Financial Statements

For the year ended 31 March 2018

EASTERN BAY ENERGY TRUST

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Whakatane

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Energising Our Community

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Trustees' declaration

In the opinion of the Trustees of the Eastern Bay Energy Trust, the Consolidated Financial Statements and the notes, on pages 4 to 33:

- comply with New Zealand generally accepted accounting practice and fairly present the financial position of the Trust as at 31 March 2018 and the results of its operations and cash flows for the year ended on that date.

- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The Trustees believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Trust and facilitate compliance of the Financial Statements with the Financial Reporting Act 2013.

The Trustees consider that they have taken adequate steps to safeguard the assets of the Trust, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the Financial Statements.

The Trustees are pleased to present the financial report, incorporating the Consolidated Financial Statements of the Eastern Bay Energy Trust for the year ended 31 March 2018.

For and on behalf of the Board of Trustees:

Don Lewell	David Bulley	Wade Brown
Chair	Deputy Chair	Trustee
27 July 2018	27 July 2018	27 July 2018

DIRECTORY

Manager	Rawinia Kamau
Trust Office	5 Richardson Street Whakatane
Postal	PO Box 567, Whakatane 3158
Phone	07 307 0893
Freephone	0800 323 800
Fax	07 307 0896
Email	ebetrust@ebet.org.nz
Website	www.ebet.org.nz

Trustees

Chairman	Don Lewell	07 308 7244
Deputy Chairman	David Bulley	07 312 5874
Trustees	Edwina O'Brien	07 323 8513
	Kevin Hennessy	07 315 7348
	Wade Brown	021 530 245
	Aaron Milne	021 053 0557

Advisors

Legal	Sharp Tudhope	Tauranga
	OAC Limited	Whakatane
Accountants	Arrow Accountants Limited	Whakatane
Auditors	KPMG	Tauranga
Bankers	ASB Bank	Tauranga
	Westpac Bank	Auckland

Directors on Related Party Boards

	EBET Trustee
Development Enterprises Ltd	Don Lewell Kevin Hennessy Edwina O'Brien David Bulley Wade Brown Aaron Milne
DEL Property Investment Ltd	Wade Brown Kevin Hennessy

EASTERN BAY ENERGY TRUST
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018

	Notes	2018 $000	2017 $000
ASSETS			
Current Assets			
Cash and cash equivalents		957	954
Short term deposits		2,300	1,600
Trade and other receivables	10	26,935	35,362
Inventories and work in progress	11	4,447	4,874
Current tax assets		246	631
Total Current Assets		34,885	43,421
Non-Current Assets			
Property, plant and equipment	12	152,755	147,780
Intangible assets	13	26,516	26,719
Restricted bank deposits		368	334
Derivative Financial Instruments		33	189
Other receivables		73	73
Other investments	14	6,093	5,499
Total Non-Current Assets		185,838	180,594
Total Assets		220,723	224,015
LIABILITIES			
Current Liabilities			
Trade and other payables	15	20,037	22,389
Grants owing		1,935	1,436
Provision for staff entitlements	15	4,790	4,696
Construction work in progress	20	8,244	10,922
Term loans	17	2,300	2,000
Derivative financial instruments		110	78
Deferred capital contributions	18	18	18
Provisions	16	1,690	1,246
Total Current Liabilities		39,123	42,785
Non-Current Liabilities			
Provision for staff entitlements	15	146	137
Deferred capital contributions	18	503	521
Term loans	17	56,419	65,969
Derivative financial instruments		1,674	1,824
Total Non-Current Liabilities		58,742	68,451
Total Liabilities		97,865	111,236
Net Assets		**122,858**	**112,779**
EQUITY			
Capital	8	26,638	26,638
Reserves	9	57,327	56,775
Retained earnings		38,893	29,366
Total Equity		**122,858**	**112,779**

These financial statements have been authorised for issue by the Board of Trustees on 27 July 2018

Trustee.................. Trustee.................. Trustee..................

Date: 27/7/18

The notes on page 8 to 33 are integral to these Financial Statements

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EASTERN BAY ENERGY TRUST
CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSES
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018	2017
		$000	$000
Operating revenue	6	185,960	196,189
Operating expenses	6	(171,830)	(184,511)
Operating surplus		14,130	11,678
Other Income			
Dividend income		95	61
Realised gain on sale of shares		-	1
		95	**62**
Financing Income and Expenses			
Interest income		155	95
Interest expense		(2,876)	(3,026)
Fair value gain/(loss) of financial derivatives		(38)	1,140
		(2,759)	(1,791)
Surplus before tax		11,466	9,949
Income tax benefit	7	123	1,080
Surplus / (deficit) after tax from continuing operations		11,589	11,029
Surplus for the year		11,589	11,029
Other comprehensive surplus / (deficit)			
Fair value gain of Investments in NZ and International shares (or "equities")	9	110	114
Fair value gain of OTK Orchards	9	506	395
(Loss)/gain on foreign currency translation	9	(65)	(27)
Other comprehensive surplus for the year net of tax		551	482
Total comprehensive surplus for the year		12,140	11,511

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The notes on page 8 to 33 are integral to these Financial Statements

EASTERN BAY ENERGY TRUST
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	Trust Capital $000	Retained Earnings $000	Foreign Currency Translation Reserve $000	Revaluation Reserve $000	Fair Value Reserve $000	Total $000
Balance as at 31 March 2016 (restated)	9	26,638	20,031	25	56,094	174	102,962
Total comprehensive revenue		-	11,029	(27)		509	11,511
Unclaimed Dividends Added Back		-	45			-	45
Dividends paid to non-controlling interests		-	(3)			-	(3)
Grants paid and approved		-	(1,736)			-	(1,736)
Balance as at 31 March 2017 (restated)	9	**26,638**	**29,366**	**(2)**	**56,094**	**683**	**112,779**
Total comprehensive revenue		-	11,589	(65)		616	12,140
Grants paid and approved		-	(2,061)			-	(2,061)
Balance as at 31 March 2018	9	**26,638**	**38,894**	**(67)**	**56,094**	**1,299**	**122,858**

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EASTERN BAY ENERGY TRUST
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 $000	2017 $000
Operating activities			
Cash receipts from customers		189,639	198,161
Cash paid to suppliers		(166,493)	(174,834)
Interest received		153	95
Interest paid		(3,076)	(3,099)
Net cash from / (used in) operating activities before tax	28	**20,223**	**20,323**
Taxes paid		667	(75)
Net Cash Generated from Operating Activities		20,890	20,248
Investing activities			
Short term deposits		(700)	(600)
Restricted bank deposits		(34)	(104)
Dividend income received		97	61
Purchases of property, plant & equipment		(8,283)	(11,547)
Purchase of intangible assets		(844)	(921)
Purchase of businesses		(433)	(8,125)
Purchase of investments		(120)	(90)
Disposal of investments		127	1
Proceeds on disposal of property, plant & equipment		151	71
Net Cash Used in Investing Activities		(10,039)	(21,254)
Financing activities			
Grants paid		(1,599)	(1,536)
Repayment of term debt		(87,594)	(118,445)
Term debt drawn down		78,345	120,650
Net Cash Used in Financing Activities		(10,848)	669
Net (decrease)/increase in cash and cash equivalents		3	(337)
Cash and cash equivalents at the beginning of the year		954	1,291
Cash and cash equivalents at the end of the year		**957**	**954**

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1. REPORTING ENTITY

The Eastern Bay Energy Trust is a trust established in New Zealand by Deed of Trust dated 1 August 1994. The Trust and all its subsidiaries are domiciled in New Zealand.
The Consolidated Financial Statements of the Group for the year ended 31 March 2018 comprise the Trust and its subsidiaries (together referred to as the "Group").

The principal activity of the Group is that of investment in electricity related entities.

The Group consists of the following entities:

- Eastern Bay Energy Trust (EBET)
- Development Enterprises Limited (DEL) - 100% owned by EBET
- DEL Property Investments Limited (DPIL) - 100% owned by DEL
- Horizon Energy Distribution Limited (HEDL) – 100% owned by EBET
- Horizon Services Limited (HSL) – 100% owned by HEDL
- Horizon Energy Group Limited (HEGL) – 100% owned by HEDL (non-trading)
- Horizon Energy Limited (HEL) – 100% owned by HEDL (non-trading)
- Aquaheat New Zealand Limited (ANZL) – 100% owned by HEDL
- Aquaheat South Pacific Limited (ASPL) – 100% owned by ANZL
- Aquaheat Facility Services Limited (AFSL) – 100% owned by HEDL
- CoolLogic Refrigeration Limited (CLFL) – 100% owned by HEDL

2. BASIS OF PREPARATION

Statement of compliance

The Financial Statements have been prepared in accordance with the Financial Reporting Act 2013 and Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the Public Benefit Entity Accounting Standards as appropriate for Tier 1 not-for-profit public benefit entities.

The Financial Statements were approved by the Board of Trustees on 27 July 2018. The Trustees do not have the authority to amend the Financial Statements after issue.

The accounting policies have been applied consistently throughout the Group for all periods presented unless otherwise stated.

Basis of measurement

The Financial Statements have been prepared on the historical cost basis as modified by the revaluation of network distribution assets, derivative financial instruments at fair value through profit or loss, and available for sale financial assets are measured at fair value. The method used to measure fair values is discussed further in note 4.

These Financial Statements are presented in New Zealand dollars ($), which is the Group's functional currency. Amounts have been rounded to the nearest thousand.

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2. BASIS OF PREPARATION (continued)

Use of estimates and judgements

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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 any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the Financial Statements are described in the following notes:

- Note 12 – valuation of buildings and network distribution system
- Note 14 – valuation of investments

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These Financial Statements incorporate the Financial Statements of the Trust and its Subsidiaries.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated.

Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated.

Business Combinations

Subsidiaries are entities (including special purpose entities) over which the Group has the power and rights or exposure to variable returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition related costs are expensed as incurred. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with NZ IAS 39 either in profit or loss or as a change to other comprehensive income.

Amalgamations within the Group are accounted for by the surviving entity taking on the assets and liabilities of the non-surviving entity at the values at the date of amalgamation.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business Combinations (continued)

Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiaries acquired, the difference is recognised in the profit and loss.

In the event that the Group ceases to have control, any retained interest in the entity would be remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purpose of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are to be accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in the other comprehensive income are reclassified to profit or loss.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services, including distribution revenue generated in the normal course of business, net of rebates and discounts, net of Goods and Services Tax (GST) and after eliminating sales within the Group. Distribution revenue is based on actual and assessed readings and includes an allowance for unread meters at balance date.

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on Construction Contracts as set out below.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at balance date, as measured by the proportion that contract costs for work performed to date bear to the total contract costs, except where this would not be representative of the stage of completion.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer and can be reliably measured.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are recoverable. Contract costs are recognised as expenses by reference to the stage of completion.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Contributions from Non-Government Entities

Capital contributions received from non-government entities relating to the purchase of property, plant and equipment are included in profit or loss in the year in which the contribution is earned.

Deferred Capital Contributions

Discretionary capital contributions from local authorities for the construction of network distribution assets meet the definition of a government grant under NZ IAS 20, 'Accounting for Government Grants'. Such cash receipts are included in non-current liabilities as deferred income and are amortised over a 45 year period which approximates the expected life of the asset. There are no unfulfilled conditions and other contingencies attached to these contributions.

Operating Leases

Leases in which a substantial portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received by the lessor) are recognised in profit or loss on a straight line basis over the period of the lease.

Foreign Operations

The assets and liabilities of foreign operations are translated to New Zealand Dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to New Zealand Dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity.

The Group does not have significant transactions involving foreign currencies.

Borrowing Costs

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, borrowing costs 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 temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Employee entitlements

Wages, salaries and annual leave

Liabilities for wages and salaries and annual leave expected to be settled within 12 months from the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave and retirement gratuity

The liability for long service leave and retirement gratuity is recognised in the provision for employee benefits and measured such that the liability represents the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Consideration is also given to discounting the provision if the effect is material.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Bonus plans
The Group recognises a liability and an expense for HEDL bonuses based on a bonus pool that is available for distribution subject to certain performance criteria being met. The Group recognises a provision where it is contractually obliged or where there is a past practice that has created a constructive obligation.

Goods and Services Tax (GST)
Revenues, expenses and assets and liabilities are recognised net of the amount of GST. Receivables and payables are recognised inclusive of GST, except receivables arising from construction contracts for which no tax invoice has been issued.

Property, plant and equipment

Network distribution systems
Network distribution system assets held for use are stated in the Statement of Financial Position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at balance date.

Any revaluation increase arising on the revaluation of network distribution system assets is credited to the assets' revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the net profit, in which case the increase is credited to the net profit to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such assets is charged to the net profit to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

In the event of the sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the asset revaluation reserve is transferred directly to retained earnings.

Annual additions between valuations are recorded at cost. Internally constructed assets include materials, labour, attributable overheads, and capitalised interest for qualifying assets.

Land and buildings
Land and buildings held as part of the network distribution system are stated in the Statement of Financial Position at valuation, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at balance date.

Any revaluation increase arising on the revaluation of such land and buildings is accumulated in the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in the profit or loss, in which case the increase is credited to the profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged to the net profit to the extent that it exceeds the balance, if any, held in the capital revaluation reserve relating to a previous revaluation of that asset.

Land and buildings for administration purposes are stated at cost, comprising the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended service.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Plant and equipment, furniture and fittings and vehicles
Plant and equipment, furniture and fittings and vehicles are stated at cost less accumulated depreciation and any accumulated impairment losses.

Gain or loss on disposal
The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Statement of Comprehensive Revenue and Expenses.

Depreciation
Depreciation is recognised in the Statement of Comprehensive Revenue and Expenses using either a straight-line or diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

• Buildings	40-100 years
• Plant and machinery	2-10 years
• Vehicles	5-10 years
• Furniture and fittings	10 years
• Distribution system	8-70 years
• Computer software	3-5 years

The estimated useful lives, residual values and depreciation methods are reviewed at each reporting date.

Intangible Assets
Computer Software
Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (five to ten years) on a straight-line basis.

Goodwill
Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Impairment of Non Financial Assets
At each reporting date the Group reviews the carrying amounts of its depreciated or amortised assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the assets are tested for impairment.

At each reporting date the Group tests intangible assets with indefinite useful lives for impairment.

To test an asset for impairment, the recoverable amount of the asset is estimated. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs being the smallest group of assets that, together, generate cash flows independently of other assets or cash-generating units.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease to the extent of any revaluation reserve balance.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes the cost of direct materials and other charges, such as freight costs, that have been 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 selling and distribution.

Financial Instruments

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Group becomes a party to the contractual provisions (the trade-date) of the instrument.

The Group classifies its financial assets in the following categories: fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Loans and receivables include trade receivables and cash and cash equivalents. Financial assets at fair value through profit or loss include derivative financial instruments.

Management determines the classification of its financial assets at initial recognition.

Trade Receivables

Trade receivables are initially measured at fair value and subsequently measured at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

The criteria the Group uses to determine that there is objective evidence of an impairment of receivables includes significant difficulty of the debtor, breach of contract such as default, granting of a concession to the debtor due to economic or legal reasons relating to the debtor's financial difficulty, or the debtor likely entering bankruptcy or reorganisation.

The allowance recognised is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted using the effective interest rate.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Bank Borrowings

Interest bearing bank loans and overdrafts are initially measured at fair value (net of transaction costs), and are subsequently measured at amortised cost, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Trade Payables

Trade payables and other accounts payable are recognised when the Group becomes obligated to make future payments resulting from the purchase of goods and services.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Derivative Financial Instruments

Derivative financial instruments are initially measured at fair value on the contract date, and revalued to fair value at subsequent reporting dates. The Group has elected not to designate its derivative financial instruments for hedge accounting. Consequently they are classified as 'fair value through profit or loss' with changes in the fair value of these derivative instruments recognised immediately in profit or loss.

Under interest rate swap contracts the Group agrees to exchange the difference between floating and fixed rate interest amounts calculated on notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on a portion of the Group's debt.

Management regularly monitors the level of interest derivatives held and the rates currently available and adjusts the interest derivatives portfolio as they believe prudent.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is more likely than not that the future sacrifice of economic benefits will arise and the amount of the provision can be measured reliably. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. Provisions are not recognised for future operating losses.

Grant Expenditure

Grants approved are recorded in equity as distributions from retained earnings when the requirements under the grant agreement have been met.

Cash Flow Statement

Cash flows are categorised into operating, investing and financing activities. Operating activities are disclosed using the direct method, whereby major classes of cash receipts from customers and cash payments to suppliers and to employees are disclosed for operating activities. Cash receipts and payments are shown exclusive of GST. Interest received is included in operating activities.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating activities include all transactions and other events of the Group that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Standards, amendments and interpretations to existing standards that were adopted by the Group from 1 April 2017.

There were no standards, amendments and interpretations to existing standards that were adopted by the Group from 1 April 2017.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

NZ IFRS 9 Financial Instruments: Classification and Measurement
The standard simplifies how an entity should classify and measure financial assets.

The Group is yet to assess NZ IFRS 9's full impact and will adopt NZ IFRS 9 no later than 1 April 2018.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 contains a single model that applies to contracts with customers. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. Revenue may be recognised over time, in a manner that best reflects the entity's performance, or at a point in time, when control of the goods or service is transferred to the customer.

IFRS 15 includes extensive new disclosure requirements. IFRS 15 may be adopted retrospectively, or as of the application date by adjusting retained earnings at that date and disclosing the effect of adoption on each line of profit or loss (the 'cumulative effect approach').

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-13 Revenue-Barter Transactions Involving Advertising Services. IFRS 15 does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Group is yet to assess NZ IFRS 15's full impact and will adopt NZ IFRS 15 no later than 1 April 2018.

IAS 7 Statement of Cashflows Amendments
The standard includes additional disclosures to evaluate changes in liabilities arising from financing activities, including both changes arising from cashflows and non-cash changes (such as the effects of changes in foreign exchanges in fair values).

The Group adopted IAS 7 Amendments from 1 April 2018.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

NZ IFRS 16 Leases

The standard changes fundamentally the accounting treatment of leases by lessees. NZ IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.

The Group is yet to assess NZ IFRS 16's full impact and will adopt NZ IFRS 16 no later than 1 April 2019.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

4. CRITICAL JUDGEMENTS IN APPLYING THE ENTITY' ACCOUNTING POLICIES

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the entity's accounting policies, which are described in Note 3, Management have made the following judgements and estimates that have significant effects on the amounts recognised in the Consolidated Financial Statements.

Revenue Recognition

Distribution revenue includes an accrual for unbilled revenue, where consumption is estimated to the end of the billing period based on historical actual electricity usage.

Occasionally historical electricity usage data is not consistent and subsequent adjustments are made.

These adjustments are immaterial compared with the total distribution revenue.

Valuation of Work in Progress

The Group is required to exercise judgement in assessing the stage of completion of each incomplete construction contract on a contract by contract basis to determine the realisable revenue and costs to be reported in the Statement of Comprehensive Revenue and Expenses at the end of an accounting period. This judgement impacts the value of profits reported and the value of construction work in progress carried in the Statement of Financial Position. The accuracy of these judgements can only be determined when a project is completed or has met a clear contract milestone.

Goodwill

Goodwill acquired through business combinations has been allocated to three cash generating units (CGU's) for impairment testing, comprising Electrical, HVAC Mechanical and Refrigeration. The Directors and Trustees have reviewed the carrying value of goodwill and do not believe there is any impairment on the basis that the budgeted cash flows for the next ten years exceed the carrying value of each business including goodwill.

Valuation of Network Distribution Assets

The Group estimates the fair value of the network distribution assets using independent valuers in accordance with the property, plant and equipment accounting policy. Because of the specialised nature of the network and the infrequency of network distribution asset sale transactions, there is a lack of market-based evidence available to determine fair value. The valuation undertaken at 31 March 2016 was compiled using the discounted cash flow technique (as was the previous valuation at 31 March 2013).

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4. CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES (continued)

Changes in these valuation estimates could have a material effect on the carrying amount of the network distribution assets disclosed in Note 12.

The key valuation assumptions relating to the network distribution assets revaluation performed at 31 March 2016 are outlined below and were adopted in determining the fair value of the Group's network distribution assets:

i. Network distribution assets have been valued on a going concern basis;
ii. Revenue is based on the current pricing applying current Input Methodologies set out under the Commerce Commission regulations;
iii. Costs were based on 2016 forecasts;
iv. A post tax discount rate (WACC) of 5.8% has been used in discounting the present value of expected cash flows;
v. Inflation has been applied at 2.0%; and
vi. A Terminal Year Regulatory Asset Base (RAB) multiple of 1.0 has been applied.

Valuation Sensitivity

The nature of the valuation methodology adopted provides that a small number of key variables can have a significant value impact. The key sensitivities are provided below with the forecast impact on value as the result of the possible identified change.
In the process of applying the entity's accounting policies, which are described in note 3, Management have made the following judgements and estimates that have significant effects on the amounts recognised in the Financial Statements.

Key Variable	Change	Value impact ($million)	
Horizon WACC (5.8%)	+/- 0.5%	-4.6	+4.8
CPI	+/- 0.5%	-4.3	+4.5
Capital Expenditure	+/- 10%	-4.7	+4.7
Terminal Year RAB Multiple	+/- 5%	-4.5	+4.5

The Directors of HEDL have reviewed the carrying value of the network distribution assets and consider this continues to represent fair value.

5. FINANCIAL RISK MANAGMENT

Risk management is carried out by Management under policies approved by the Governance. Management identifies and evaluates relevant financial risks and acts to manage these risks where possible, within the parameters set out by the Governance. Governance provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and use of derivative financial instruments. Management reports to Governance regularly on financial risk management.

Market Risk

Foreign Exchange Risk

The Group's revenue is entirely denominated in New Zealand dollars and it has no significant currency exposure in the foreseeable future. The Group may from time to time purchase assets, or conduct service transactions denominated in foreign currency.

Trustees approval is required for foreign currency denominated contracts valued above a specified threshold, together with a recommendation on the manner in which the foreign currency exposure is to be managed, which may include the use of foreign exchange contracts.

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5. FINANCIAL RISK MANAGEMENT (continued)

Cash Flow and Fair Value Interest Rate Risk

The Group's main interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's borrowings are denominated in New Zealand dollars.

The Group manages its interest rate risk by using floating-to-fixed interest rate swaps.

Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The use of financial derivatives is governed by the Group's policies approved by the Trustees, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy.

The Group does not use derivative financial instruments for speculative purposes.

Generally the Group raises long term borrowing at floating rates and swaps them into fixed rates to manage interest rate risk. Under the interest rate swaps, the Group agrees with other parties to exchange, at specific intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts, calculated by reference to the agreed notional principle amounts.

At 31 March 2018, if interest rates on long term borrowing had changed by +/- 1% (2017: +/- 1%) with all other variables held constant, post tax profit and equity for the year would have been $97,250 lower/higher (2017: $133,917 lower/higher)

Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and financial institutions, only independently rated parties with a minimum credit rating of A are accepted. If other customers are independently rated, these credit ratings are used. Otherwise, if there is no independent rating, management assess the credit quality of the customer, taking into account its financial position, past experience and other factors.

Individual risk limits are set based on internal or external ratings in accordance with limits by customers is regularly monitored by management.

Liquidity Risk

Liquidity risk management has the objective of maintaining sufficient cash, and the availability of funding through an adequate amount of credit facilities, to meet the short and long term commitments of the Group as they arise in an orderly manner.

The Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has bank facilities available to cover potential shortfalls.

Management monitors rolling forecasts of the Group's liquidity requirements on the basis of expected cash flow.

The Trustees approves all new borrowing facilities.

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position date to the contractual maturity date. This is based on the undiscounted contracted cash flows for the period from the Statement of Financial Position date to the contractual maturity date.

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5. FINANCIAL RISK MANAGEMENT (continued)

The classifications of borrowings and facilities available are disclosed in Note 19. In the table below cashflows relating to bank loans are presented in accordance with facility maturity dates.

2018	Stmt of Financial Position $000	Less than 1 year $000	Between 1 and 2 years $000	Between 2 and 3 years $000	Between 3 and 5 years $000
Unsecured loans & borrowings	58,718	3,506	22,281	36,321	-
Grant payments owing	1,935	-	1,935	-	-
Trade and other payables	20,037	20,037	-	-	-
Derivatives					
- Inflows		(634)	(522)	(1,470)	(728)
- Outflows		1,402	1,105	2,722	1,284
	80,690	24,311	24,799	37,573	556
2017					
Unsecured loans & borrowings	67,969	3,708	21,761	47,622	-
Grant payments owing	1,436	-	1,436	-	-
Trade and other payables	22,389	22,389	-	-	-
Derivatives					
- Inflows		(700)	(659)	(1,268)	(365)
- Outflows		1,578	1,430	2,464	591
	91,794	26,975	23,968	48,820	226

Capital Risk Management

The Group manages its capital structure and makes adjustments to it in light of economic conditions and business requirements. The Group monitors capital using a gearing ratio, which is net debt divided by net debt plus equity. Net debt is calculated as borrowings less cash and cash equivalents.

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6. OPERATING REVENUES & EXPENSES BY NATURE

	Notes	2018 $000	2017 $000
Operating revenues			
Distribution revenue		34,046	31,584
Contracting and servicing income		148,518	163,016
Capital contributions revenue		3,092	1,268
Other revenue		245	262
Rental income		59	59
		185,960	**196,189**
Operating expenses include:			
Depreciation	**12**	6,655	6,211
Amortisation of software		-	996
Net loss/(gain) on disposal of fixed assets		163	211
Rental and operating lease expenses		1,551	1,370
Maintenance of network distribution assets		3,961	3,276
Employee entitlements		54,576	48,343
Transmission charges		11,008	9,115
Movement in doubtful debts provision		28	18
Trustees' fees & expenses		111	117
Directors' remuneration and retirement		337	335
Bad debts		9	28
Auditors' remuneration	**22**	315	259
Investment property expenses		31	39

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	Notes	2018 $000	2017 $000
7. INCOME TAX BENEFIT			
Current tax		(123)	(1,080)
Income tax benefit		**(123)**	**(1,080)**

The tax charge for the year can be reconciled to the profit per the Statement of Comprehensive Revenue and Expenses as follows:

	2018 $000	2017 $000
Profit before tax	11,466	9,949
Income not subject to tax	(11,466)	(9,949)
Taxable profit	-	-
Income tax expense attributable to taxable profit	-	-
Prior year adjustments	(126)	(1,183)
Prior period tax losses transferred for no consideration	-	52
Foreign Withholding Tax Deducted at Source Not Recoverable	19	25
Foreign income Taxable at 20%	(16)	26
Income tax benefit	**(123)**	**(1,080)**

The Group ceased to be a taxable entity on 31 July 2015. The applicable tax rate until 31 July 2015 for the subsidiaries of the Group was 28%.

The South Pacific operations of the Group are taxable in the overseas country at the applicable company tax rate for the jurisdiction in which the income is derived.

The Eastern Bay Energy Trust is a charity registered with the Charities Commission. As such it is tax exempt. In July 2013 Inland Revenue and Treasury published a combined Official Issues Paper which sought to clarify tax issues in relation to charities. In that paper they confirmed that where a registered charity conducted commercial activities through a subsidiary company, then that subsidiary company will also have the same tax exempt status as the registered charity. On 23 September 2016 the Eastern Bay Energy Trust obtained a binding private ruling from Inland Revenue confirming the advice from the Official Issues Paper and confirming that now EBET has become the 100% owner of Horizon Energy Distribution Limited that company is now tax exempt. Horizon became tax exempt from 1 August 2015 on completion of the takeover of the remaining shares by EBET.

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8. CAPITAL ACCOUNT

	2018 $000	2017 $000
Trust capital	26,638	26,638

The capital account is the capital that was assigned to the initial shares settled on the Trustees of the Eastern Bay Energy Trust upon its formation.

9. RESERVES

	2018 $000	2017 $000
Opening balance (restated)	56,775	56,293
Fair value revaluation of Investments in NZ and International shares (or "equities")	110	114
Fair value revaluation of OTK Orchards	507	395
Currency translation (losses)/ gains	(65)	(27)
Balance as at 31 March	**57,327**	**56,775**

Balance consists of:

	2018 $000	2017 $000
Network asset revaluation reserve	54,910	54,910
Investment fair value reserve	2,484	1,868
Foreign currency translation reserve	(67)	(2)
	57,327	**56,775**

10. TRADE & OTHER RECEIVABLES

	2018 $000	2017 $000
Trade receivables	26,627	35,079
Less provision for doubtful debts	(150)	(122)
Other receivables and prepayments	458	405
	26,935	**35,362**

All receivables are denominated in New Zealand dollars.

The Trustees considers that the carrying amount of trade and other receivables approximates fair value because all amounts are due within one month and there are no amounts where settlement is expected in more than 12 months.

Trade receivables are assessed for impairment on an individual basis. The only receivables impaired are provided for within doubtful debts. As at 31 March 2018, trade receivables of $7,786,645 (2017: $7,436,421) were past due.

The ageing analysis of trade and other receivables that are not impaired is as follows:

	2018 $000	2017 $000
Up to 3 months	22,613	32,337
Over 3 months	3,866	2,620
	26,479	**34,957**

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11. INVENTORIES AND WORK IN PROGRESS

	2018 $000	2017 $000
Construction work in progress (Note 20)	2,271	2,735
Inventories	2,176	2,139
Balance at 31 March	**4,447**	4,874

12. PROPERTY PLANT & EQUIPMENT

Property plant and equipment comprise:

		2018 $000	2017 $000
Land and buildings	*Cost or valuation*	3,951	3,122
	Additions	207	899
	Additions from business combinations	-	22
	Disposals	(34)	(87)
	Capital work in progress	100	(5)
	Cost or valuation	4,224	3,951
	Accumulated depreciation and impairment	(1,024)	(861)
	Net book value	3,200	3,090
Plant and equipment	*Cost*	9,143	7,638
	Additions	720	785
	Additions from business combinations	97	778
	Transfer from Intangibles	-	20
	Disposals	(1)	(21)
	Capital work in progress	89	(57)
	Cost	10,048	9,143
	Accumulated depreciation and impairment	(6,406)	(5,494)
	Net book value	3,642	3,649
Furniture and fittings	*Cost*	1,117	985
	Additions	31	161
	Additions from business combinations	1	21
	Disposals	-	(48)
	Capital work in progress	-	(1)
	Cost or valuation	1,149	1,118
	Accumulated depreciation	(848)	(783)
	Net book value	301	335
Motor vehicles	*Cost*	7,515	5,922
	Additions	958	1,189
	Additions from business combinations	187	820
	Disposals	(298)	(464)
	Capital WIP	192	48
	Cost or valuation	8,554	7,515
	Accumulated depreciation	(4,166)	(3,450)
	Net book value	4,388	4,065

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12. PROPERTY PLANT & EQUIPMENT (CONTINUED)

		2018 $000	2017 $000
Distribution system	*Cost or Valuation*	140,451	131,065
	Additions	12,051	8,112
	Disposals	(919)	(497)
	Capital WIP	(2,682)	1,771
	Cost or valuation	148,901	140,451
	Accumulated depreciation	(7,815)	(3,957)
	Net book value	141,086	136,494
Finance leased assets	*Cost*	201	201
	Cost	201	201
	Accumulated depreciation	(64)	(54)
	Net book value	137	147
Total	***Cost or valuation***	**173,078**	162,379
	Accumulated depreciation	**(20,323)**	(14,599)
	Net book value	**152,755**	147,780

Depreciation Expense

	2018 $000	2017 $000
Buildings	173	180
Plant and equipment	915	859
Furniture and fittings	77	74
Motor vehicles	947	825
Distribution system	4,533	4,263
Finance leased assets	10	10
Total	6,655	6,211

Valuation of Distribution System Assets
The network distributions assets were last revalued on 31 March 2016 by Ernst Young on a discounted cashflow basis in accordance with generally accepted valuation techniques

The carrying amount of the Group's network distribution commissioned assets had they been recognised under the cost model is $119.0 million (2017: $112.3 million)

Interest is capitalised to the network distribution assets to reflect the financing costs attributable to the acquisition of qualifying assets in accordance with the Group's accounting policy on borrowing.

Interest capitalised for the 2018 year was $92,495 (2017: $111,912) at the Group weighted average effective interest rate.

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	Notes	2018 $000	2017 $000
13. INTANGIBLE ASSETS			
Goodwill			
Cost	25	21,132	17,802
Additions		365	3,330
Cost or valuation		21,497	21,132
Net book value		21,497	21,132
Software and intellectual property			
Cost		8,131	5,185
Additions		1,061	723
Customer Assets Intangible Attributed on Acquisition		-	2,007
Transfer of Software from Property, Plant and Equipment		(5)	(20)
Information systems - work in progress		(211)	253
Disposals		-	(5)
Software additions from business combinations		-	28
Revaluation		-	(40)
Cost or valuation		8,976	8,131
Accumulated amortisation		(3,957)	(2,544)
Net book value		5,019	5,587
Total			
Cost or valuation		30,473	29,263
Accumulated amortisation		(3,957)	(2,544)
Total		26,516	26,719

Goodwill and Intangible Assets

Allocation of Goodwill to Cash Generating Units

Goodwill is allocated and monitored based on the Groups segments. Goodwill acquired through business combinations has been allocated to the Electricity Distribution segment. During the year there was an adjustment to the Goodwill balance in Aquaheat South Pacific Limited for the Airpro acquisition in line with NZ IFRS 3.

Sensitivity

The Trustees have considered the variability of the key assumptions underlining the carrying amounts for the intangible assets set out above. The Trustees believe that the range of reasonable variability would not cause a material change in these carrying amounts.

	$000	$000
14. OTHER INVESTMENTS		
Opotiki Packing & Cool Storage Limited 3.11% share interest (2017: 3.11%)	590	590
Shares - OTK Orchards Limited 15.57% share interest (2017: 15.43%)	966	602
Investments in NZ and International Shares (or "equities")	2,612	2,454
ASB - Fixed Interest Bond Portfolio	1,925	1,853
Total other investments	**6,093**	**5,499**

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15. TRADE & OTHER PAYABLES

	2018 $000	2017 $000
Trade payables	13,690	18,589
Other payables	6,347	3,800
Total trade payables and other payables	**20,037**	**22,389**

Trade and other payables principally comprise amounts outstanding for trade purchases and other ongoing costs.

The Trustees consider that the carrying amount of trade and other payables approximate fair value because the amounts due will be settled within 12 months.

PROVISION FOR STAFF ENTITLEMENTS

	2018 $000	2017 $000
Classified as:		
Current employee entitlements	4,790	4,696
Non-current employee entitlements	146	137
Total employee entitlements	**4,936**	**4,833**

The provision for employee entitlements includes accrued wages, bonuses, accrued holiday pay, long service leave and retirement gratuities. Where settlement is greater than one year, consideration is given to discounting as set out in the accounting policies.

The Trustees consider that the carrying amount of the provision for staff entitlements approximates fair value.

16. PROVISIONS

	2018 $000	2017 $000
Balance at beginning of year	1,246	912
Provisions made during the year	1,264	814
Provisions used during the year	(498)	(470)
Provisions Reversed during the Year	(322)	(10)
Balance at end of year	1,690	1,246
Classified as:		
Current liabilities	1,690	1,246
Total provisions	1,690	1,246

The resulting outflows of all provisions are not expected to be fully paid within the following financial year. The provisions made are based on the best current estimate of outflows expected to settle these obligations.

17. TERM LOANS

The Trustees estimate the fair values of the Group's bank loans are reflected in their book value because the interest rates on these loans are determined at variable market rates, and therefore any impact of discounting is immaterial.

All term loans are unsecured and are subject to negative pledge undertakings. The debt facilities of the Eastern Bay Energy Trust are subject to the Horizon Energy Group Deed of Negative Pledge and gearing covenants.

The weighted average floating interest rate, inclusive of margins, on term loans was 3.27% (2017: 4.21%). The weighted average floating interest rate excludes the effect of the Group's interest rate risk management.

As at 31 March 2018, the Group had debt facilities available of $91 million (2017: $94.2 million), with undrawn debt facilities of $32.280 million (2017: $26.230 million). Bank loans are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for more than 12 months after balance date.

The borrowings are with the same financial institution, and expire on 29 August 2021.

The Group complied with all its banking covenants during the year.

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18. DEFERRED CAPITAL CONTRIBUTIONS

	2018 $000	2017 $000
Opening balance	539	558
Less amounts recognised as revenue during year	(18)	(19)
Balance at 31 March	**521**	**539**
Classified as:		
Current	18	18
Non-current	503	521
	521	**539**

Capital contributions from local authorities for the construction of network distribution assets meet the definition of a government grant under New Zealand Equivalents to International Accounting Standard 20, 'Accounting for Government Grants'. These cash receipts are included in non-current liabilities as deferred income, and are amortised over a 45 year period which approximates the expected life of the asset. There are no unfulfilled conditions or other contingencies attached to these contributions.

19. FINANCIAL INSTRUMENTS

Fair value measurements recognised in the balance sheet

The following table provides an analysis of assets and liabilities that are measured subsequent to initial recognition 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); and

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

	2018 $000	2017 $000
Level 1		
Assets		
Other investments	4,537	3,907
Term deposits	2,300	2,000
Total for level 1	6,837	5,907
Level 2		
Liabilities		
Derivative financial instruments	(1,784)	(1,902)
Total for level 2	(1,784)	(1,902)
Level 3		
Assets		
Network Distribution Assets	141,086	136,494
Other investments	1,556	1,192
	142,642	137,686
Level 3 reconciliation		
Opening balance	137,686	131,862
Additions	12,415	8,507
Revaluation movement	-	-
Disposal	(919)	(497)
Capital work in progress	(2,682)	1,771
Accumulated Depreciation	(3,858)	(3,957)
	142,642	137,686

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19. FINANCIAL INSTRUMENTS (CONTINUED)

Assets and Liabilities in level 2

Derivative financial assets
The methodology used is a simple current exposure methodology of comparing the net present value of the future cash flows/valuations of the financial instrument on a risk-free basis to the net present value which includes capital spread. The valuation is based on the New Zealand zero curve at 31 March 2018 with credit adjustments to reflect the credit curves for both the counterparty and the Group. The credit value adjustment is calculated for in-the-money' derivatives as at 31 March 2018. The debit value adjustment is calculated for 'out-of-the-money' derivatives as at 31 March 2018.

The credit curves applied are:
For the counterparty (Westpac) is AA-
For the Group the basis is the refinancing of debt that took place during the year.

Assets and Liabilities in level 3

Network distribution assets
The valuation techniques, inputs and sensitivities used in the fair value measurement are disclosed in Note 3
Disclosure of the Level 3 movement in fair value in the network distribution assets is disclosed in Note 12
Of the total losses for the period recognised in profit and loss, $237,105 (2017: $190,926) relates to network distribution assets written off during the reporting period. Fair value gains or losses on these assets are included in the Statement of Comprehensive Revenue and Expenses.

Other Investments

OPAC shares - value of recent share placement to the market
OTK Orchards shares - discounted cash flow analysis

20. CONSTRUCTION WORK IN PROGRESS

The following amounts relating to construction contracts in progress at balance date, are included within inventories and work in progress, trade and other receivables and trade and other payables in the Statement of Financial Position. Refer to note 3, significant accounting policies - Construction Contracts.

	2018 $000	2017 $000
Contracts in progress at balance date:		
Gross construction work in progress plus margin to date	145,887	146,237
Progress billings	(151,860)	(154,424)
Work in Progress	(5,973)	(8,187)
Classified as:		
Construction contracts with net work in progress (note 11)	2,271	2,735
Construction contracts with net funds received in advance of cost and margin	(8,244)	(10,922)
Carrying amount at the end of the year	(5,973)	(8,187)

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21. OPERATING LEASES

As Lessee

	2018 $000	2017 $000
Operating lease commitments fall due for payment in the following periods:		
Within one year	2,072	1,942
Within one to five years	2,746	3,562
Over five years	28	-
	4,846	5,504

The Group leases office, warehouse, depot space and radio communication sites.

As Lessor

Future minimum lease payments receivable are:	2018 $000	2017 $000
Within one year	150	150
Within one to five years	313	463
	463	613

The CT scanner is leased out under a non-cancellable operating lease for a period of seven years from the commencement of the lease. The lease contains no renewal options or contingent rentals.

22. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by KPMG for the audit of the Group, and for other services provided by KPMG:

	2018 $000	2017 $000
Paid or payable for services provided by the auditor		
Statutory Audit		
Auditing of the Parent financial statements	24	23
Audit of the subsidiary financial statements	155	127
Total Audit and Assurance Services	179	150
Audit Related Services		
Audit of the Information Disclosure Statements and Default Price-Quality Compliance Statement reported to the Commerce Commission	48	48
Review of the Half Year Financial Statements of Horizon Energy Distribution Limited	4	3
Total Audit Related services	52	51
Other Services		
Taxation Compliance and Advisory Services for subsidiaries	84	58
Total Other Services	84	58
Total auditors' remuneration	315	259

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23. RELATED PARTY TRANSACTIONS

The Trust conducts business in the Eastern Bay of Plenty and undertakes transactions with subsidiaries and other related parties. All intercompany transactions have been eliminated on consolidation. All loans and advances to subsidiary companies are payable on demand and unsecured.

The Eastern Bay Energy Trust owns 100% (2017: 100%) of the ordinary shares of Horizon Energy Distribution Limited and Development Enterprises Limited (DEL).
DEL owns 100% of the shares of DEL Property Investments Limited.

The Trustees consider that no loans are impaired for 2018 (2017: the Trustees considered that no loans were impaired).

Key management remuneration

Remuneration of key management personnel, trustees and directors

	2018 $000	2017 $000
Salaries and other short term benefits	2,865	2,481
Directors' fees and payments	337	335
Trustees' fees and payments	111	117
	3,313	2,933

24. COMMITMENTS

Capital expenditure contracted for at balance date but not yet incurred is:

	2018 $000	2017 $000
Software	25	253
Non network assets	190	244
Network distribution assets	344	226
	559	**723**

25. BUSINESS COMBINATIONS

Acquisition of Businesses

During the year Horizon Energy Distribution Limited (through its subsidiaries) acquired the business assets and certain liabilities of two different entities:

- Rotorua BG1 Limited in liquidation (formerly known as Connectec Electrical & Communications Limited), an business. The business assets and certain liabilities were acquired on 12 February 2018.
- Brian Rofe Plumbing, a plumbing business. The business assets and certain liabilities were acquired on 1 March 2018

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26. CONTINGENT LIABILITIES

Electricity Purchase Commitment

In March 1999, as part of the sale of the Kapuni Generation assets, the Group assigned its rights under a long term contract for the purchase of electricity and remains contingently liable to purchase this electricity until the end of the contract (2017) should the purchasers fail to perform their obligations under the contract. In the event any claim is made against HEDL under this long term contract for the purchase of electricity, HEDL will have a claim against the purchaser of its Kapuni Generation assets under the relevant sale documentation. While this commitment has expired it has not yet been legally discharged.

Unclaimed Dividends

As provided for under clause 27.8 of HEDL's constitution, unclaimed dividends now total $66,597 (2017: $69,515) relating to the period. Subject to compliance with the solvency test, HEDL shall pay the dividend or other monetary distribution to the person or persons producing evidence of entitlement to these dividends.

Construction Contract Performance Bonds and Guarantees

As part of the terms of undertaking construction contracts HEDL is required, in some cases, to provide additional security in the form of Bank Performance Bonds or HEDL Guarantees. The ability of the clients to call upon these securities is governed by the terms of the construction contracts but is generally contingent upon non-performance under the contract. As at 31 March 2018 the total value of performance bonds issued is $638,414 (2017: $777,079) and the total value of HEDL Guarantees is $1.318 million (2017: $7.332 million).

27. SUBSEQUENT EVENTS

Orange H Group Limited Receivership

On 11 May 2018, Orange H Group Limited was placed into receivership. Of the fifteen Orange H Group Limited subsidiaries, thirteen were placed into receivership. The two entities not in receivership are H Construction Schools 2 PPP Limited and H Infrastructure Limited. The Groups total exposure relating to entities in receivership as at 31 March 2018 is $217,350, of which $87,918 relates to retentions. As at 31 March 2018, there was no indication that Orange H Group Limited would be placed into liquidation. As such, this is considered to be a non-adjustible subsequent event per NZ IAS 10 Events after the Reporting Period. Accordingly, no provision has been recognised in the Financial Statements.

Dividend declaration

On 28 May 2018 HEDL declared a final dividend of 12.0 cents (2017: 12.0 cents) per ordinary share.

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28. RECONCILIATION OF NET PROFIT BEFORE TAX TO NET CASH FROM OPERATING ACTIVITIES

	2018 $000	2017 $000
Reported surplus before tax	11,466	9,949
Adjustments for non cash items:		
Depreciation and amortisation	8,070	7,208
Capital contributions amortised	(18)	(18)
Net Gain/(Loss) on acquisitions	5	-
Net Loss from foreign currency exchange	13	46
Loss on sale of fixed assets	163	211
Loss/(Gain) on Fair Value Movement of Financial Derivatives	38	(1,140)
Operating cash flows before movements in working capital	19,737	16,256
(Increase) / decrease in assets		
Trade and other receivables	8,421	(7,428)
Construction work in progress	464	(977)
Inventories	(37)	379
Increase / (decrease) in liabilities		
Trade and other payables	(2,346)	2,743
Provision for employee entitlements	94	1,583
Provisions	444	334
Construction revenue received in advance	(2,678)	7,805
Items reclassified as Investing activities	(3,909)	(1,438)
Subsidiary working capital acquired	33	1,116
Less movements in working capital	486	4,067
Net cash flow from operating activities before tax payment	20,223	20,323

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Independent Auditor's Report

To the Beneficiaries of Eastern Bay Energy Trust

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Eastern Bay Energy Trust (the Trust) and its subsidiaries (the Group) on pages 4 to 33:

i. Present fairly in all material respects the Group's financial position as at 31 March 2018 and its financial performance and cash flows for the year ended on that date; and

ii. Comply with Public Benefit Entity Standards (Not For Profit).

We have audited the accompanying consolidated financial statements which comprise:

— The consolidated statement of financial position as at 31 March 2018;

— The consolidated statements of comprehensive revenue and expenses, changes in net assets and cash flows for the year then ended; and

— Notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the Group in relation to taxation, compliance and advisory services and other regulatory audit and assurance services. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Other information

The Trustees, on behalf of the Group, are responsible for the other information included in the entity's financial statements. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

Use of this independent auditor's report

This independent auditor's report is made solely to the beneficiaries as a body. Our audit work has been undertaken so that we might state to the beneficiaries those matters we are required to state to them in the independent 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 beneficiaries as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Trustees for the consolidated financial statements

The Trustees, on behalf of the Trust, are responsible for:

— The preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being Public Benefit Entity Standards (Not For Profit));

— Implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— Assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate 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 objective is:

— 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 independent 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. They 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 our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/

This description forms part of our independent auditor's report.

KPMG

Tauranga

27 July 2018