the Year Ended 31 March 2021

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2021

	Note	Group 2021 $'000	Group 2020 Restated $'000
Revenue from contracts with customers	1	55,009	51,249
Operating expenses	2	(25,419)	(26,782)
Depreciation and amortisation	9&10	(17,041)	(13,863)
Interest costs (net)	3	(2,500)	(2,689)
Impairment of assets	10	(128)	(527)
Other Expenses		(389)	(314)
Total expenses		(45,477)	(44,175)
Reversal of impairment of loan receivable	13	40	786
Profit before tax		9,572	7,860
Income tax expense	4	(2,759)	(1,475)
Profit for the year from continuing operations		6,813	6,386
(Loss)/profit for the year from discontinuing operations	11	(987)	166
Profit for the year		5,826	6,552
Profit for the year is attributable to:			
Equity holders of the parent		5,862	6,563
- Profit for the year from continuing operations		6,849	6,397
- (Loss)/profit for the year from discontinuing operations		(987)	166
Non-controlling interest from discontinuing operations losses		(36)	(11)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings	9&14	694	-
Impairment of network assets	9&14	-	(14,734)
Income tax relating to revalued assets	14	(194)	4,125
Other comprehensive profit/(loss) for the year		500	(10,609)
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge reserve	14	1,547	(975)
Income tax relating to cash flow hedges	14	(433)	273
Other comprehensive profit/(loss) for the year, net of tax		1,114	(702)
Total comprehensive profit/(loss) for the year		7,440	(4,759)
Total comprehensive profit/(loss) is attributable to:			
Equity holders of the company		7,476	(4,748)
- Total comprehensive profit/(loss) from continuing operations		8,463	(4,914)
- Total comprehensive (loss)/profit from discontinuing operations		(987)	166
Non-controlling interest from discontinuing operations losses		(36)	(11)

Chairperson ______________ Trustee ______________

Date 15/9/21 Date 15/9/2021

BTSR

Consolidated Statement of Financial Position

as at 31 March 2021

	Note	Group 2021 $'000	Group 2020 $'000
Current assets			
Cash and cash equivalents	6	1,406	1,837
Trade and other receivables	7	4,500	4,665
Contract assets	1	2,584	3,462
Inventories	8	1,795	1,884
		10,285	11,848
Non-current assets			
Property, plant and equipment	9	269,248	270,962
Intangible assets	10	11,338	14,653
		280,586	285,615
Assets of a disposal group classified as held for sale	11	15,344	-
Total assets		**306,215**	**297,463**
Current liabilities			
Trade and other payables	19	7,427	4,398
Contract liabilities	1	1,316	1,570
Convertible notes issued by subsidiary	18	-	200
Bank borrowings	18	3,677	2,004
Lease liabilities	21	87	109
Current tax liability	16	1,800	1,758
Provision for staff entitlements	20	2,095	1,645
		16,402	11,684
Non-current liabilities			
Bank borrowings	18	85,335	88,495
Lease liabilities	21	394	479
Convertible notes issued by subsidiary	18	-	800
Subordinated debentures	18	2,000	2,000
Other financial liabilities	24	1,965	3,512
Deferred tax liability	17	50,260	49,024
		139,954	144,310
Convertible notes issued by subsidiary of a disposal group classified as held for sale	18 &11	950	-
Total liabilities		**157,306**	**155,994**
Net assets		**148,908**	**141,469**
Equity			
Consolidated Equity	14	148,169	140,694
Non-Controlling Interest	14&15	739	775
Total equity		**148,908**	**141,469**

Consolidated Statement of Changes in Equity

for the year ended 31 March 2021

	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
Balance as at 31 March 2019		**13,246**	**53,625**	**(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		-	-	(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		-	655	-	(655)	-	-	-
Transactions with owners								
Distributions Paid	12	-	(1)	-	-	(1)	-	(1)
Total transactions with owners		-	(1)	-	-	(1)	-	(1)
Balance as at 31 March 2020		**13,246**	**60,482**	**(2,395)**	**69,361**	**140,693**	**775**	**141,469**
Profit for the year		-	5,862	-	-	5,862	(36)	5,826
Other comprehensive profit								
Interest rate swaps		-	-	1,114	-	1,114	-	1,114
Revaluation of land and buildings		-	-	-	500	500	-	500
Total other comprehensive profit		-	-	1,114	500	1,614	-	1,614
Transfer from retained earnings		-	649	-	(649)	-	-	-
Transactions with owners								
Distributions Paid	12	-	(1)	-	-	(1)	-	(1)
Total transactions with owners		-	(1)	-	-	(1)	-	(1)
Balance as at 31 March 2021		**13,246**	**66,992**	**(1,281)**	**69,212**	**148,169**	**739**	**148,908**
Attributable to Trust Equity		**13,246**	**66,992**	**(1,281)**	**69,212**	**148,169**	**-**	**148,169**

Consolidated Statement of Cash Flow

for the year ended 31 March 2021

	Note	Group 2021 $'000	Group 2020 Restated $'000
Operating activities			
Cash generated from operations	22	33,518	19,321
Interest received	3	7	29
Interest paid	3	(2,832)	(3,052)
Income taxes paid	16	(1,794)	(13)
Net cash inflow from operating activities		**28,900**	**16,286**
Investing activities			
Purchase of property plant and equipment		(28,841)	(19,888)
Acquisition due to business combinations	25	-	(18,333)
Purchase of intangible assets		(464)	(531)
Proceeds on disposal of property, plant and equipment		410	369
Net cash outflow in investing activities		**(28,895)**	**(38,383)**
Financing activities			
Capital Distributions to Customers	12	(1)	(1)
Lease liability paid	21	(180)	(85)
Bank borrowings repaid	18	(5,154)	(167)
Bank borrowings advanced	18	3,667	22,210
Net cash (outflow)/inflow from financing activities		**(1,668)**	**21,957**
Net cash inflow from discontinuing operations	11	**1,232**	**797**
Net (decrease)/increase in cash and cash equivalents		(431)	657
Cash and cash equivalents at the beginning of the year		1,837	1,180
Cash and cash equivalents at the end of the year		**1,406**	**1,837**

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 Influx Energy Data Ltd (formerly 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 electrical meter services, 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 15th September 2021.

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, assets of a disposal group classified as held for sale 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.

The prior year statement of comprehensive income and cash flows have been restated due to discontinuing operations identified in the current year. The restatement is documented in note 27.

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, contract assets and liabilities	Page **8**
Note 7	Trade and other receivables	Page **16**
Note 8	Inventories	Page **16**
Note 9	Valuation of network distribution system	Page **19**
Note 10	Intangible assets	Page **20**
Note 11	Assets of a disposal group classified as held for sale	Page **21**
Note 20	Provisions	Page **32**
Note 24.2	Financial instruments	Page **38**

Notes to the Consolidated Financial Statements

for the year ended 31 March 2021

1. Revenue from contracts with customers

		Group 2021 $'000	Group 2020 $'000
Revenue recognised over time			
Network before discounts		39,540	45,723
Transition discount		-	(1,870)
Less network discount	12	(3,800)	(5,600)
Network revenue		**35,740**	**38,253**
Electricity meter revenue		**17,721**	**10,750**
Revenue from electrical contracts which were unsatisfied and included in contracts assets and liabilities		243	135
Revenue from completed electrical contracts		1,305	2,111
Electrical contracting revenue		**1,548**	**2,246**
Revenue		**55,009**	**51,249**

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 2021 $'000	Group 2020 $'000
Electrical contracts assets due to percentage of completion	301	248
Network unbilled network revenue	2,283	3,214
Contract assets	**2,584**	**3,462**
Network customer credit balances	(1,316)	(1,570)
Contract liabilities	**(1,316)**	**(1,570)**

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 three streams of revenue

- Network revenue
- Electricity meter 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. Payment terms are within 30 days.

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

Network revenue in 2020 is subject to a prompt payment discount. A 10% prompt payment discount is offered when customers pay within a specific time period. This was removed in 2021.

A network discount is approved annually and paid in December and May. The network discount was paid in December in the prior year. 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 the number of days. Revenue is recognised over time as and when the services are provided. 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 statement of financial position 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:

• 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).

• 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 2021 $'000	Group 2020 (Restated) $'000
Transmission charges	5,521	6,495
Total staff cost recognised as expense (1)	11,451	11,641
Cost of inventories recognised as expense	1,316	4,076
Professional fees	2,773	2,734
Low value or short term leases not included in leases (Note 20)	72	150
Property expenses	700	679
Directors fees and expenses	282	299
Gain on disposal of property, plant and equipment and software intangibles	(79)	(162)
Other expenses	3,383	870
Total	**25,419**	**26,782**

(1) The Lines Company applied for and received a wage subsidy of $637k from the Ministry of Social Development due to experiencing a 32% decline in gross revenue when comparing April 2020 to April 2019. The wage subsidy has been netted off against the total staff cost line of expenditure, in line with the Group's Government Grant accounting policy.
The gross revenue decline was a result of the Company removing variable charges for all 13,000 of its residential customers during April 2020. The Company expected its customers' energy usage would increase when remaining in their homes during the Covid-19 enforced lockdown and as a result would experience increased financial hardship.

The Company determined that gross revenue, as opposed to net revenue as recorded in the financial statements, was the most appropriate basis for computing the revenue decline for the Company. This is due to net revenue in April 2019 including transition discounts and prompt payment discounts which were not offered in April 2020. In addition, net revenue includes the TLC discount which is set at the beginning of the year. This discount is determined alongside the Company's Shareholder WESCT and is not reflective of pricing for all customers across the network.

Policies

Government grants relating to costs are deferred and recognised in profit and loss over the period necessary to match them with the costs that they are intended to compensate.

Fees paid to auditors	Group 2021 $'000	Group 2020 $'000
Financial statements audit fee	200	221
Regulatory audit fees	102	98
Regulatory agreed upon procedures	15	69
OAG fees	10	20
Regulatory and professional advice	-	36
Total	**327**	**444**

3. Interest costs (net)

	Group 2021 $'000	Group 2020 $'000
Interest on bank borrowings	2,779	2,956
Capitalised interest	(364)	(350)
Interest on lease liabilities	38	15
Interest on subordinated debentures	52	90
Other interest expense, principally IRD Use of Money	1	6
Interest income	(5)	(28)
Total	**2,500**	**2,689**

The weighted average interest rate on bank borrowings, including interest rate swap derivatives, is 3.23% (2020: 3.70%)

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

	Group 2021 $'000	Group 2020 (Restated) $'000
Interest costs (net)	2,500	2,689
Less lease liability interest	(38)	(15)
Add capitalised interest	364	350
Net interest paid per the statement of cash flow	2,825	3,024
Interest received per the statement of cash flow	(7)	(29)
Interest paid per the statement of cash flow	2,832	3,052
Total	**2,825**	**3,023**

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. Income tax expense

Reconciliation of income tax expense		Group 2021 $'000	Group 2020 $'000
Profit before income tax from continuing operations		9,572	7,860
(Loss)/profit before income tax from discontinuing operations	11.3	(1,301)	231
Profit before tax		8,271	8,091
Expenses that are non-deductible		360	232
Reversal of impairment of associate		(40)	(786)
Impairment of assets		128	527
Plus Imputation Credits		97	78
Effect of income that is not assessable		2	2
Taxable profit		8,818	8,144
Income tax expense at 28%		2,528	2,322
Income tax expense at 33%		13	17
Benefit of imputed dividends		(97)	(78)
Change in tax legislation regarding depreciation on buildings		-	(690)
Effect of prior period tax adjustment		1	(41)
Income tax expense		**2,445**	**1,530**
Effective tax rate (being total tax expense divided by profit before tax)		30%	19%
Current tax expense		1,836	2,063
Deferred tax expense		609	(533)
Income tax expense		2,445	1,530
Attributable to:			
Continuing activities		2,759	1,475
Discontinuing activities		(314)	65

Amounts recognised directly in other comprehensive income

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

Deferred tax – debited/(credited) directly to other comprehensive income	627	(4,398)
Total tax expense/(income) for the year recognised in other comprehensive income	627	(4,398)

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 2021 is $7.76m (2020 – $7.86m).

5. Operational profit before discontinuing operations

	Group 2021 $'000	Group 2020 $'000
Earnings before interest, tax, depreciation and amortisation (EBITDA)		
Network	20,421	21,425
Meters and relays	12,986	7,367
Network services	1,072	1,400
Investment	5	11
Corporate services	(5,278)	(6,029)
EBITDA	**29,207**	**24,174**
Depreciation and amortisation	(17,041)	(13,863)
Impairment of associate	40	786
Impairment of assets	(128)	(527)
Earnings before interest and tax (EBIT)	**12,078**	**10,570**
Interest costs (net)	(2,506)	(2,700)
Profit/(loss) before tax	**9,572**	**7,870**

6. Cash and cash equivalents

	Group 2021 $'000	Group 2020 $'000
Cash at bank on hand	1,406	1,837
Total	**1,406**	**1,837**

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 statement of financial position.

7. Trade and other receivables

	Group 2021 $'000	Group 2020 $'000
Trade receivables		
Trade receivables	3,716	4,273
Less loss allowance (note 24.2)	(193)	(340)
Balance at 31 March	3,523	3,933
Other receivables		
Sundry debtors	-	27
Accrued Interest	2	3
Prepayments	976	702
Balance at 31 March	978	732
Total trade and other receivables balance at 31 March	**4500**	**4,665**
Ageing of trade receivables		
Current to 90 days	4,436	4,499
Greater than 90 days	247	503
Total	**4,683**	**5,002**

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 24.2.

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 2021 $'000	Group 2020 $'000
Network stock	1,296	1,375
Transformers	499	509
Total	**1,795**	**1,884**

Policies

Inventories are stated at average cost.

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.

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								
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
Additions	-	173	20,383	8,401	1,403	-	159	30,519
Disposals	-	-	-	(80)	(2,527)	(105)	(119)	(2,831)
Assets reclassified to held for sale	(116)	(139)	-	-	(41)	(22,061)	-	(22,357)
Land and building revaluation	116	578	-	-	-	-	-	694
Capital works in progress movement	-	-	(1,402)	-	-	-	-	(1,402)
At 31 March 2021	**1,503**	**3,083**	**304,981**	**55,008**	**10,780**	**217**	**793**	**376,365**
Accumulated amortisation and impairment								
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
Depreciation charge	-	55	8,155	4,789	1,150	399	146	14,694
Assets reclassified to held for sale	-	(20)	-	-	(37)	(5,800)	-	(5,857)
Disposals	-	-	-	-	(2,500)	-	-	(2,500)
At 31 March 2021	**-**	**145**	**74,100**	**25,424**	**6,980**	**135**	**333**	**107,117**
Carrying amount (Net book value)								
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
At 31 March 2021	**1,503**	**2,938**	**230,881**	**29,584**	**3,800**	**82**	**460**	**269,248**
Carrying amount (Cost model)								
At 31 March 2020	855	1,806	145,191	26,132	3,584	16,847	566	194,981
At 31 March 2021	**159**	**397**	**168,867**	**29,584**	**3,800**	**82**	**460**	**203,349**

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 $6.9 million (2020: $8.8 million) included in network distribution assets.

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.

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 3 – 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 at Te Peka Street Taumarunui, Old Station Road Ohakune, depots at Waitete Road Te Kuiti , the residential dwellings at Te Peka Street Taumarunui and head office at King Street East Te Kuiti were revalued to $4.2 million at 31 March 2021. 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. The Group has updated the key inputs and developed an estimate valuation range in the current year. Based on the Group's updated estimated valuation range at 31 March 2021, the Group considered that the carrying value of networks of $231 million,(which is the prior year adjusted for FY21 additions and depreciation) can be retained, as the carrying amount materially reflects the fair value of the network assets at 31 March 2021.

The prior year value was within the valuation range ($215.5 million – $226.2 million), independently prepared by Deloitte and the key assumptions used in the prior year valuation 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).

10. Intangible assets

	Software	Land Easements	Resource Consents & Rights	Intellectual Property	Customer Contracts	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost						
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
Assets reclassified to held for sale	-	(258)	(818)	-	-	(1,076)
Disposals	(2,541)	-	-	-	-	(2,541)
Impairment	-	-	-	(128)	-	(128)
Additions	464	-	-	-	-	464
At 31 March 2021	**6,327**	**267**	**-**	**-**	**10,661**	**17,255**
Accumulated amortisation and impairment						
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
Amortisation charge for the year	693	-	-	-	2,068	2,761
Disposals	(2,541)	-	-	-	-	(2,541)
Assets reclassified to held for sale	-	-	(186)	-	-	(186)
At 31 March 2021	**2,777**	**-**	**-**	**-**	**3,140**	**5,917**
Carrying amount (net book value)						
At March 2019	3,846	417	632	-	-	4,895
At March 2020	**3,779**	**525**	**632**	**128**	**9,589**	**14,653**
At March 2021	**3,550**	**267**	**-**	**-**	**7,521**	**11,338**

Policies

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

Intellectual property has an indefinite life and is assessed annually for impairment.

Customer contract assets are contractual income streams assessed with the legacy metering business acquired in the prior financial year. These are depreciated over seven years in line with the expected rate of decline in revenue.

11. Assets and liabilities of a disposal group classified as held for sale

11.1 Assets of a disposal group classified as held for sale

	Group 2021 $'000	Group 2020 $'000
Assets transferred from property, plant and equipment (Note 9)	16,500	-
Assets transferred from intangible assets (Note 10)	890	-
Capital works in progress	123	-
Impairment of assets	(2,169)	-
Assets held for sale relating the disposal of the generation business	15,344	-

In the current financial year the Group was given authority to dispose of its three hydro stations. The Group has signed two sale agreements and is awaiting settlement terms to be met. It is estimated that the sale should be finalised in July 2021.

Based on the current sale agreements the assets are considered to have a value of $15.5 million. Ownership of the three generation assets was transferred on the 19 July 2021.

The operations regarding these three hydro sites have been disclosed separately from the continuing operations. The statement of comprehensive income and cash flows have been restated in the prior years. See Note 27.

11.2 Convertible notes issued by subsidiary of a disposal group classified as held for sale

	Group 2021 $'000	Group 2020 $'000
Convertible notes issues by a subsidiary	950	-
Convertible notes issued by subsidiary held for sale relating the disposal of the generation business	950	-

Convertible noted issued by a subsidiary are discussed in detail in note 18.

Policies

Assets held for sale have been valued at the lower of fair value less cost to sell and its carrying value. An impairment loss has been recognised of $2.2 million at 31 March 2021.

11.3 (Loss)/profit for the year on discontinuing operations

	Group 2021 $'000	Group 2020 $'000
Revenue	1,849	1,283
Operating expenses	(508)	(373)
Depreciation	(414)	(616)
Interest costs	(57)	(63)
Audit fee	(2)	
Impairment of assets	(2,169)	-
(Loss)/profit before tax	(1,301)	231
Income tax	314	(65)
(Loss)/profit for the year on discontinuing operations	**(987)**	**166**
Non-controlling interest from discontinuing operations	**(36)**	**(11)**
Total comprehensive (loss)/profit from discontinuing operations	**(1,023)**	**155**

11.4 Net cash inflow from discontinuing operations

	Group 2021 $'000	Group 2020 $'000
Net cash inflow from operating activities	1,282	847
Net cash outflow from financing activities	(50)	(50)
Net cash inflow from discontinuing operations	**1,232**	**797**

12. Distributions

During the year TLC agreed with the Trust to provide a network discount of $3.8 million (2020: $5.6 million) direct to eligible consumers (refer note 1).

13. Investments

13.1 Investment in subsidiaries

Name	Principal activity	Ownership Interest 2021 %	Ownership Interest 2020 %
The Lines Company Ltd	Conveyance of electricity	100	100
Influx Energy Data 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.

FCL Metering Limited changed its name to Influx Energy Data Limited on 12 April 2021.

GoodMeasure Limited was amalgamated into Influx Energy Data Limited on 1 November 2020.

Intra-group transactions are eliminated on consolidation.

Balance dates

All subsidiaries have a financial year end of 31 March.

Geography

All subsidiaries are incorporated in New Zealand.

13.2 Investment in associates

On 26 September 2019, Embrium Holdings Limited went into liquidation and ceased trading. Assets and intellectual property associated with GoodMeasure were purchased by the Group. GoodMeasure Limited was amalgamated into Influx Energy Data Limited on 1 November 2020.

	Group 2021 $'000	Group 2020 $'000
Reversal of impairment of loan receivable	40	786

14. Equity and reserves

14.1. Total Equity and minority interest

	Group 2021 $'000	Group 2020 $'000
Trust reserves	148,169	140,694
Minority interest share	739	775
Total Equity	148,908	141,469

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 within 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 24.1. 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 mitigate the risk that the hedging instrument materially differs from 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 2021 $'000	Group 2020 $'000
Opening balance	(2,529)	(1,827)
Changes in fair value of hedging instrument recognised in other comprehensive income (OCI)	1,547	(975)
Deferred tax	(433)	273
Closing balance	**(1,415)**	**(2,529)**

14.3. Revaluation reserve

	Network Distribution System $'000	Land & buildings $'000	Total $'000
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
Transfer from retained earnings	(649)	-	(649)
Revaluation increases	-	694	694
Deferred tax on revaluation	-	(194)	(194)
Total at 31 March 2021	**67,834**	**1,378**	**69,212**

15. 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 2021 $'000	Group 2020 $'000
Summarised statement of financial position		
Total current assets	681	329
Total non-current assets	7,043	7,794
Total assets	7,724	8,123
Total current liabilities	3,936	1,081
Total noncurrent liabilities	831	3,942
Total liabilities	4,767	5,023
Net assets	2,957	3,100
Accumulated non-controlling interest	**739**	**775**
Summarised statement of comprehensive income		
Revenue	1,020	671
Total comprehensive loss	(144)	(44)
Loss allocated to non-controlling interest	**(36)**	**(11)**
Dividends paid to non-controlling interest	**-**	**-**
Summarised statement of cash flows		
Cash flows from operating activities	196	211
Cash flows from investing activities	-	(16)
Cash flows from financing activities	(200)	(200)
Net decrease in cash and cash equivalents	(4)	(5)

16. Current tax liability

	Group 2021 $'000	Group 2020 $'000
Opening balance	1,758	(292)
Tax payments and tax credits received	(1,794)	(13)
Current tax expense for the year	1,836	2,063
Closing balance	**1,800**	**1,758**

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 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 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)	(133)	49,024
Charged to income	629	-	64	(84)	609
Charged to other comprehensive income	194	433	-	-	627
At 31 March 2021	**51,373**	**(550)**	**(345)**	**(218)**	**50,260**

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.

18. Bank borrowings, convertible notes and subordinated debentures

	Group 2021 $'000	Group 2020 $'000
Bank Borrowings	89,012	90,499
Convertible notes issued by subsidiary	950	1,000
Subordinated debentures:		
North King Country Development Trust	2,000	2,000
	91,962	93,499
Disclosed in the financial statements as:		
Current borrowings	3,677	2,204
Convertible notes issued by subsidiary of a disposal group classified as held for sale	950	-
Non-current borrowings	87,335	91,295
Total	**91,962**	**93,499**

Reconciliation of net debt

	Borrow. due within 1 year	Borrow. due after 1 year	Total
	$'000	$'000	$'000
Balance at 1 April 2019	250	71,256	71,506
Repayment of convertible note	(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 at 31 March 2020	2,204	91,295	93,499
Repayment of convertible notes	(50)	-	(50)
Movement between current and non-current debt	4,477	(4,477)	-
Facility drawdown	-	3,667	3,667
Repayment of loans	(2,004)	(3,150)	(5,154)
Net debt as at 31 March 2021	**4,627**	**87,335**	**91,962**

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. In addition there is a working capital facility of $8 million and is subject to annual renewal and expires on 31 December 2021.

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 (2021: 5.96%) (2020: 6.29%). The convertible notes issued to TLC are eliminated on consolidation in the Group financial statements.

On 30 September 2020, $200,000 of the convertible notes were repaid reducing the balance to $2.85 million to TLC and $950k 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 who are entitled to act in what they reasonably consider to be in the best interests of SRHL.

	Maturity date	TLC $'000	Minority shareholder	2021 $'000
Tranche A1	30/09/2023	600	200	800
Tranche B1	30/09/2024	600	200	800
Tranche C2	30/09/2025	450	150	600
Tranche D1	30/09/2026	600	200	800
Tranche E1	30/09/2023	600	200	800
		2,850	950	3,800

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.

The convertible notes form part of the disposal group classified as held for sale. As the sale is expected to be completed within 12 months the notes are considered to be a current liability.

Subordinated debentures

The North King Country Development Trust (NKCDT) loan has a principal value of $2,000,000 and has fixed interest of 5.00% per annum (2020: 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.

19. Trade and other payables

	Group 2021 $'000	Group 2020 $'000
Trade creditors	5,001	3,452
Interest accruals	264	304
TLC discount accrual	1,592	-
Other payables and accruals	570	642
Total	**7,427**	**4,398**

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 2021 $'000	Group 2020 $'000
Opening balance	1,645	1,416
Acquisition due to business combinations	-	23
Accrued	1,952	1,622
Utilised	(1,502)	(1,416)
Total	**2,095**	**1,645**

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. Lease liabilities

	Group 2021 $'000	Group 2020 $'000
Lease liabilities		
Current	87	109
Non-current	394	479
Total lease liabilities	**481**	**588**
Opening balance	588	298
New lease entered into during the year	159	360
Reassessment of lease terms	(124)	
Interest on lease liabilities (note 3)	38	15
Cash outflow for leases	(180)	(85)
Total lease liabilities	**481**	**588**

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.

22. Cash generated from operations

	Group 2021 $'000	Group 2020 $'000
Profit before tax	9,572	7,860
Interest costs (net)	2,500	2,689
Net profit before interest	12,072	10,549
Adjustments for non-cash items		
Accrued Interest	(2)	(2)
Depreciation and amortisation	17,041	13,863
Impairment of associate	-	(786)
Impairment of assets	128	527
Gain on disposal of property, plant and equipment and intangible assets	(79)	(162)
Movement in provision for doubtful debt	147	(117)
	29,307	23,872
Changes in net assets and liabilities		
Trade and other receivables	18	(743)
Contract assets and liabilities	624	(1,469)
Inventories	89	(59)
Trade and other payables	3,030	(2,486)
Provision for staff entitlements	450	206
Cash generated from operations	**33,518**	**19,321**

23. Capital Commitments, contingent assets and liabilities

Capital Commitments

The Trust's subsidiary The Lines Company Ltd has capital commitments of $5.8 million (2020: $1.6 million) relating to metering and network assets.

Contingent assets

The Group has no contingent assets (2020: $0 million).

Contingent liabilities

Due to The Lines Company's 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 FY2022 as a result of the investigation (2020: $0 million).

24. 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.

24.1 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 51% (2020: 41%) of the variable loan outstanding. The fixed interest rate of the swaps range between 0.75% and 5.12% (2020: 2.13% and 5.12%) and the variable rates of the loans between 1.74% and 1.68% (2020: 2.49% and 1.89%) above the 90-day bank bill rate which at the end of the reporting period was 0.35% (2020: 1.35%).

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 2021 $'000	Group 2020 $'000
Interest rate swaps		
Non-current liability (net of financial assets)	(1,965)	(3,512)
Mark to market fair value of interest rate swaps at 31 March	**(1,965)**	**(3,512)**
Notional amount	46,000	37,000
Maturity date	Jun 21 to Jun 27	Jun 20 to Jun 26
Hedge Ratio	1:1	1:1
Non-current liability (net of financial assets) attributable to:		
Financial assets	133	-
Financial liabilities	(2,098)	(3,512)
	(1,965)	**(3,512)**
Change in fair value of outstanding hedging instruments	(1,572)	(975)
Change in value of hedge item used to determine hedge effectiveness	1,572	975
Weighted average hedged rate for the year	3.11%	3.85%

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 2021 $'000	Group 2020 $'000
Impact on statement of comprehensive income		
- 1% change in interest rates	(320)	(385)
+ 1% change in interest rates	320	385
Impact on statement of financial position		
- 1% change in interest rates	(367)	(403)
+ 1% change in interest rates	367	403

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 2021 or 2020 in relation to interest rate swaps.

24.2 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 2021 and 31 March 2020 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 2021 and 31 March 2020 (on adoption of NZ IFRS 9) was determined as follows for both trade receivables and contracts assets:

31 March 2021	Less than 90 days past due	More than 90 days past due	Total
Expected loss rate	0%	78%	
Gross carrying amount - trade receivables	4,436	247	**4,683**
Gross carrying amount – contract assets	2,283	-	**2,283**
Loss allowance		**193**	**193**

31 March 2020	Less than 90 days past due	More than 90 days past due	Total
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**

The closing loss allowance for trade receivables as at 31 March 2021 reconciles to the opening loss allowances as follows:

	Group 2021 $'000	Group 2020 $'000
Opening balance	340	457
Increase in loss allowance recognised in profit and loss	50	162
Receivables written off during the year as uncollectible	(197)	(279)
Loss allowance closing balance	**193**	**340**

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 2021				
Derivative financial liabilities	-	(2,098)	-	(2,098)
Derivative financial assets	-	133	-	133
Group 2020				
Derivative financial liabilities	-	(3,512)	-	(3,512)

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

Financial instruments by category

2021	Financial assets at amortised cost $'000	Financial liabilities at amortised cost $'000	Financial liability at fair value through profit and loss $'000	Total $'000
Cash and bank balances	1,406	-	-	1,406
Trade and other receivables	3,525	-	-	3,525
Contract assets	2,584	-	-	2,584
Total financial assets	**7,514**	**-**	**-**	**7,514**
Trade and other payables	-	7,427	-	7,427
Contract liabilities	-	1,316	-	1,316
Lease liabilities	-	481	-	481
Borrowings	-	88,012	-	88,012
Other financial liabilities	-	-	1,965	1,965
Total financial liabilities	**-**	**97,236**	**1,965**	**99,201**
2020				
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

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.

24.3 Capital risk

During 2021, the Group's strategy, which was unchanged from 2020, was to maintain an equity/assets ratio of not less than 40%.

The ratio at March 2021 and 2020 were as follows:	**Group 2021 $'000**	**Group 2020 $'000**
Average equity (including subordinated debentures)	147,189	149,135
Total assets at year end	306,433	297,032
Equity to Assets Ratio	**48%**	**50.2%**

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 2020 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.

24.4 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	7,427	-	-	7,427
Variable interest rate instruments	-	4,627	87,300	91,927
At 31 March 2021	**7,427**	**4,627**	**87,300**	**99,354**
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

The table includes both interest and principal cash flows.

Variable rate instruments include the impact of derivatives.

There are $3.0 million of subordinated debentures (note 18) 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 2021 $'000	Group 2020 $'000
Total facility	85,400	85,400
Undrawn facility	14,295	13,644

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 2021.

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.

24.5 Electricity price risk

Policies

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

25. Related party transactions

	Group 2021 $'000	Group 2020 $'000
Transactions with Maru Energy Trust		
Donations to Maru Energy Trust	100	100
Transactions with key management personnel		
Trustee Fees Paid	110	88
Outstanding at balance date	-	-
Transactions with Speedy's Road Trust		
Interest paid on convertible notes	57	64
Transactions with North King Country Development Trust		
Interest paid on subordinated debentures	52	91
Balances with related parties		
Maru Energy Trust Receivable/(Payable)	27	(23)
Convertible note with Speedy's Road Trust	950	1,000
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 and a trustee on Maru Energy Trust. Mark Darrow is a director of Speedys Road Hydro Limited.

Bella Takiari-Brame is a trustee of North King Country Development Trust.

The following Trustees of Waitomo Energy Services Customer Trust are also customers of The Lines Company Ltd for residential and/or business supplies – Erin Gray, Peter Keeling, William Oliver, Janette Osborne, Cathy Prendergast and Carolyn Christian.

26. Subsequent events

The Group signed a disposal agreement with regards to the three hydro stations classified as held for sale at year end. Ownership of the three generation assets was transferred on the 19 July 2021 to Southern Generation Partnership Limited.

27. Impact of discontinuing operations on the prior year statement of comprehensive income and cash flow

Extract of statement of comprehensive income for 31 March 2020	**Group 2020 Originally presented $'000**	**Group Discontinuing operations $'000**	**Group 2020 Restated $'000**
Revenue	52,532	(1,283)	51,249
Operating expenses	(27,155)	373	(26,782)
Depreciation and amortisation	(14,479)	616	(13,863)
Interest costs (net)	(2,752)	63	(2,689)
Impairment of assets	(527)	-	(527)
	(314)		(314)
Total expenses	(45,227)	1,052	(44,175)
Reversal of impairment of associate	786	-	786
Profit before tax	8,091	(231)	7,860
Income tax expense	(1,540)	65	(1,475)
Profit for the year from continuing operations	6,552	(166)	6,386
Profit for the year from discontinuing operations	-	166	166
Profit for the year	6,552	-	6,552
Profit for the year is attributable to:			
Equity holders of the parent	6,563	-	6,563
- Profit for the year from continuing operations	6,563	(166)	6,397
- Profit for the year from discontinuing operations	-	166	166
Non-controlling interest from discontinuing operations	(11)	-	(11)

Extract of statement of cash flow for 31 March 2020	Group 2020 Originally presented $'000	Group Discontinuing operations $'000	Group 2020 Restated $'000
Operating activities			
Cash generated from operations	20,231	(910)	19,321
Interest received	30	-	30
Interest paid	(3,115)	63	(3,052)
Income taxes paid	(13)	-	(13)
Net cash inflow from operating activities	**17,133**	**(847)**	**16,286**
Investing activities	**(38,383)**	**-**	**(38,383)**
Financing activities			
Capital distributions to customers	(1)	-	(1)
Convertible notes in subsidiary sold to non-controlling interest	(50)	50	-
Lease liability paid	(85)	-	(85)
Bank borrowing advanced	22,043	-	22,043
Net cash inflow from financing activities	**21,907**	**50**	**21,957**
Net cash inflow from discontinuing operations	**-**	**797**	**797**
Net increase in cash and cash equivalents	657	-	657
Cash equivalents at the beginning of the year	1,180	-	1,180
Cash and cash equivalents at the end of the year	**1,837**	**-**	**1,837**

WAITOMO ENERGY SERVICES CUSTOMER TRUST
INCOME AND EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 MARCH 2021

	31 Mar 2021	31 Mar 2020
REVENUE	$	$
Interest Received		
The Lines Company Ltd	74,200	74,200
BNZ	5,491	10,576
Dividends Received (net of ICA credits)		
The Lines Company Ltd	250,000	200,000
Total Income	329,691	284,776
LESS EXPENSES		
Accountancy	12,489	13,354
Recruitment Advertising	17,462	2,918
Audit Fee	7,082	8,236
Bank Fees	63	51
Beneficiary Communications	25,447	11,856
Computer Expenses	342	334
Conference Expenses	8,810	6,799
Consultancy	2,300	55,636
Election Expenses	83,623	3,130
General Office Expenses	4,045	945
Legal Fees	15,024	16,911
Insurance	9,516	7,803
Interest	371	276
Meeting Expenses	1,556	1,786
Postage	273	199
Printing & Stationery	123	829
Subscriptions	5,281	10,561
Telephone	662	1,096
Travelling Expenses	7,656	6,985
Trustee Fees	109,878	87,644
Secretarial Fees	76,770	76,338
Total Expenses	388,771	313,686
Net Operating Surplus/(Deficit) before Depreciation & Taxation	(59,080)	(28,910)
Tax benefit/(expense)	(13,115)	(26,284)
Plus non-refundable imputation credits	97,222	77,777
Trust Income after Taxation	25,027	22,583
Net Profit/(Loss)	**25,027**	**22,583**

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 2021

	As at 31 Mar 2021 $	As at 31 Mar 2020 $
Current assets		
Bank of New Zealand Account	248	4,325
Bank of New Zealand On Call Account	88,452	78,714
Trade Debtors	0	-
Prepayments	8,723	-
Accrued Interest	1,556	3,156
Term Deposits	300,000	345,000
Current Tax Asset	43,974	42,157
Future tax benefit	217,940	133,833
	660,894	607,186
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	**60,324,774**	**60,271,066**
Current liabilities		
Accounts Payable	56,411	26,687
	56,411	26,687
Total liabilities	**56,411**	**26,687**
Net assets	**60,268,363**	**60,244,378**
EQUITY		
Trust Equity	60,268,363	60,244,379
Total equity	**60,268,363**	**60,244,378**

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 2021

	As at 31 Mar 2021 $	As at 31 Mar 2020 $
Income and Credits		
Balance at beginning	60,244,378	60,222,370
Net Profit/(Loss)	25,027	22,583
	60,269,405	60,244,952
Appropriated as follows		
Capital Distribution to owners	1,041	574
	1,041	574
	60,268,363	**60,244,378**

Trust Equity is made up of

Trust Capital	11,929,532	11,929,532
Revaluation Reserves	39,051,692	39,051,692
Retained Earnings	9,287,139	9,263,154
	60,268,363	**60,244,378**

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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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 2 to 47, which comprise the consolidated statement of financial position as at 31 March 2021, 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 2021, 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

15 September 2021