# NORTHPOWER ELECTRIC POWER TRUST AND SUBSIDIARIES

# FINANCIAL STATEMENTS

# For the Year Ended

# 31 March 2022

# Consolidated statement of comprehensive income

| | Note | Group 2022 | Group 2021 Restated[1] | Parent 2022 | Parent 2021 |
|---|---|---|---|---|---|
| | | **$000s** | $000s | **$000s** | $000s |
| Revenue from contracts with customers | 2 | **384,381** | 364,609 | **-** | - |
| Other income | 3 | **1,030** | 10,733 | **670** | 1,420 |
| Materials and supplies | | **(163,244)** | (156,143) | **-** | - |
| Employee benefits | 7 | **(145,834)** | (137,185) | **-** | - |
| Transmission costs | | **(16,339)** | (17,320) | **-** | - |
| Depreciation and amortisation | | **(37,306)** | (32,237) | **-** | - |
| Other expenses | 4 | **(4,476)** | (3,702) | **(392)** | (350) |
| Fair valuation gain on derivatives | | **4,440** | 2,270 | **-** | - |
| Finance cost | 5 | **(6,201)** | (5,968) | **26** | 29 |
| Gain on remeasurement of existing interest/share of net profit in associate | 23 | **14,718** | 1,970 | **-** | - |
| **Net Profit before tax** | | **31,169** | 27,027 | **304** | 1,099 |
| Income tax expense | 11 | **(5,080)** | (8,864) | **(8)** | 8 |
| **Net profit after tax for the year** | | **26,089** | 18,163 | **296** | 1,107 |
| **Other comprehensive income** | | | | | |
| *Items that may be reclassified to profit or loss* | | | | | |
| Exchange differences on translation of foreign operations | 18 | **(8)** | (101) | - | - |
| *Items that will not be reclassified to profit or loss* | | | | | |
| Net fair value gains on derivatives designated as FVTPL attributable to changes in credit risk | | **-** | (325) | - | - |
| Net gain on revaluation of property, plant & equipment, net of tax | 14,18 | **33,163** | - | - | - |
| **Other comprehensive income/(loss) for the year, net of tax** | | **33,155** | (426) | **-** | - |
| **Total comprehensive income for the year attributable to the owners of the parent** | | **59,244** | 17,737 | **296** | 1,107 |

[1] the comparatives are restated following an accounting policy change relating to cloud computing arrangements, refer to Note 1

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

# Consolidated statement of financial position

| | Note | Group | | Parent | |
|---|---|---|---|---|---|
| | | **2022** | 2021 Restated[1] | **2022** | 2021 |
| | | **$000s** | $000s | **$000s** | $000s |
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | | **816** | 1,354 | **67** | 51 |
| Trade and other receivables | 9 | **48,893** | 36,312 | **698** | 673 |
| Short term investments | | **2,548** | 2,135 | **2,548** | 2,135 |
| Contract assets | 2 | **23,805** | 29,846 | **-** | - |
| Tax receivable | | **54** | 168 | **54** | 168 |
| Deferred tax asset | | **-** | - | **-** | 8 |
| Derivatives | 20 | **-** | 13 | **-** | - |
| Assets held for sale | | **-** | 155 | **-** | - |
| Inventory | 6 | **16,472** | 11,276 | **-** | - |
| **Total current assets** | | **92,588** | 81,259 | **3,367** | 3,035 |
| **Non-current assets** | | | | | |
| Intangible assets | 13 | **27,564** | 20,369 | **-** | - |
| Investment in subsidiary | | **-** | - | **35,989** | 35,989 |
| Equity-accounted investment | 23 | **-** | 39,663 | **-** | - |
| Derivatives | 20 | **1,028** | 272 | **-** | - |
| Right of use assets | 15 | **69,705** | 74,416 | **-** | - |
| Property, plant and equipment | 14 | **491,940** | 370,541 | **-** | - |
| **Total non-current assets** | | **590,237** | 505,261 | **35,989** | 35,989 |
| **Total assets** | | **682,825** | 586,520 | **39,356** | 39,024 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 10 | **24,878** | 24,607 | **60** | 24 |
| Contract liabilities | 2 | **15,286** | 9,866 | **-** | - |
| Employee entitlements | 7 | **18,347** | 16,635 | **-** | - |
| Provisions | 16 | **2,374** | - | **-** | - |
| Provision for tax | | **4,507** | 5,910 | **-** | - |
| Borrowings | 19 | **22,500** | - | **-** | - |
| Deferred income | 8 | **237** | 543 | **-** | - |
| Derivatives | 20 | **108** | 224 | **-** | - |
| **Total current liabilities** | | **88,237** | 57,785 | **60** | 24 |
| **Non-current liabilities** | | | | | |
| Employee entitlements | 7 | **1,065** | 761 | **-** | - |
| Provisions | 16 | **1,941** | - | **-** | - |
| Lease liabilities | 15 | **72,266** | 76,160 | **-** | - |
| Borrowings | 19 | **79,452** | 82,607 | **-** | - |
| Deferred income | 8 | **6,682** | 5,823 | **-** | - |
| Derivatives | 20 | **396** | 3,976 | **-** | - |
| Deferred tax | 12 | **66,904** | 52,770 | **-** | - |
| **Total non-current liabilities** | | **228,706** | 222,097 | **-** | - |
| **Total liabilities** | | **316,943** | 279,882 | **60** | 24 |
| **Net assets** | | **365,882** | 306,638 | **39,296** | 39,000 |
| **Equity** | | **365,882** | 306,638 | **39,296** | 39,000 |

[1] the comparatives are restated following an accounting policy change relating to cloud computing arrangements, refer to Note 1

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

These financial statements are authorised for issue on 20 July 2022, for and on behalf of the Board of Trustees.

Ercoli Angelo
Chairman

Sheena McKenzie
Deputy Chair

# Consolidated statement of changes in equity

| Group | Note | Ordinary Shares | Retained Earnings | Other Reserves | Asset Revaluation Reserve | Foreign Currency Translation Reserve | Total |
|---|---|---|---|---|---|---|---|
| | | $000s | $000s | $000s | $000s | $000s | $000s |
| **Balance as at 1 April 2021[1]** | | 35,989 | 254,269 | - | 19,311 | (2,931) | 306,638 |
| **Net profit for the year** | | - | **26,089** | - | - | - | **26,089** |
| **Revaluation gain on property,plant and equipment** | | - | **157** | - | **33,006** | - | **33,163** |
| **Other comprehensive loss for the year** | | - | - | - | - | **(8)** | **(8)** |
| **Total comprehensive income for the year, net of tax** | | - | **26,246** | - | **33,006** | **(8)** | **59,244** |
| **Balance as at 31 March 2022** | | **35,989** | **280,515** | - | **52,317** | **(2,939)** | **365,882** |
| Balance as at 1 April 2020[1] | | 35,989 | 236,106 | 325 | 19,311 | (2,830) | 288,901 |
| Profit for the year[1] | | - | 18,163 | - | - | - | 18,163 |
| Other comprehensive income for the year | | - | - | (325) | - | (101) | (426) |
| Total comprehensive income for the year, net of tax | | - | 18,163 | (325) | - | (101) | 17,737 |
| Balance as at 31 March 2021[1] | | 35,989 | 254,269 | - | 19,311 | (2,931) | 306,638 |

| Parent | Trust Capital | Retained Earnings | Total |
|---|---|---|---|
| | $000s | $000s | $000s |
| **Balance as at 1 April 2021** | **35,989** | **3,011** | **39,000** |
| Profit for the year | **-** | **296** | **296** |
| Other comprehensive income for the year | **-** | **-** | **-** |
| Total comprehensive income for the year, net of tax | **-** | **296** | **296** |
| Transactions with owners in their capacity as owners | **-** | **-** | **-** |
| **Balance as at 31 March 2022** | **35,989** | **3,307** | **39,296** |
| Balance as at 1 April 2020 | 35,989 | 1,904 | 37,893 |
| Loss for the year | - | 1,107 | 1,107 |
| Other comprehensive income for the year | - | - | - |
| Total comprehensive loss for the year, net of tax | - | 1,107 | 1,107 |
| Transactions with owners in their capacity as owners: | - | - | - |
| Balance as at 31 March 2021 | 35,989 | 3,011 | 39,000 |

[1] the comparatives are restated following an accounting policy change relating to cloud computing arrangements, refer to Note 1

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

# Consolidated cash flow statement

| | Note | Group 2022 | Group 2021 Restated[1] | Parent 2022 | Parent 2021 |
|---|---|---|---|---|---|
| | | $000s | $000s | $000s | $000s |
| **Operating activities** | | | | | |
| Receipts from customers | | **379,090** | 373,631 | **-** | - |
| Wages subsidy received | | **91** | 8,438 | **-** | - |
| Interest received | | **33** | 26 | **18** | 26 |
| Income tax received | | **719** | 3,669 | **168** | - |
| Dividends received | | **-** | 6,510 | **614** | 921 |
| Payments to suppliers | | **(186,713)** | (192,591) | **(371)** | (348) |
| Payments to employees | | **(144,067)** | (134,342) | **-** | - |
| Interest paid | | **(6,011)** | (5,803) | **-** | - |
| Income tax (paid)/refund | | **(7,483)** | (61) | **-** | (61) |
| **Net cash inflows from operating activities** | 17 | **35,659** | 59,477 | **429** | 538 |
| **Investing activities** | | | | | |
| Proceeds from sale of property, plant and equipment | | **941** | 1,394 | **-** | - |
| Purchase of intangible assets | | **(2,152)** | (2,645) | **-** | - |
| Purchase of property, plant and equipment | | **(34,255)** | (29,867) | **-** | - |
| Investment in equity-accounted investment | 23 | **-** | (11,742) | **-** | - |
| Acquisition of a subsidiary | 23 | **(4,906)** | - | **-** | - |
| Short term investments | | **(413)** | (560) | **(413)** | (560) |
| **Net cash outflows from investing activities** | | **(40,785)** | (43,420) | **(413)** | (560) |
| **Financing activities** | | | | | |
| Drawdown of borrowings | | **619,737** | 528,008 | **-** | - |
| Repayment of borrowings | | **(600,600)** | (531,100) | **-** | - |
| Principal repaid on lease liability | | **(14,541)** | (13,596) | **-** | - |
| **Net cash (outflows)/inflows from financing activities** | | **4,596** | (16,688) | **-** | - |
| Net (decrease)/increase in cash and cash equivalents | | **(530)** | (631) | **16** | (22) |
| Net foreign exchange differences | | **(8)** | (101) | **-** | - |
| Cash and cash equivalents at the beginning of the year | | **1,354** | 2,086 | **51** | 73 |
| **Cash and cash equivalents at the end of the year** | | **816** | 1,354 | **67** | 51 |

[1] the comparatives are restated following an accounting policy change relating to cloud computing arrangements, refer to Note 1

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

# Notes to the consolidated financial statements

# 1. General information and significant matters

**General information**

The Northpower Electric Power Trust (the Parent) was established under the terms of the trust deed dated 29 March 1993. The Trust holds the entire share capital of Northpower Limited on behalf of the power consumers within the network area served by Northpower Limited.

Northpower Limited (the Company) is a profit oriented limited liability company incorporated in New Zealand.

The Company was formed under the Energy Companies Act 1992 and registered under the Companies Act 1993. The financial statements presented are for Northpower Electric Power Trust Group (or "the Group") as at, and for the year ended 31 March 2022. The Group consists of Northpower Electric Power Trust, Northpower Limited and its subsidiaries. The principal activities of the Group are electricity distribution and contracting services. The principal activities of the subsidiaries are telecommunications and acoustic testing.

**Basis of preparation**

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'), and other applicable Financial Reporting Standards, as appropriate for Tier 1 for-profit entities. They also comply with International Financial Reporting Standards.

The financial statements have been prepared on an historical cost basis except for the revaluation of derivatives, other financial assets, electric distribution network assets, and land and buildings.

The presentation currency is New Zealand dollars (NZD), which is the company's functional currency. All financial information has been rounded to the nearest thousand unless otherwise stated.

The consolidated statement of comprehensive income and consolidated statement of changes in equity are stated exclusive of GST. All items in the consolidated statement of financial position and consolidated cash flow statement are stated exclusive of GST except for trade receivables, trade payables, receipts from customers, and payments to suppliers which include GST. The parent is not registered for GST and therefore the parent financial statements are inclusive of any GST.

**Significant accounting policies**

Accounting policies, and information about judgements, estimations and assumptions that have had a significant effect on the amounts recognised in the financial statements are disclosed in the relevant notes as follows:

- Revenue from contracts with customers (Note 2)
- Other income (Note 3)
- Trade and other receivables (Note 21)
- Intangible assets (Note 13)

- Property, plant and equipment (Note 14)
- Financial risk management objectives and policies (Note 21)
- Related parties (Note 24)

**New accounting standards and interpretations adopted**

***NZ IAS 38 Intangible Assets interpretation: configuration or customisation costs in a cloud computing arrangement***

In April 2021, the International Financial Reporting Standards Interpretations Committee (IFRIC) issued a final agenda decision, Configuration or customisation costs in a cloud computing arrangement. The decision discusses whether configuration or customisation expenditure relating to cloud computing arrangements is able to be recognised as an intangible asset and if not, over what time period the expenditure is expensed. The Group's accounting policy has historically been to capitalise all costs related to cloud computing arrangements as intangible assets in the consolidated statement of financial position. Refer to Note 13 for the Group's new accounting policy on cloud computing arrangements and impact of the change in the accounting policy. The Group has applied the new interpretation effective 1 April 21 resulting in retrospective restatements of the following historical financial information. The adjusted amounts presented in these financial statements are as follows:

| 31-Mar-21 | Audited<br>$'000 | [1]Presentation change<br>$'000 | SaaS Adjustment<br>$'000 | Restated<br>$'000 |
|---|---|---|---|---|
| **Items from the income statement** | | | | |
| Employee benefits | (137,025) | - | (160) | (137,185) |
| Other expenses | (3,367) | - | (335) | (3,702) |
| Depreciation and amortisation | (32,354) | - | 117 | (32,237) |
| Income tax expense | (8,970) | - | 106 | (8,864) |
| | | | | |
| **Items from the statement of financial position** | | | | |
| Intangible assets | 18,422 | 3,017 | (1,070) | 20,369 |
| Deferred tax | 53,070 | - | (300) | 52,770 |
| Equity | 304,396 | - | (770) | 303,626 |
| | | | | |
| **Items from the cash flow statement** | | | | |
| Payments to suppliers | (192,256) | - | (335) | (192,591) |
| Payments to employees | (134,182) | - | (160) | (134,342) |
| Purchase of intangible assets | (3,141) | - | 496 | (2,645) |

| 31-Mar-20 | Audited<br>$'000 | [1]Presentation change<br>$'000 | SaaS Adjustment<br>$'000 | Restated<br>$'000 |
|---|---|---|---|---|
| **Items from the statement of financial position** | | | | |
| Intangible assets | 19,810 | 3,446 | (691) | 22,565 |
| Deferred tax | 50,963 | - | (194) | 50,769 |
| Equity | 289,399 | - | (498) | 288,901 |

[1]**Change in the presentation of capital work-in-progress (CWIP)**
The comparatives for CWIP have been restated to ensure consistency with current year presentation Intangible assets and property, plant and equipment include respective components of CWIP in the consolidated statement of financial position. Components of CWIP relating to intangible assets and property, plant and equipment has been presented as a separate asset category in the respective notes 13 and 14. Previously CWIP was presented as a separate line item in the consolidated statement of financial position.

**Onerous Contracts – cost of fulfilling a contract - Amendments to NZ IAS 37**
The amendments have clarified that the cost of fulfilling a contract comprises the 'costs that relate directly to the contract' which are both, the incremental costs of fulfilling the contract (e.g. direct materials and labour); and an allocation of other costs that relate directly to fulfilling contracts (e.g. overheads such as allocation of depreciation expense on an item of property, plant and equipment used in fulfilling the contract). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has elected to early adopt this amendment effective this financial year, prospectively to contracts for which the Group has not yet fulfilled all of its obligations at 1 April 21, refer to Note 16. The Group applies judgement in determining which costs are 'directly related to contract activities', using guidance in IFRS 15 Revenue from Contracts with Customers and other applicable standards.

***COVID-19 Rent related concessions beyond June 2021***
On 1 April 2021 the Group adopted "COVID-19 Rent related concessions beyond June 2021" standard. The Group received rental concession for some of its leased properties and therefore it applied the practical expedient under COVID-19 Rent related concessions. The practical expedient has been applied to all eligible contracts. Accordingly, the concession received was accounted for as negative variable lease in profit or loss and has an immaterial impact on these financial statements.

**Standards issued but not yet effective**

Certain new accounting standards and amendments have been issued that are not mandatory for the 31 March 2022 financial year and have not been early adopted by the Group. The Group has assessed that these are not likely to have a material effect on its financial statements.

**COVID-19 impacts**
The Group assessed the current and future potential effects of COVID-19 for all balances and areas of judgements made in relation to the preparation of these consolidated financial statements. The effect on the overall results was not material as the Group has remained resilient during the year, despite the continuing impact of COVID-19.

During the prior year, the Group was eligible for and received $9.0 million of New Zealand Government wage subsidy, of which the Group subsequently repaid $0.6 million.

# 2. Revenue from contracts with customers

| | Note | Group 2022 $000s | Group 2021 $000s |
|---|---|---|---|
| **Revenue recognised over time** | | | |
| Electricity distribution revenue | i | **66,477** | 66,016 |
| Metering | ii | **11** | 904 |
| Electricity generation | iii | **1,984** | 1,926 |
| Fibre telecommunication services | iv | **13,646** | 2,599 |
| Contracting revenue - electricity industry | v | **294,011** | 286,204 |
| Contracting revenue - fibre telecommunications industry | vi | **90** | 3,078 |
| **Revenue recognised at a point in time** | | | |
| Capital contributions | vii | **8,162** | 3,882 |
| **Total** | | **384,381** | 364,609 |

***i Electricity distribution revenue***

The performance obligation is satisfied over time with the delivery of electricity and payment is generally due within 20 to 45 days from delivery. The Group adopts a practical expedient allowed by NZ IFRS 15 and recognises electricity distribution revenue when the right to invoice arises.

Part of the network charges is based on normalisation, where consumption is estimated to the end of the billing period based on historical actual meter readings. Occasionally the meter reading history data is not consistent and subsequent adjustments are made to customers' accounts, where further charges are applied or refunds given. These adjustment amounts are not significant compared with total network revenue.

The revenue disclosed above is net of a posted discount of $11.7 million paid during the year to the consumer owners (2021: $10.2 million), refer to Note 18.

***ii Metering***

The performance obligation is satisfied on reading of end consumer electricity metering equipment and revenue is recognised over time. Payment is generally due 20 to 45 days from delivery.

***iii Electricity generation***

The Group owns and operates an electricity power station at Wairua, Northland. The performance obligation of the supply of generated electricity is satisfied over time and pricing is based on the final electricity industry spot price, as defined by the Electricity Industry Participation Code. Payment is generally due 20 to 45 days from supply of the electricity.

***iv Fibre telecommunication services***

The performance obligation is satisfied over time with the provision of fibre internet connectivity and payment is generally due 20 to 45 days from provision of the service. Revenue is recognised as the service is provided.

***v Contracting revenue – electricity industry***

The contracting division provides maintenance and construction services under fixed-price and variable price contracts. Revenue from these services is recognised in the accounting period in which the services are rendered. For fixed-priced contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the actual costs incurred relative to the total expected costs.

The Group determined that the input method is the best method of measuring progress of the services because there is a direct relationship between cost incurred and the transfer of service to the customer.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

***vi Contracting revenue – fibre telecommunications industry***

Revenue related to services to connect end users to the fibre network is recognised when the connection is complete. Revenue for maintenance services is recognised in the accounting period in which the services are rendered on the basis that the customer receives and uses the benefits. simultaneously.

***vii Capital contributions***

Capital contribution revenue represents third party contributions towards the construction of distribution system assets. Revenue is recognised in the consolidated statement of comprehensive income when the asset is completed.

**Contract assets and contract liabilities**

Amounts relating to contract assets are balances due from customers under construction contracts that arise when the performance obligations have been completed but not invoiced. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. The remaining performance obligations at balance date are part of contracts that are estimated to have a duration of one year or less. Hence the Group applied the practical expedient in NZ IFRS 15 in relation to the disclosure of information about remaining performance obligations at balance date.

Contract liabilities are balances due to customers under construction contracts. These arise if a particular milestone payment exceeds the revenue recognised to date under the cost-to-completion method. The revenue recognised during the year includes the contract liabilities balance at the beginning of the reporting period.

# 3. Other income

| | Group | | Parent | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | $000s | $000s | $000s | $000s |
| **Other Income** | | | | |
| Sundry income | **1,030** | 2,895 | **-** | - |
| Dividend income | **-** | - | **670** | 1420 |
| Wages subsidy income | **-** | 7,838 | **-** | - |
| | **1,030** | 10,733 | **670** | 1420 |

Sundry income includes $0.1 million (2021: nil) of income from the Government leave support scheme and short term absence assistance payments to help pay salary and wages of employees impacted by COVID-19. Wages subsidy income for the prior year relates to the Government's wage subsidy scheme, a financial assistance to employers to help pay employee salary and wages for a 12-week period. These payments qualify as government grant within the scope of NZ IAS 20. The wages subsidy and other support payments receivable was recognised as an asset when the claim was submitted along with a corresponding liability until the conditions attached to the grant were satisfied. As and when the Group paid the salaries or wages to the employees, the wages subsidy and the support payments payable was reduced and recognised as other income in the statement of comprehensive income.

# 4. Other expenses

Profit before income tax includes the following specific expenses:

| | | Group | | Parent | |
|---|---|---|---|---|---|
| | | **2022** | 2021 | **2022** | 2021 |
| | Note | $000s | $000s | $000s | $000s |
| Fees to Deloitte (FY21: Audit New Zealand) for: | | | | | |
| - Audit of financial statements | | **265** | 234 | **-** | - |
| - Special audits required by regulators | | **59** | 47 | **-** | - |
| Trust audit fees | | **19** | 19 | **19** | 19 |
| Net loss on foreign exchange | | - | 28 | **-** | - |
| Directors' fees | | **586** | 543 | **-** | - |
| Trustees fees and allowances | | **225** | 219 | **225** | 219 |
| Other trust expense | | **148** | 112 | **148** | 112 |
| Rental and lease costs | | **1,488** | 673 | **-** | - |
| Fair value loss on asset revaluation | | **1,505** | - | **-** | - |
| Impairment of software | 13 | **-** | 1,281 | **-** | - |

The rental and lease costs represent short-term leases, leases of low value assets and variable lease costs not included in NZ IFRS 16 costs.

# 5. Net finance cost

| | Note | Group 2022 $000s | Group 2021 $000s | Parent 2022 $000s | Parent 2021 $000s |
|---|---|---|---|---|---|
| Interest income | | **41** | 29 | **26** | 29 |
| Interest expense | | **(3,979)** | (3,784) | **-** | - |
| Capitalised interest | 14 | **205** | 200 | **-** | - |
| Interest on leases | 15 | **(2,468)** | (2,413) | **-** | - |
| **Net finance cost** | | **(6,201)** | (5,968) | **26** | 29 |

Interest income and interest expense is recognised using the effective interest method. The gross interest costs of bank facilities excluding the impact of interest rate swaps was $2.2 million (2021: $1.8 million). Eligible borrowing costs were capitalised at an average interest rate of 1.7% (2021: 1.4%).

# 6. Inventory

Inventory is stated at the lower of cost and net realisable value. Inventory comprises of finished goods. The carrying amount of inventory held for distribution is measured on a weighted average cost basis. Inventory issued of $31.6 million was recognised in the profit or loss during the year (2021: $29.2 million). Inventory written off during the period amounted to nil (2021: $0.3 million). No inventory was pledged as securities for liabilities, however some inventory is subject to retention of title clauses.

# 7. Employee benefits and entitlements

| | Group 2022 $000s | Group 2021[1] $000s |
|---|---|---|
| Salaries & wages | **140,186** | 130,767 |
| Defined contribution plan employer contributions | **3,632** | 3,575 |
| Movement in employee entitlements | **2,016** | 2,843 |
| **Total employee benefit expenses** | **145,834** | 137,185 |

[1] the comparatives are restated following an accounting policy change relating to cloud computing arrangements, refer to Note 1

The compensation of the Directors and Executives, being the key management personnel of the entity, is set out as below:

| | Note | Group | | Parent | |
|---|---|---|---|---|---|
| | | **2022** | 2021 | **2022** | 2021 |
| | | $000s | $000s | $000s | $000s |
| Short-term benefits | 24 | **4,413** | 3,601 | **225** | 219 |
| Termination benefits | 24 | **392** | 129 | **-** | - |
| **Total compensation of key management personnel** | | **4,805** | 3,730 | **225** | 219 |

| | Group | |
|---|---|---|
| | **2022** | 2021 |
| **Employee entitlements are represented by:** | $000s | $000s |
| **Current** | | |
| Accrued salaries & wages | **4,644** | 4,808 |
| Annual leave | **12,767** | 10,897 |
| Sick leave | **936** | 930 |
| **Total current portion** | **18,347** | 16,635 |
| | | |
| **Non-current** | | |
| Retirement & long service leave | **1,065** | 761 |
| **Total non-current portion** | **1,065** | 761 |
| **Balance as at 31 March** | **19,412** | 17,396 |

The group accrues for employee benefits which remain unused at balance date, and amounts expected to be paid under bonus and other entitlements. A liability for employee benefits is recognised when it is probable that settlement will be required and the amount is capable of being measured reliably.

# 8. Deferred income

| | Group | |
|---|---|---|
| | **2022** | 2021 |
| | $000s | $000s |
| Balance as at 1 April | **6,366** | 6,024 |
| Received during the year | **338** | 809 |
| Income recognised during the year | **215** | (467) |
| **Balance as at 31 March** | **6,919** | 6,366 |
| | | |
| Current | **237** | 543 |
| Non-current | **6,682** | 5,823 |
| **Balance as at 31 March** | **6,919** | 6,366 |

The Group has received an interest free loan from the Government for the construction of fibre network assets and the loan was recognised at its fair value when received, refer to Note 19. The difference between the amount received and the fair value is recognised as deferred income in accordance with NZ IAS 20. As the loan relates to the construction of property, plant and equipment it was included in non-current liabilities as deferred income and is recognised in the profit or loss over the periods necessary to match the related depreciation charges, or other expenses of the asset as they are incurred.

# 9. Trade and other receivables

| | | Group | | Parent | |
|---|---|---|---|---|---|
| | | **2022** | 2021 | **2022** | 2021 |
| | Note | $000s | $000s | $000s | $000s |
| Trade receivables | | **46,790** | 35,197 | **675** | 665 |
| Less provision for impairment | 21 | **(375)** | (574) | - | - |
| Prepayments | | **2,478** | 1,689 | **23** | 8 |
| **Balance as at 31 March** | | **48,893** | 36,312 | **698** | 673 |

The Group's exposure to credit risk and impairment losses related to trade receivables are disclosed in Note 21 in these financial statements.

# 10. Trade and other payables

| | Group | | Parent | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | $000s | $000s | $000s | $000s |
| Trade payables | **18,080** | 17,446 | **60** | 24 |
| Accrued payables | **6,798** | 7,161 | **-** | - |
| **Balance as at 31 March** | **24,878** | 24,607 | **60** | 24 |

# 11. Income tax expense

| | Note | Group | | Parent | |
|---|---|---|---|---|---|
| | | **2022** | 2021 Restated[1] | **2022** | 2021 |
| | | $000s | $000s | $000s | $000s |
| Profit before income tax | | **31,169** | 27,027 | **304** | 1,099 |
| At New Zealand's statutory tax rate of 33% (2021: 33%) | | **10,286** | 8,919 | **100** | 363 |
| Effect of lower tax rate in Company (28%) | | **(1,577)** | (1,366) | | |
| Plus/(less) tax effect of: | | | | | |
| - Gross up of imputation credit | | **-** | - | **86** | 182 |
| - Imputation credit attached to dividend received/declared | | **-** | - | **(261)** | (553) |
| - Non-deductible expense | | **328** | 207 | **-** | - |
| - Non-taxable income | 23 | **(4,075)** | (46) | **-** | - |
| - Tax benefit not recognised | | **121** | 98 | **75** | - |
| - Prior period adjustment | | **(3)** | (219) | **8** | - |
| Adjustment for joint venture | | - | (552) | - | - |
| Tax on income not included in accounting profit | | - | 1,823 | - | - |
| | | **5,080** | 8,864 | **8** | (8) |
| The taxation charge is represented by: | | | | | |
| - Current taxation | | **5,944** | 7,375 | **-** | - |
| - Deferred taxation | | **(861)** | 1,708 | **-** | (8) |
| - Prior period adjustment relating to current tax | | **(461)** | (512) | **8** | - |
| - Prior period adjustment relating to deferred tax | | **458** | 293 | **-** | - |
| | | **5,080** | 8,864 | **8** | (8) |
| Imputation credits available for use in subsequent reporting periods | | **59,085** | 59,963 | **-** | - |

[1] the comparatives are restated following an accounting policy change relating to cloud computing arrangements, refer to Note 1

Income tax expense comprises current and deferred tax using tax rates and tax laws that have been enacted or substantively enacted at balance date. Current tax is the income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. The non-taxable income of $4.1 million includes tax effect on fair value gain on re-measurement of existing interest in associate.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that affects neither accounting profit nor taxable profit.

Current and deferred tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

# 12. Deferred tax

| Group | Note | Property, Plant & Equipment $000s | Employee entitlements $000s | Provisions & Other $000s | Tax losses | Total $000s |
|---|---|---|---|---|---|---|
| **Balance as at 1 April 2021** | | **(51,002)** | **3,533** | **(5,492)** | **191** | **(52,770)** |
| Charged to profit/(loss) | | **(2,535)** | **563** | **2,847** | **(472)** | **403** |
| Charged directly to equity | | **(9,797)** | **-** | **-** | **-** | **(9,797)** |
| Acquired through business combination | 23 | **(6,516)** | **38** | **-** | **1,738** | **(4,740)** |
| **Balance as at 31 March 2022** | | **(69,850)** | **4,134** | **(2,645)** | **1,457** | **(66,904)** |
| | | | | | | |
| Balance as at 1 April 2020[1] | | (50,255) | 3,394 | (3,908) | - | (50,769) |
| Charged to profit/(loss) | | (747) | 139 | (1,584) | 191 | (2,001) |
| Balance as at 31 March 2021 | | (51,002) | 3,533 | (5,492) | 191 | (52,770) |

| **Parent** | Other $000s | Total $000s |
|---|---|---|
| **Balance as at 1 April 2021** | **8** | **8** |
| Charged to profit/(loss) | **(8)** | **(8)** |
| **Balance as at 31 March 2022** | **-** | **-** |
| Balance as at 1 April 2020 | - | - |
| Charged to profit/(loss) | 8 | 8 |
| Balance as at 31 March 2021 | 8 | 8 |

[1] the comparatives are restated following an accounting policy change relating to cloud computing arrangements, refer to Note 1

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. It is measured at tax rates that are expected to be applied to the temporary differences when they reverse.

# 13. Intangible assets

Intangible assets are initially measured at cost and subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses. The amortisation expense of intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset. Easements are deemed to have an indefinite life, are not amortised, and are tested for impairment annually. There is no intangible asset whose title is restricted.

Software costs have a finite useful life and are amortised over a period of expected future benefit of 3 - 15 years on a straight line basis.

Goodwill is allocated to the Group's cash-generating units (CGU), being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other groups of assets. Goodwill is not amortised but is tested for impairment annually or whenever there is an indicator of impairment.

The recoverable amount was determined using the value in use model. The calculation of value in use in calculations for all cash-generating unit is most sensitive to movements in gross margin, discount rates and growth rates. Gross margins are based on the expected results as per next year's budget and future years' forecasts. Discount rates are based on the applicable weighted average cost of capital. The estimated recoverable amount of the CGU exceeded its carrying amount, hence there was no impairment loss at balance date.

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

| | Group | | | | |
|---|---|---|---|---|---|
| | Goodwill | Software | Easements | Capital work in progress | Total |
| | $000s | $000s | $000s | $000s | $000s |
| **Cost** | | | | | |
| Balance as at 1 April 2021[1] | **4,122** | **35,703** | **453** | **2,546** | **42,824** |
| Assets acquired through business combination | **8,236** | **83** | **-** | **-** | **8,319** |
| Additions | **-** | **-** | **-** | **2,193** | **2,193** |
| Transfer between assset categories | **-** | **3,115** | **-** | **(3,115)** | **-** |
| Disposals | **-** | **(652)** | **-** | **-** | **(652)** |
| **Balance as at 31 March 2022** | **12,358** | **38,249** | **453** | **1,624** | **52,684** |
| | | | | | |
| **Accumulated amortisation and impairment** | | | | | |
| Balance as at 1 April 2021 | **(1,745)** | **(20,710)** | **-** | **-** | **(22,455)** |
| Amortisation for the year | **-** | **(3,276)** | **-** | **-** | **(3,276)** |
| Disposals | **-** | **611** | **-** | **-** | **611** |
| **Balance as at 31 March 2022** | **(1,745)** | **(23,375)** | **-** | **-** | **(25,120)** |
| | | | | | |
| **Net carrying amount as at 31 March 2022** | **10,613** | **14,874** | **453** | **1,624** | **27,564** |
| | | | | | |
| **Cost** | | | | | |
| Balance as at 1 April 2020[1] | 4,122 | 32,887 | 453 | 3,146 | 40,608 |
| Additions | - | - | - | 2,141 | 2,141 |
| Transfers[1] | - | 2,816 | - | (2,741) | 75 |
| Disposals | - | - | - | - | - |
| **Balance as at 31 March 2021[1]** | 4,122 | 35,703 | 453 | 2,546 | 42,824 |
| | | | | | |
| **Accumulated amortisation and impairment** | | | | | |
| Balance as at 1 April 2020[1] | (1,745) | (16,298) | - | - | (18,043) |
| Amortisation for the year[1] | - | (3,131) | - | - | (3,131) |
| Impairment for the year | - | (1,281) | - | - | (1,281) |
| **Balance as at 31 March 2021** | (1,745) | (20,710) | - | - | (22,455) |
| **Net carrying amount as at 31 March 2021[1]** | 2,377 | 14,993 | 453 | 2,546 | 20,369 |

[1] the comparatives are restated following an accounting policy change relating to cloud computing arrangements, refer to Note 1

**Allocation of goodwill to cash-generating units**

| | Group | |
|---|---|---|
| | **2022** | 2021 |
| | $000s | $000s |
| Northern contracting | **877** | 877 |
| Central contracting | **1,500** | 1,500 |
| Northpower Fibre Limited | **8,236** | - |
| **Balance as at 31 March** | **10,613** | 2,377 |

**Impairment of non-financial assets other than inventory and goodwill**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss if any. Where the carrying value of an asset exceeds its recoverable amount i.e. the higher of value in use and fair value less costs to sell, the asset is written down accordingly. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets or cash- generating unit to which it belongs for which there are separately identifiable cash flows.

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. A reversal of an impairment loss is recognised in the consolidated statement of comprehensive income immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment is treated as a revaluation increase through other comprehensive income.

During the year, software intangible assets were impaired by $nil million (2021: $1.3 million) on the basis of anticipated benefits not being realised and non-utilisation of components of the software. The impairment loss was recognised as a reduction in the carrying amount of software and as an expense in the profit or loss.

**Cloud computing arrangements**

The Group has assessed the impact of the final agenda decision on Configuration or customisation costs in a cloud computing arrangement, refer to Note 1, and recognised $0.8 million of related costs in retained earnings. The identified costs represent up-front costs incurred in relation to the implementation phase of new cloud computing arrangements whereby the group has not recognised an intangible asset under NZ IAS 38.

The new accounting policy is as follows:

Cloud computing arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received. If the configuration and customisation were performed by the cloud provider, and if the upfront service is distinct from the cloud computing arrangement, then the related costs may be initially treated as a prepayment and expensed over the term of the cloud computing arrangement. Costs incurred for the development of software code that enhances or modifies, or creates additional capability to existing on-premise systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets. The Group applies judgement to assess whether the criteria for capitalisation of the configuration and customisation costs, are met.

# 14. Property, plant and equipment

| Group | Freehold Land | Freehold Buildngs | Distribution Systems | Fibre | Generation | Plant & Equipment | Motor Vehicles | Leasehold Improvements | Meters | Capital work in | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | $000s | $000s | $000s | $000s | $000s | $000s | $000s | $000s | $000s | $000s | $000s |
| **Cost or fair value** | | | | | | | | | | | |
| Balance as at 1 April 2021 | **9,633** | **14,612** | **300,050** | **32,620** | **15,879** | **44,717** | **5,611** | **3,489** | **290** | **8,329** | **435,230** |
| Assets acquired through business combination | **-** | **29** | **-** | **55,800** | | **105** | **-** | **7** | **-** | **169** | **56,110** |
| Additions | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **43,182** | **43,182** |
| Transfer between asset categories | **-** | **2,591** | **25,433** | **9,013** | **-** | **4,186** | **204** | **121** | **18** | **(41,566)** | **-** |
| Revaluation adjustment | **7,972** | **(2,124)** | **9,976** | **-** | **-** | **162** | **-** | **-** | **-** | **-** | **15,986** |
| Disposals | **-** | **(15)** | **(106)** | **(3,325)** | **-** | **(5,829)** | **(2,240)** | **(44)** | **-** | **-** | **(11,559)** |
| | | | | | | | | | | **-** | **-** |
| **Balance as at 31 March 2022** | **17,605** | **15,093** | **335,353** | **94,108** | **15,879** | **43,341** | **3,575** | **3,573** | **308** | **10,114** | **538,949** |
| **Accumulated depreciation** | | | | | | | | | | | |
| Balance as at 1 April 2021 | **-** | **(870)** | **(15,531)** | **(3,910)** | **(10,796)** | **(28,485)** | **(3,999)** | **(1,045)** | **(53)** | **-** | **(64,689)** |
| Depreciation charge for the year | **-** | **(536)** | **(8,544)** | **(4,868)** | **(485)** | **(3,812)** | **(145)** | **(269)** | **(13)** | **-** | **(18,672)** |
| Impairment | | | | | | **(101)** | | | | | **(101)** |
| Transfers | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Revaluation adjustment | | **1,402** | **24,067** | | | | | | | | **25,469** |
| Disposals | **-** | **4** | **8** | **3,309** | **-** | **5,710** | **1,933** | **20** | **-** | **-** | **10,984** |
| | | | | | | | | | | | **-** |
| **Balance as at 31 March 2022** | **-** | **-** | **-** | **(5,469)** | **(11,281)** | **(26,688)** | **(2,211)** | **(1,294)** | **(66)** | **-** | **(47,009)** |
| **Net carrying amount as at 31 March 2022** | **17,605** | **15,093** | **335,353** | **88,639** | **4,598** | **16,653** | **1,364** | **2,279** | **242** | **10,114** | **491,940** |
| **Cost or fair value** | | | | | | | | | | | |
| Balance as at 1 April 2020 | 9,633 | 11,593 | 278,114 | 22,210 | 15,874 | 48,854 | 11,304 | 3,344 | 5,641 | 13,517 | 420,084 |
| Additions | - | - | - | - | - | - | - | - | - | 35,470 | 35,470 |
| Transfer between asset categories | - | 3,019 | 21,965 | 10,480 | 5 | 3,712 | 581 | 427 | 102 | (40,658) | (367) |
| Disposals | - | - | (29) | (70) | - | (7,849) | (6,274) | (282) | - | - | (14,504) |
| Transfer to assets classified as held for sale | - | - | - | - | - | - | - | - | (5,453) | | (5,453) |
| **Balance as at 31 March 2021** | 9,633 | 14,612 | 300,050 | 32,620 | 15,879 | 44,717 | 5,611 | 3,489 | 290 | 8,329 | 435,230 |
| **Accumulated depreciation** | | | | | | | | | | | |
| Balance as at 1 April 2020 | - | (413) | (7,574) | (2,588) | (10,309) | (32,380) | (8,744) | (948) | (5,333) | - | (68,289) |
| Depreciation charge for the year | - | (426) | (7,966) | (1,392) | (487) | (3,717) | (395) | (263) | (18) | - | (14,664) |
| Transfers | - | (31) | (5) | - | - | (74) | - | 2 | - | - | (108) |
| Disposals | - | - | 14 | 70 | - | 7,686 | 5,140 | 164 | - | - | 13,074 |
| Transfer to assets classified as held for sale | - | - | - | - | - | - | - | - | 5,298 | - | 5,298 |
| Balance as at 31 March 2021 | - | (870) | (15,531) | (3,910) | (10,796) | (28,485) | (3,999) | (1,045) | (53) | - | (64,689) |
| Net carrying amount as at 31 March 2021 | 9,633 | 13,742 | 284,519 | 28,710 | 5,083 | 16,232 | 1,612 | 2,444 | 237 | 8,329 | 370,541 |

The carrying value that would have been recognised had the following revalued assets been carried under the cost model would be as follows:

| | Group | | |
|---|---|---|---|
| | Freehold Land $000s | Freehold Buildings $000s | Distribution Systems $000s |
| **2022** | | | |
| Cost | **6,223** | **19,437** | **391,414** |
| Accumulated depreciation & impairment | | **(4,968)** | **(108,519)** |
| **Net carrying amount** | **6,223** | **14,469** | **282,895** |
| **2021** | | | |
| Cost | 6,223 | 16,858 | 366,105 |
| Accumulated depreciation & impairment | - | (4,445) | (100,031) |
| Net carrying amount | 6,223 | 12,413 | 266,074 |

Property, plant and equipment (PPE), except revalued assets are stated at cost less any subsequent accumulated depreciation and subsequent accumulated impairment loss. The cost of purchased PPE may include the initial purchase price plus directly attributable material, labour, finance costs, and other overheads incurred for bringing the assets to the location and condition necessary for their intended use. Finance costs incurred during the course of construction that are attributable to a project are capitalised using the finance rate applicable to the funding. Costs cease to be capitalised as soon as an asset is ready for productive use. Freehold buildings asset class includes buildings infrastructure assets of $4.6 million at balance date (2021: $2.9 million).

**Revalued assets**

Electricity distribution network and land and buildings assets are revalued after initial recognition and are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of valuation, less any subsequent accumulated depreciation and subsequent accumulated impairment loss. 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 sheet date. Additions between revaluations are recorded at cost. Depreciation on revalued assets is recognised in profit or loss. Land is not depreciated.

**Asset revaluation reserve**

Any revaluation increment is recorded in other comprehensive income and credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in the profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Any accumulated depreciation at the date of the revaluation is transferred to the gross carrying amount of the asset and the asset cost is restated to the revalued amount. When revalued assets are disposed of, the amounts included in the asset revaluation reserve are transferred to retained earnings.

**Revaluation**

The fair value of the Group's land, and buildings is based on market values, being the price that would be received to sell land and buildings in an orderly transaction between market participants at the measurement date. Changes to market conditions or assumptions made in the estimation of fair value will result in changes to the fair value of the revalued assets.

The Group engaged AON Risk Solutions, a registered independent valuer, to determine the fair value of its land, and buildings as at 31 March 2022. The valuation was carried out in accordance with International Valuation Standards. Fair value was determined by direct reference to recent market transactions on arm's length terms. To establish the valuation of properties, the valuer used a combination of income capitalisation, market comparison and depreciated replacement cost approaches. Fair value is assessed with reference to the "highest and best use" being defined as "the most probable use of an asset that is physically possible, appropriately justified, legally permissible, financially feasible and results in the highest value". As at 31 March 2022, the fair value of the land, and buildings amounted to $17.6 million and $15.1 million, respectively. This resulted in a valuation uplift of $8.8 million being recognised in the other comprehensive income.
The most recent valuation to determine the fair value of the electricity distribution network assets was completed at 31 March 2022 by PriceWaterhouseCoopers (PwC), an independent registered valuer. As the fair value of the assets was not able to be reliably determined using market-based evidence, the valuation was prepared using a discounted cash flow (DCF) methodology over a 10 year period, with a terminal value based on the estimated regulatory asset base. The assumptions mainly include estimated future revenues, operating costs and capital expenditure. A post tax nominal WACC of 4.8% was used. The posted discount was not included in the valuation cash flows for FY23 – FY31 as it only forms part of the contract price once declared.

The valuer's estimated range of values attributable to the Group's electricity distribution network assets was between $321.9 million and $352.5 million as at 31 March 2022. The valuation was most sensitive to movements in discount rate and distribution revenue. A 5% increase/ (decrease) in the discount rate would (decrease)/increase the valuation by $15 million. A 5% increase/(decrease) in the distribution revenue indicated the valuation would increase/ (decrease) by $15 million.

**Depreciation**

Depreciation is charged on a straight line basis so as to write off the cost or valuation of the fixed assets to their estimated residual value over their expected economic lives. The estimated economic lives are as follows:

| | |
|---|---|
| Buildings - freehold | 10 - 50 years |
| Distribution system | 5 - 70 years |
| Fibre Assets | 5 - 50 years |
| Generation | 5 - 50 years |
| Plant & equipment | 3 - 20 years |
| Motor vehicles | 5 - 15 years |
| Leasehold improvements | 2 - 20 years |
| Meters | 2 - 20 years |

The estimation of useful lives of assets has been based on historical experience as well as manufacturers' warranties for plant and equipment, lease terms for leased assets and turnover policies for motor vehicles. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary.

**Loss on disposal of PPE**

During the year a gain on disposal of PPE of $0.05 million (2021: $0.03 million loss) was recognised in the profit or loss within other income.

# 15. Leases

NZ IFRS 16 Leases establishes one sole accounting model for lessees, where the amounts in the consolidated statement of financial position are increased by the recognition of right of use assets and the financial liabilities for the future payment obligations relating to leases classified previously as operating leases. The right of use asset is initially measured at cost which is based on the amount of lease liability, reduced for any lease incentives received, and increased for lease payments made at or before commencement of the lease and subsequently at cost less cumulative depreciation and impairment losses; adjustments are made for any new measurement of the lease liability due to the amendment or reassessment of the lease. The right of use asset is subsequently depreciated on a straight line basis from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term.

The lease liability is measured using the present values of future lease payments. When calculating lease liabilities, the Group applied discount rates (incremental rate), depending on the lease terms.

The Group considers a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In determining the lease term, the non-cancellable period of the lease agreement and the periods covered by the option to extend the lease are taken into account, if the lessee is reasonably certain that they will exercise this option. Leases entered into and identified by the Group include property leases and vehicle leases.

The Group has also applied the practical expedient available from NZ IFRS 16 and excluded short-term leases and low value assets. The Group considers leases which has a duration of less than 12 months, unless there is reasonable certainty that they can be extended, as short-term leases.

**Right of use assets**

| | | Group | |
|---|---|---|---|
| | **Buildings** | **Vehicles** | **Total** |
| | $000s | $000s | $000s |
| Cost | | | |
| **Balance as at 1 April 2021** | **32,207** | **68,409** | **100,616** |
| Additions | **350** | **10,279** | **10,629** |
| Disposals | **-** | **(264)** | **(264)** |
| Remeasurement | **522** | **25** | **547** |
| **Balance as at 31 March 2022** | **33,079** | **78,449** | **111,528** |
| | | | |
| Accumulated amortisation | | | |
| **Balance as at 1 April 2021** | **(6,603)** | **(19,597)** | **(26,200)** |
| Additions | **(3,593)** | **(11,765)** | **(15,358)** |
| Disposals | **-** | **-** | **-** |
| Other adjustments | **23** | **(288)** | **(265)** |
| **Balance as at 31 March 2022** | **(10,173)** | **(31,650)** | **(41,823)** |
| | | | |
| **Net book value** | 22,906 | 46,799 | 69,705 |
| | | | |
| Cost | | | |
| **Balance as at 1 April 2020** | 24,005 | 55,361 | 79,366 |
| Additions | 7,594 | 13,155 | 20,749 |
| Disposals | - | (140) | (140) |
| Remeasurement | 608 | 33 | 641 |
| **Balance as at 31 March 2021** | 32,207 | 68,409 | 100,616 |
| | | | |
| Accumulated amortisation | | | |
| **Balance as at 1 April 2020** | (2,942) | (8,842) | (11,784) |
| Additions | (3,685) | (10,757) | (14,442) |
| Disposals | - | - | - |
| Other adjustments | 24 | 2 | 26 |
| **Balance as at 31 March 2021** | (6,603) | (19,597) | (26,200) |
| | | | |
| **Net book value** | 25,604 | 48,812 | 74,416 |

**Operating lease income**

As lessor in operating leases, the aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

| | Group | |
|---|---|---|
| | **2022** | 2021 |
| Non-cancellable operating lease | $000s | $000s |
| Within one year | **32** | 45 |
| After one year but not more than five years | **101** | 35 |
| More than five years | **81** | 78 |
| **Balance of non-cancellable operating leases** | **214** | 158 |

# 16. Provisions

During the year a provision for onerous contracts of $4.3million (2021: nil) was recognised as the unavoidable costs of meeting the obligations under the contract were estimated to exceed the economic benefits expected to be received under it. The Group has elected to early adopt effective 1 April 2021 the amendment to NZ IAS 37 that clarifies that the unavoidable costs of fulfilling the obligations under a contract comprise costs that relate directly to the contract - consisting of both incremental costs of fulfilling that contract and an allocation of other costs that relate directly to that contract. The provision was measured as the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract, which is determined based on estimated full costs necessary to fulfil the obligations under the contract. Any impairment losses associated with the contract are recognised before the provision for onerous contracts is established.

# 17. Cash flow statement reconciliation

| | Group | | Parent | |
|---|---|---|---|---|
| | **2022** | 2021 Restated[1] | **2022** | 2021 |
| | $000s | $000s | $000s | $000s |
| Reconciliation of net profit after tax to net cash flows from operations | | | | |
| Net profit after income tax | **26,089** | 18,163 | **296** | 1,107 |
| Adjustments for: | | | | |
| - Depreciation & amortisation | **37,306** | 32,237 | **-** | - |
| - Loss/(gain) on sale of property, plant & equipment | **(55)** | 29 | **-** | - |
| - Deferred income release | **214** | (467) | **-** | - |
| - Non cash capital contribution revenue | **(6,952)** | (3,882) | **-** | - |
| - Fair valuation gain on derivative financial instruments | **(4,440)** | (2,270) | **-** | - |
| - Capitalised interest | **(205)** | (200) | **-** | - |
| - Non cash interest | **436** | 394 | **-** | - |
| - Fair value loss on asset revaluation | **1,505** | - | **-** | - |
| -Impairment of software | **-** | 1,281 | **-** | - |
| - Gain on remeaurement of existing interest/share of net profit in associate | **(14,718)** | 4,540 | **-** | - |
| Changes in assets & liabilities | | | | |
| -(Decrease)/increase in trade & other payables | **(550)** | (14,105) | **36** | 4 |
| - Less related to property, plant and equipment | **(1,781)** | (824) | **-** | - |
| -Decrease in contract liabilities | **4,344** | (2,659) | **-** | - |
| -Increase in provision | **4,160** | - | **-** | - |
| -Decrease/(increase) in contract assets | **6,041** | (4,588) | **-** | - |
| - Increase/(decrease) in income tax | **(1,289)** | 10,471 | **114** | (61) |
| - Decrease/(increase) in trade & other receivables | **(10,705)** | 18,140 | **(25)** | (504) |
| - Increase in inventory | **(5,196)** | (1,627) | **-** | - |
| - Decrease/(increase) in deferred tax liabilities | **(403)** | 2,001 | **8** | (8) |
| - Decrease in employee entitlements | **1,858** | 2,843 | **-** | - |
| Net cash from operating activities | **35,659** | 59,477 | **429** | 538 |

[1] the comparatives are restated following an accounting policy change relating to cloud computing arrangements, refer to Note 1

The table below sets out an analysis of the Group's liabilities for which cash flows have been, or will be, classified as financing activities in the consolidated cash flow statement.

| | Group 2022 | | | | Parent 2022 |
|---|---|---|---|---|---|
| | **Cash and cash equivalents** | **Lease liabilities** | **Borrowings** | **Total** | **cash equivalen** |
| | $000s | $000s | $000s | $000s | $000s |
| Net debt as at 1 April 2021 | **(1,354)** | **76,160** | **88,973** | **163,779** | **(51)** |
| Cash flows | **530** | **(14,541)** | **19,137** | **5,126** | **(16)** |
| Non cash movements | **8** | **10,647** | **761** | **11,416** | **-** |
| **Net debt as at 31 March 2022** | **(816)** | **72,266** | **108,871** | **180,321** | **(67)** |

| | Group 2021 | | | | Parent 2021 |
|---|---|---|---|---|---|
| | **Cash and cash equivalents** | **Lease liabilities** | **Borrowings** | **Total** | **Cash and cash** |
| | $000s | $000s | $000s | $000s | $000s |
| Net debt as at 1 April 2020 | (2,086) | 68,481 | 92,139 | 158,534 | (73) |
| Cash flows | 631 | (13,596) | (3,092) | (16,057) | 22 |
| Non cash movements | 101 | 21,275 | (74) | 21,302 | - |
| Net debt as at 31 March 2021 | (1,354) | 76,160 | 88,973 | 163,779 | (51) |

# 18. Equity

### Trust capital

The total number of shares authorised and issued is 35,981,848 (2021: 35,981,848). Trust capital consists of ordinary shares which are classified as equity. All ordinary shares are issued, fully paid, have no par value and are ranked equally. Fully paid shares carry one vote per share and the right to dividends. The Trust capital was paid by Northpower Limited contemporaneously upon execution of the Trust Deed executed 29th of March 1993.

### Asset revaluation reserve

The asset revaluation reserve is used to record the increments and decrements in the fair value of property, plant and equipment identified as being carried at valuation.  Net revaluation amount recognised at balance date was $33 million (2021: nil).

### Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. The Australian subsidiaries' functional currency is Australian dollars which is translated to the presentation currency.  Assets and liabilities are translated at exchange rates prevailing at reporting date. Exchange variations resulting from the translation are recognised in other comprehensive income and accumulated in the foreign currency translation reserve in equity.

### Capital management

The Company considers shares, reserves and retained earnings as part of its capital. When managing capital, the Board's objective is to ensure the entity continues as a going concern maintaining adequate working capital, ensuring obligations can be met on time, as well as maintaining returns to shareholders as set out in the statement of corporate intent. The Group's statement of corporate intent prescribes that the debt/capital ratio will be maintained at 40% or lower.

The Group's policy, outlined in the statement of corporate intent, is to distribute to its shareholder all funds surplus to the investment and operating requirements of the Group. During the year fully imputed dividends of $0.7 million (2021: $0.7 million) was declared by the Company and $0.7 million (2021: $0.8 million) was paid during the year by the Company.

During the year, a posted discount of $11.7 million (2021: $10.2 million) was paid to the consumers.

# 19. Borrowings

| | | Group | |
|---|---|---|---|
| | | **2022** | 2021 |
| | Maturity | $000s | $000s |
| **Current** | Less than 12 months | **22,500** | - |
| | | | |
| **Non Current** | | | |
| Unsecured loans | Within 2 & 3 yrs | **44,500** | 45,000 |
| Unsecured loans | Within 3 & 5 yrs | **24,800** | 28,400 |
| Interest free Crown loan | Beyond 5 years | **10,152** | 9,207 |
| **Balance of non current as at 31 March** | | **79,452** | 82,607 |
| **Total as at 31 March** | | **101,952** | 82,607 |

All borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The carrying amount of borrowings repayable within one year approximates their fair value.

After initial recognition, borrowings are measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of borrowings.

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

The fair value of the interest free Crown loan was estimated at $16.3 million (2021: $15.6 million) using prevailing market interest rates at drawdown date for an equivalent loan, ranging between 4.47% and 3.04% per cent. During the year, interest charges of $0.4 million (2021: $0.4 million) were recognised on this loan.  The difference of $6.2 million (2021: $6.4 million) between the gross proceeds and the fair value of the loan is the benefit derived from the interest-free loan and is recognised as deferred income, refer to Note 8.

At balance date the Group had $125 million of lending facilities with an average rate of interest during the year of 1.7% (2021: 1.4%). During June 2022 a $35 million bank facility matured and the Group replaced it with two lending facilities of $25 million maturing in June 2027 and $10 million maturing in June 2024. Security held by the bank is in the form of a negative pledge deed, where an undertaking has been given that certain actions will not be undertaken and key financial ratios will be maintained. The bank covenants have all been met for the years ended 31 March 2022 and 2021.

# 20. Derivatives

| | Group | |
|---|---|---|
| | **2022** | 2021 |
| | $000s | $000s |
| **Current** | | |
| Forward foreign exchange contracts | **18** | (13) |
| Interest rate swaps | **90** | 224 |
| **Non-current** | | |
| Interest rate swaps | **(1,028)** | (272) |
| Interest rate swaps | **396** | 3,976 |

Derivatives are used by the Group in the normal course of business in order to hedge exposure to fluctuations in interest rates and foreign exchange on purchases of property, plant and equipment.

In accordance with the Group's treasury policy, derivatives are only used for economic hedging purposes and not as speculative investments. The Group has elected not to apply hedge accounting. Derivatives are classified as held for trading for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period. The carrying values of the derivatives are the fair values excluding any interest receivable or payable, which is separately presented in the consolidated statement of financial position in other receivables or other payables.

# 21. Financial risk management objectives and policies

The Group risk management policy approved by the Board provides the basis for overall financial risk management. The Group's treasury policy covers specific risk management and mitigation principles for liquidity risk, credit risk, foreign exchange risk, hedging and interest rate risk. The Group Treasury identifies and evaluates financial risks in accordance with the policies approved by the Board. To monitor the existing financial assets and liabilities as well as to enable an effective controlling of future risks, the Group has established comprehensive risk reporting covering its business units.

| **Risk** | **Exposure arising from** | **Measurement** | **Management** |
|---|---|---|---|
| Credit risk | Cash and cash equivalents, trade receivables, derivatives and contract assets | Aging analysis<br>Credit ratings | Diversification of counter parties, credit limits, performance bonds, prudential arrangements, Treasury Policy limits and Board oversight |
| Liquidity risk | Borrowings, contract liabilities and other liabilities | Rolling cash flow forecasts | Availability of committed credit lines and borrowing facilities, Board oversight and Treasury Policy limits |

| | | | |
|---|---|---|---|
| Market risk – interest rate | Floating rate borrowings | Sensitivity analysis | Interest rate swaps |
| Market risk – foreign exchange | Future commercial transactions, recognised financial assets and liabilities denominated in foreign currency | Cash flow forecasting Sensitivity analysis | Forward foreign currency forwards |

**Foreign currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has transactional and translational currency exposures. At 31 March 2022 forward foreign exchange contracts outstanding was $0.8 million (2021: $0.4 million).

**Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, hedging positions and the mix of fixed and variable interest rates. The Group manages its cost of borrowing by limiting the ratio of fixed to floating rate cover held. The Group uses interest rate swaps to manage this. Based on the Group's interest rate risk exposure at balance date, an increase (or decrease) of 1% in the interest rates will likely cause a $1.1 million (2021: $1.2 million) increase (or decrease) in the post-tax profit. There would be no effect on other components of equity. The notional value of the outstanding interest rate swap contracts amounted to $55.0 million (2021: $61.0 million). The fixed interest rates of interest rate swaps range between 0.9% to 4.3% (2021: 0.9% to 4.3%).

**Credit risk**

Credit risk is the risk that a third party will default on its contractual obligation resulting in financial loss to the Group. The Group places its cash and short-term deposits with high credit quality financial institutions (A1 or better), and limits the proportion of credit exposure to any one institution in accordance with Company policy. The maximum exposure to credit risk is the fair value of receivables. The Group does not generally require collateral from customers. Trade receivables and contract assets arise from a large number of customers spread across the North Island. The majority of the receivables balance at reporting date, was due from four significant customers. A credit evaluation is performed at the onset of material contracts to assess the financial condition of the counterparty and an ongoing credit evaluation is maintained over the life of the contract to take account of any changes in the risk profile of the counterparty. The Group continuously reviews the accounts receivables and promptly recognises an impairment loss when any indicators arise.

| Group | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Gross | Impairment | Net | Gross | Impairment | Net |
| **Trade receivables** | $000s | $000s | $000s | $000s | $000s | $000s |
| Less than 30 days past due | **45,682** | **-** | **45,682** | 33,752 | - | 33,752 |
| Past due 31 - 60 days | **360** | **-** | **360** | 276 | - | 276 |
| Past due 61 - 90 days | **234** | **-** | **234** | 305 | - | 305 |
| Past due 91 days plus | **514** | **(375)** | **139** | 864 | (574) | 290 |
| Total | **46,790** | **(375)** | **46,415** | 35,197 | (574) | 34,623 |

| Parent | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Gross | Impairment | Net | Gross | Impairment | Net |
| **Trade receivables** | $000s | $000s | $000s | $000s | $000s | $000s |
| Less than 30 days past due | **675** | **-** | **675** | 665 | - | 665 |
| Past due 31 - 60 days | **-** | **-** | **-** | - | - | - |
| Past due 61 - 90 days | **-** | **-** | **-** | - | - | - |
| Past due 91 days plus | **-** | **-** | **-** | - | - | - |
| Total | **675** | **-** | **675** | 665 | - | 665 |

| | Group | | |
|---|---|---|---|
| | 2022 | | |
| | Gross | Impairment | Net |
| Contract assets | $000s | $000s | $000s |
| Less than 30 days past due | **17,984** | **-** | **17,984** |
| Past due 31 - 60 days | **2,194** | **-** | **2,194** |
| Past due 61 - 90 days | **1,691** | **-** | **1,691** |
| Past due 91 days plus | **1,936** | **-** | **1,936** |
| Total | **23,805** | **-** | **23,805** |

| | Group | | |
|---|---|---|---|
| | 2021 | | |
| | Gross | Impairment | Net |
| Contract assets | $000s | $000s | $000s |
| Less than 30 days past due | 23,696 | - | 23,696 |
| Past due 31 - 60 days | 2,556 | - | 2,556 |
| Past due 61 - 90 days | 873 | - | 873 |
| Past due 91 days plus | 2,721 | - | 2,721 |
| Total | 29,846 | - | 29,846 |

The Group maintains a provision for estimated losses expected to arise from customers being unable to make required payments. This provision takes into account known commercial factors impacting specific customer accounts, as well as the overall profile of the debtors' portfolio. Movements in the allowance for expected credit losses of trade receivables and contract assets are as follows:

| | Group | |
|---|---|---|
| | **2022** | 2021 |
| | $000s | $000s |
| Balance as at 1 April | **574** | 489 |
| Additions | **61** | 224 |
| Acquired through business combination | **7** | - |
| Bad debts written off | **(225)** | (139) |
| Released | **(42)** | - |
| **Balance as at 31 March** | **375** | 574 |

## Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank funding facilities. The Group has a maximum amount that can be drawn against its lending facilities of $125.0 million (2021: $125.0 million). There are no restrictions on the use of the facilities. The Group also has in place a credit card facility with a combined credit limit over all cards issued of $1.0 million (2021: $1.0 million).

Future interest payments on floating rate debt are based on the floating rate on the instrument at the balance date. The risk implied from the values shown in the following tables, reflects management's expectation of cash outflows. The amounts disclosed are the contractual undiscounted cash flows.

## Contractual cash flow maturity profile

| | Group | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2022** | | | | | 2021 | | | | |
| $000s | **Within 1 year** | **1-2 Yrs** | **2-5 Yrs** | **Beyond 5 Yrs** | **Total** | Within 1 year | 1-2 Yrs | 2-5 Yrs | Beyond 5 Yrs | Total |
| **Non-derivative financial liabilities** | | | | | | | | | | |
| Trade payables | **21,128** | **-** | **-** | **-** | **21,128** | 22,168 | - | - | - | 22,168 |
| Lease liabilities | **16,756** | **15,217** | **12,581** | **35,387** | **79,941** | 15,636 | 14,394 | 22,937 | 31,839 | 84,806 |
| Interest bearing loans | **22,611** | **44,849** | **25,527** | **-** | **92,987** | - | 278 | 55,086 | 20,287 | 75,651 |
| Interest free Crown loan | **-** | **-** | **-** | **16,313** | **16,313** | - | - | - | 15,579 | 15,579 |
| **Derivative financial (assets)/liabilities** | | | | | **-** | | | | | |
| Forward exchange contracts inflow | **(825)** | **-** | **-** | **-** | **(825)** | (383) | - | - | - | (383) |
| Forward exchange contracts outflow | **843** | **-** | **-** | **-** | **843** | 370 | - | - | - | 370 |
| **Net settled derivatives** | | | | | | | | | | |
| Interest rate swaps | **90** | **30** | **366** | **(1,028)** | **(542)** | 224 | 600 | 2,909 | 195 | 3,928 |
| Total Contractual cash flows | **60,603** | **60,096** | **38,474** | **50,672** | **209,845** | 38,015 | 15,272 | 80,932 | 67,900 | 202,119 |

| | Parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2022** | | | | | 2021 | | | | |
| $000s | **Within 1 year** | **1-2 Yrs** | **2-5 Yrs** | **Beyond 5 Yrs** | **Total** | **Within 1 year** | **1-2 Yrs** | **2-5 Yrs** | **Beyond 5 Yrs** | **Total** |
| Trade payables | **60** | **-** | **-** | **-** | **60** | 24 | - | - | - | 24 |

# 22. Recognised fair value measurements

### Financial assets and financial liabilities

The Group classifies its financial assets and financial liabilities into the following categories depending on the purpose for which the asset or liability was acquired.

| | Group | | Parent | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | $000s | $000s | $000s | $000s |
| **Financial assets at fair value through profit or loss** | | | | |
| Forward foreign exchange contracts | **-** | 13 | **-** | - |
| Interest rate swaps | **1,028** | 272 | **-** | - |
| **Balance of financial assets at fair value through profit or loss** | **1,028** | 285 | **-** | - |
| | | | | |
| **Financial assets at amortised cost** | | | | |
| Cash & cash equivalents | **816** | 1,354 | **67** | 51 |
| Trade & other receivables | **46,415** | 34,623 | **675** | 665 |
| Short term investments | **2,548** | 2,135 | **2,548** | 2,135 |
| **Balance of financial assets at amortised cost** | **49,779** | 38,112 | **3,290** | 2,851 |
| | | | | |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Interest rate swaps | **486** | 4,200 | **-** | - |
| Forward foreign exchange contracts | **18** | - | **-** | - |
| **Balance of financial liabilities at fair value through profit or loss** | **504** | 4,200 | **-** | - |
| | | | | |
| **Financial liabilities at amortised cost** | | | | |
| Borrowings | **101,952** | 82,607 | **-** | - |
| Lease liabilities | **72,266** | 76,160 | **-** | - |
| Trade & other payables | **21,128** | 22,168 | **60** | 24 |
| **Balance of financial liabilities at amortised cost** | **195,346** | 180,935 | **60** | 24 |

### Financial assets at amortised cost

Financial assets at amortised cost consist of cash and cash equivalents and trade & other receivables. These are initially measured at fair value and subsequently at amortised cost. Cash and cash equivalents at balance date comprise of cash at bank held on-call. Short term investments are term deposits with banks with a term of greater than three months. Due to the short-term nature of these receivables the carrying value of receivables approximates their fair value. Trade and other receivables and contract assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less an allowance for impairment. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit or loss when there is objective evidence that the asset is impaired.

### Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss consist of derivatives. Derivatives are used to manage exposure to foreign exchange and interest rate risks arising from financing activities.

Derivatives are initially recognised at fair value at the date of the contract and subsequently measured at fair value at each balance date with the resulting gain or loss recognised in the profit or loss. Fair value is calculated as the present value of the estimated future cash flows based on observable interest yield curves. Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into NZD (the functional currency) using the exchange rates prevailing at the dates of the transactions.

**Financial liabilities at amortised cost**

Financial liabilities at amortised cost consist of trade and other payables, lease liabilities and borrowings. These are measured initially at fair value and subsequently at amortised cost using effective interest rate (EIR). Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

The fair value is materially similar to amortised cost. Due to the short-term nature of the payables, no discounting is applied.

**Impairment of financial assets**

The Group recognises a lifetime loss allowance for expected credit losses (ECL) on trade receivables and contract assets. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

**Fair value hierarchy**

A number of assets and liabilities included in the Group's financial statements require measurement at fair value and/or disclosure of fair value. The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

Level 1: Quoted prices in active markets for identical items (unadjusted)

Level 2: Observable direct or indirect inputs other than Level 1 inputs

Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. The Group's financial assets and liabilities measured at fair value are classified as Level 2 on the fair value hierarchy unless specified otherwise. The fair values of interest rate swaps have been determined by calculating the expected cash flows under the terms of the swaps and discounting these values to present value. The inputs into the valuation model are independently sourced market parameters such as interest rate yield curves. Most market parameters are implied from instrument prices.

There have been no transfers between Level 1 and Level 2 during the year (2021: Nil).

**Fair value hierarchy of non-financial assets**

The Group obtains independent valuations for its electricity distribution network assets and land, and buildings at least every three years. Valuation techniques are based on the following hierarchy.

The following table summarises the fair value measurement hierarchy of the non-financial assets that are recognised and measured at fair value in the financial statements.

| | Group | | |
|---|---|---|---|
| | **Level 2** | **Level 3** | **Total** |
| | $000s | $000s | $000s |
| **Property, Plant & Equipment** | | | |
| Distribution systems | **-** | **335,353** | **335,353** |
| Freehold land | **7,795** | **9,810** | **17,605** |
| Freehold buildings | **4,461** | **10,632** | **15,093** |
| **Balance as at 31 March 2022** | **12,256** | **355,795** | **368,051** |

| | Group | | |
|---|---|---|---|
| | **Level 2** | **Level 3** | **Total** |
| | $000s | $000s | $000s |
| **Property, Plant & Equipment** | | | |
| Distribution systems | - | 284,519 | 284,519 |
| Freehold land | 4,104 | 5,529 | 9,633 |
| Freehold buildings | 5,541 | 8,201 | 13,742 |
| Balance as at 31 March 2021 | 9,645 | 298,249 | 307,894 |

# 23. Business combinations

On 1 April 2021, the Group acquired the remaining 12.4% shareholding of ‘A’ shares, with the exception of one Government share, in Northpower Fibre Limited (NFL) from its joint venture partner Crown Infrastructure Partners Limited (CIP) for $8.8 million. NFL then became a wholly owned subsidiary of the Group effective 1 April 21. The Government Share does not have the right to vote or to receive dividends. NFL owns and operates a fibre distribution network. The acquisition allows the Group to continue investing in the fibre network and growing its consumer base.

The Group applied the acquisition method to account for business combination. 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 fair values of the identifiable assets and liabilities of NFL as at the date of acquisition were:

| Fair value recognised on acquisition | Group 1 April 2021 ($'000) |
|---|---|
| **Assets** | |
| Property, plant and equipment (Note 14) | **56,110** |
| Intangible assets (Note 13) | **83** |
| Cash and cash equivalents | **3,874** |
| Trade receivables | **1,875** |
| Goodwill (Note 13) | **8,236** |
| | **70,178** |
| **Liabilities** | |
| Trade and other payables | **(735)** |
| Contract liabilities | **(1,187)** |
| Deferred tax liability (Note 12) | **(4,740)** |
| Other liabilities | **(355)** |
| | **(7,017)** |
| **Total identifiable net assets at fair value** | **63,161** |
| **Satisfied by:** | |
| Acquisition date fair value of the previously held investment by the Group | **54,381** |
| Cash consideration | **8,780** |
| **Total consideration transferred** | **63,161** |
| **Net cash outflow on acquisition:** | |
| Transaction costs of the acquisition (included in cash flows from operating activities) | **(117)** |
| Cash consideration transferred (included in cash flows from investing activities) | **(8,780)** |
| Less cash and cash equivalent balances acquired (included in cash flows from investing activities) | **3,874** |
| | **(5,023)** |

The Group previously held an 87.6% equity interest in NFL prior to acquisition date. Upon remeasuring that equity interest to fair value, a gain of $14.7 million was recognised in the Statement of Comprehensive Income within gain on remeasurement of existing interest/share of net profit in associate.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. The goodwill of $8.3 million relates to opportunities for growth of the fibre network, long term profitability and the value of operational efficiencies from obtaining full control over NFL.

From the date of acquisition, NFL has contributed $14.4 million of revenue and $6.0 million profit before tax of the Group. As the combination took place on 1 April 21 the contributed revenue and profit before tax represent a full 12 month period impact on these financials.

There were no contingent liabilities recognised at acquisition date. Transaction costs of $0.1 million were expensed as incurred and were included in administrative expenses.

Prior to the acquisition of the remaining 'A' shares, NFL was equity accounted as an associate as follows:

| Group | **2022** $000s | 2021 $000s |
|---|---|---|
| Beginning balance | **39,663** | 32,461 |
| Additional investment made | **8,780** | 11,742 |
| Gain on remeasurement of existing interest in associate | **14,718** | - |
| Share of profit after income tax | **-** | 1,970 |
| Unrealised profit adjustment | **-** | 65 |
| Realised profit adjustment | **-** | (65) |
| Dividend received | **-** | (6,510) |
| Derecognition of equity interest on acquisition | **(63,161)** | - |
| **Balance as at 31 March** | **-** | 39,663 |

## 24. Related parties

### Subsidiaries

Subsidiaries are entities controlled directly or indirectly by the Trust. All subsidiaries have a 31 March balance date and are wholly owned. The Trust holds 100% of the voting rights in all entities reported as subsidiaries. The Trust's investment in subsidiary relates to shares held in Northpower Limited. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Northpower Western Australia Pty Limited and its non-trading wholly owned subsidiary West Coast Energy Pty Limited are incorporated in Western Australia.

Northpower Fibre Limited (NFL) is incorporated in New Zealand, refer to Note 23. Northpower LFC2 Limited (LFC2), a fully owned Group subsidiary was amalgamated with NFL on 1 May 2021 to become NFL, the continuing reporting entity post amalgamation. All the assets and liabilities of LFC2 were amalgamated with NFL at book value and for nil consideration. LFC2 was deregistered on 1 May 2021.

The financial statements of subsidiaries are reported in the financial statements using the acquisition method of consolidation. Intra-group balances and transactions between group companies are eliminated on consolidation. Outstanding balances at year end are unsecured, interest free and settlement occurs in cash.

**Transactions between the Company and key management personnel**

Certain Directors and key management of Northpower Limited are also directors of the subsidiaries.

A summary of material trading activities with related parties is as below:

| Key management Personnel | Related party | Position | Sales to related parties $000s | | Purchases from related parties $000s | | Amounts owing to related parties $000s | |
|---|---|---|---|---|---|---|---|---|
| | | | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| Paul Yovich Trustee of Northpower Electric Trust | Busck Prestressed Concrete Limited | Trustee of a shareholder | **11** | - | **2,525** | 2,671 | **261** | 275 |
| Josie Boyd General Manager Network | Electricity Engineers Association | Board member | **-** | - | **40** | 81 | **-** | - |

# 25. Guarantees and contingencies

| | Group | |
|---|---|---|
| | **2022** | 2021 |
| | $000s | $000s |
| Performance bonds in relation to contract work | **20,143** | 27,576 |
| **Balance as at 31 March** | 20,143 | 27,576 |

Performance bonds relate to guarantees given to customers to guarantee completion of contracting work both in New Zealand and off-shore. No liability was recognised in relation to the above guarantees as the fair value is considered immaterial.

Northpower Limited is a participant in the DBP Contributors Scheme (the "Scheme") which is a multi-employer defined benefit scheme operated by National Provident Fund. If the other participating employers or a number of employers ceased to participate in the Scheme, Northpower Limited could be responsible for the entire deficit of the Scheme or an increased share of the deficit. As at 31 March 2021, the Scheme had a past service deficit of $1.3 million 2.2% of the liabilities). March 2022 information was not available at the time the financial statements were authorised for issue.

# 26. Commitments

The future aggregate minimum lease payments payable for non-cancellable low value operating leases which are exempted under NZ IFRS 16 Leases are as follows:

| | Group | |
|---|---|---|
| | **2022** | 2021 |
| | $000s | $000s |
| Within one year | **88** | 51 |
| After one year but not more than five years | **264** | 2 |
| Balance of non-cancellable operating leases | **352** | 53 |

Capital commitments contracted at balance date was $5.6 million including software of $0.1 million (2021: $5.1 million including software of $0.5 million).

# 27. Events after balance date

There were no significant events after balance date.

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**INDEPENDENT AUDITOR'S REPORT**
**TO THE BENEFICIARIES OF NORTHPOWER ELECTRIC POWER TRUST GROUP**

## Opinion

We have audited the consolidated financial statements of Northpower Electric Power Trust ("the Trust") and its subsidiary (together, "the Group"), which comprise the consolidated statement of financial position as at 31 March 2022, 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 a summary of 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 2022, 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").

## 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 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In addition to the audit services, partners and employees of our firm may deal with the group on normal terms within the ordinary course of trading activities of the business of the group. We have no other relationship with, or interest in, the Trust or its subsidiary.

## Other Information

The trustees are responsible for the other information. The other information obtained at the date of this auditor's report is information contained in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the 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 to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, 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.

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**Trustees' Responsibilities 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 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 decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-7/.

This description forms part of our auditor's report.

**Who we Report to**

This report is made solely to the beneficiaries, as a body. Our audit work has been undertaken so that we might state those matters which 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 Group and the Group's beneficiaries, as a body, for our audit work, for this report or for the opinions we have formed.

BDO Northland

BDO Northland
Kerikeri
New Zealand
Date: 20th July 2022