



Trust Tairāwhiti

Consolidated Financial Statements

For the year ended 31 March 2020

The trustees are pleased to present the consolidated financial statements of Trust Tairāwhiti for the year ended 31 March 2020.

For and on behalf of the Board of Trustees.

A handwritten signature in white ink, appearing to read 'Paul', followed by a horizontal line.

Paul Reynolds
Trustee, Chairman

A handwritten signature in white ink, appearing to read 'Ailsa Cuthbert', written in a cursive style.

Ailsa Cuthbert
Trustee,
Chair of Audit, Finance and Risk Committee

21st July 2020

Independent Auditor's Report

To the Trustees of Trust Tairāwhiti

Opinion

We have audited the financial statements of Trust Tairāwhiti (the 'entity') and its subsidiaries ('the group'), which comprise the Consolidated Statement of Financial Position as at 31 March 2020, and the Consolidated Statement of Comprehensive Revenue and Expense, Statement of Changes in Net assets/Equity and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages F - 3 to F - 58, present fairly, in all material respects, the consolidated financial position of the group as at 31 March 2020, and its consolidated financial performance and cash flows for the year then ended in accordance with Public Benefit Entity Standards.

Basis for opinion

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

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

Other than in our capacity as auditor and the provision of other assurance services relating to the audit of regulatory disclosure statements, we have no relationship with or interests in the entity or any of its subsidiaries. These services have not impaired our independence as auditor of the entity or group.

Other information

The Board of Trustees are responsible on behalf of the group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

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

Our responsibility is to read the other information, and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Board of Trustee's responsibilities for the consolidated financial statements

The Board of Trustees are responsible on behalf of the group for the preparation and fair presentation of the consolidated financial statements in accordance with Public Benefit Entity Standards, and for such internal control as the Board of 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 Board of 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 Board of 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 and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Board of Trustees, as a body, in accordance with Section 16 of the Trust Deed. Our audit has been undertaken so that we might state to the Board of Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Auckland, New Zealand
21 July 2020

Consolidated Statement of Comprehensive Revenue and Expense

FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 \$'000	2019 * \$'000
Revenue from exchange transactions	1	107,463	99,761
Revenue from non-exchange transactions	1	1,101	1,391
Total revenue	1	108,564	101,152
Operating expenditure	2	(22,624)	(19,581)
Depreciation and amortisation	2	(21,910)	(18,849)
Personnel expenses	28	(16,915)	(13,282)
Administrative expenses	2	(16,739)	(13,185)
Finance expenses	17	(10,606)	(7,196)
Total expenditure		(88,794)	(72,093)
Operating surplus		19,770	29,059
Other non-operating income	3	9,796	2,090
Other non-operating expenditure	4	(5,184)	(315)
Share of surplus/(loss) of joint ventures	15	(258)	155
Share of loss of associate	14	(1,431)	(2,264)
Surplus before income tax		22,693	28,725
Income tax expense	5	(9,474)	(9,754)
Net surplus after tax		13,219	18,971
Distributions for the benefit of beneficiaries			
Distributions and grants		(4,774)	(10,652)
Tax effect of distributions		1,243	753
Net surplus after tax and distributions		9,688	9,072
Surplus attributable as:			
Equity holders of the parent		9,926	8,908
Non-controlling interest		(238)	164
		9,688	9,072
Other comprehensive revenue and expense:			
Items that will not reclassify subsequently to profit or loss:			
Revaluation of property, plant and equipment		47,470	(1,935)
Tax on revaluation of property, plant and equipment		(13,294)	1,144
Items that will reclassify subsequently to profit or loss:			
Revaluation of other investments		(3,220)	1,813
Revaluation of cash flow hedges		5,444	(7,678)
Tax on revaluation of cashflow hedges		(1,524)	2,150
Share of associate other comprehensive income	14	(1,083)	450
Tax on share of associate other comprehensive income		303	(126)
Total other comprehensive revenue and expense		34,096	(4,182)
Total comprehensive revenue for the period		43,784	4,890
Total comprehensive revenue:			
Equity holders of the parent		42,056	4,726
Non-controlling interest		1,728	164
		43,784	4,890

* Distributions and related tax effect disclosures changed during the year and prior year comparatives altered to reflect this change. Note 30.

These financial statements should be read in conjunction with notes and accounting policies on pages F-9 to F-58

Consolidated Statement of Financial Position

AS AT 31 MARCH 2020

	Notes	2020 \$'000	2019 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		20,611	19,044
Exchange trade and other receivables	10	12,400	12,518
Non exchange other receivables	10	848	348
Other investments and receivables	11	4,722	7,336
Inventory		84	32
Income tax receivable		1,306	837
Derivative financial instruments	18	3,166	75
Total current assets		43,137	40,190
Non-current assets			
Property, plant and equipment	7	607,856	541,250
Other investments and receivables	11	40,899	45,084
Derivative financial instruments	18	659	116
Investment properties	8	25,361	22,020
Intangible assets	9	10,392	6,277
Investment in joint venture	15	1,095	1,317
Investment in associate	14	5,864	9,887
Total non-current assets		692,126	625,951
TOTAL ASSETS		735,263	666,141
LIABILITIES			
Current liabilities			
Payables and accruals	12	21,120	29,858
Income tax		334	4,214
Employee entitlements	28	2,618	2,257
Derivatives financial instruments	18	772	4,990
Total current liabilities		24,844	41,319
Non-current liabilities			
Loans	16	250,000	227,000
Deferred tax	5	64,546	46,613
Derivative financial instruments	18	15,429	13,018
Employee entitlements	28	1,313	-
Provision for restoration costs	7	1,560	4,500
Income in advance		275	321
Total non-current liabilities		333,123	291,452
TOTAL LIABILITIES		357,967	332,771
NET ASSETS		377,296	333,370
EQUITY			
Retained earnings		187,262	177,973
Trust capital		20,000	20,000
Reserves		167,711	134,802
Non-controlling interest		2,323	595
TOTAL EQUITY		377,296	333,370

These financial statements should be read in conjunction with notes and accounting policies on pages F-9 to F-58

Consolidated Statement of Changes in Net Assets/Equity

FOR THE YEAR ENDED 31 MARCH 2020

	2020						
	Trust capital \$'000	Hedge reserve \$'000	Asset revaluation reserve \$'000	Investment revaluation reserve \$'000	Retained earnings \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at beginning of period - 1 April 2019	20,000	(12,726)	137,528	10,000	177,973	595	333,370
Surplus for the year	-	-	-	-	9,926	(238)	9,688
Other comprehensive income:							
Net change in fair value of cash flow hedges	-	5,444	-	-	(780)	-	4,664
Disposals of property, plant and equipment	-	-	(142)	-	-	-	(142)
Revaluation of property, plant and equipment	-	-	44,881	-	-	2,731	47,612
Revaluation of Investments	-	-	-	(3,220)	-	-	(3,220)
Income tax relating to components of other comprehensive income	-	(1,524)	(12,529)	-	-	(765)	(14,818)
Total comprehensive income	-	3,920	32,210	(3,220)	9,146	1,728	43,784
Transactions with owners							
De-recognition of reserves	-	-	-	-	142	-	142
Joint venture distributions	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	142	-	142
Balance at end of period - 31 March 2020	20,000	(8,806)	169,738	6,780	187,261	2,323	377,296

	2019						
	Trust capital \$'000	Hedge reserve \$'000	Asset revaluation reserve \$'000	Investment revaluation reserve \$'000	Retained earnings \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at beginning of period - 1 April 2018	20,000	(7,198)	138,319	8,187	168,620	431	328,359
Surplus for the year	-	-	-	-	8,908	164	9,072
Other comprehensive income:							
Net change in fair value of cash flow hedges	-	(7,678)	-	-	324	-	(7,354)
Disposals of property, plant and equipment	-	-	(121)	-	-	-	(121)
Revaluation of property, plant and equipment	-	-	(1,814)	-	-	-	(1,814)
Revaluation of Investments	-	-	-	1,813	-	-	1,813
Income tax relating to components of other comprehensive income	-	2,150	1,144	-	-	-	3,294
Total comprehensive income	-	(5,528)	(791)	1,813	9,232	164	4,890
Transactions with owners							
Movement in non-controlling interest	-	-	-	-	-	-	-
De-recognition of reserves	-	-	-	-	121	-	121
Joint venture distributions	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	121	-	121
Balance at end of period - 31 March 2019	20,000	(12,726)	137,528	10,000	177,973	595	333,370

These financial statements should be read in conjunction with notes and accounting policies on pages F-9 to F-58

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2020

	2020 \$'000	2019 \$'000
Cash flows from operating activities:		
Cash provided from:		
Receipts from customers	105,680	98,000
Dividends received	964	1,179
Other income	7,582	1,931
Interest received	994	1,092
	115,220	102,202
Cash applied to:		
Payments to suppliers and employees	(56,224)	(45,991)
Interest paid	(11,097)	(10,760)
Income tax paid	(10,710)	(7,180)
	(78,031)	(63,931)
Net cash flows from operating activities	37,189	38,271
Cash flows from investing activities:		
Cash provided from:		
Distribution from associate	1,348	1,289
Proceeds from sale of investments	7,810	6,717
Proceeds from sale of property, plant and equipment	31	610
	9,189	8,616
Cash applied to:		
Purchase of property, plant and equipment	(49,734)	(45,186)
Purchase of investments	(9,160)	(8,344)
Purchase of intangible	(2,153)	(149)
Purchase of investment property	(2,268)	(923)
	(63,315)	(54,602)
Net cash flows used in investing activities	(54,126)	(45,986)
Cash flows from financing activities:		
Cash provided from:		
Proceeds from bank borrowings	28,000	17,000
	28,000	17,000
Cash applied to:		
Distributions for beneficiaries	(4,497)	(5,003)
Borrowings	(4,999)	-
	(9,496)	(5,003)
Net cash flows from financing activities	18,504	11,997
Net cash flows from continuing operations	1,567	4,282
Net increase in cash and cash equivalents	1,567	4,282
Cash and cash equivalents at beginning of period	19,044	14,762
Cash and cash equivalents at end of period	20,611	19,044

These financial statements should be read in conjunction with notes and accounting policies on pages F-9 to F-58

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2020

Reconciliation of the profit for the Period with Net Cash from Operating Activities

	2020 \$'000	2019 \$'000
Net surplus after tax	13,219	18,971
Adjustments for:		
Depreciation and amortisation	21,910	18,849
Vested assets	(1,338)	(783)
Impairment loss - bad debts	62	23
Losses and impairment in associate & investments	6,175	-
Loss on sale or disposal of property, plant and equipment	428	342
Income from joint venture	374	(36)
Change in fair value of investment property	(2,293)	(277)
Movements in associate (revaluation/loss)	-	2,264
Accrued interest	-	(127)
Interest capitalised to fixed assets	(456)	(3,607)
Deferred tax expense	3,115	343
Tax on interest on convertible notes	-	59
Gain on conversion of Flick convertible notes	-	(788)
	27,977	16,262
Movement in working capital:		
Decrease/(increase) in trade and other receivables	445	(2,585)
(Increase)/decrease in inventory	(52)	36
Increase in employee entitlements	1,533	443
(Decrease)/increase in income tax payable	(4,352)	2,173
(Decrease) in income in advance	(46)	(46)
(Decrease)/increase in payables and accruals	(1,535)	3,017
	(4,007)	3,038
Net cash from operating activities	37,189	38,271

(P) Statement of Cash Flows

The following terms are used in the Statement of Cash Flows:

- Cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.
- Operating activities are the principal revenue producing activities of the Trust Group and other activities that are not investing or financing activities.
- Investing activities are the acquisition and disposal of long term assets and other investments not including cash equivalents.
- Financing activities are those that result in change in the size and composition of the contributed equity and borrowings of the entity.
- GST is combined with applicable transactions and borrowings repaid and increased are netted.

Consolidated Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

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Consolidated Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

Our financial statements

a) General information

Trust Tairawhiti ("the Trust") is a Trust that was established on the 7th of May 1993 pursuant to the Energy Companies (Eastland Energy Limited) Vesting Order 1993 upon the vesting in the Trust of the equity and debt securities issued by Eastland Energy Limited. The Trust changed its name to Eastland Community Trust on 6 December 2004. The Trust is governed by the Trust Deed including variations made by Deed Polls. The Trust has a termination date of 80 years from the date of execution of the Trust Deed, unless an earlier date is appointed by Deed by trustees.

The consolidated financial statements are for the economic entity comprising Trust Tairawhiti and its subsidiaries, associate and joint ventures ("the Trust Group").

The Trust Group's primary operations include electricity distribution and generation, the operation of Gisborne's port and airport, the ownership of strategically located investment properties and investment portfolios.

The Trust Group's financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). For the purposes of financial reporting, the Trust is a Public Benefit Entity (PBE), therefore they comply with Tier 1 PBE Standards, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

The financial statements of the Trust Group are for the year ended 31 March 2020 and were authorised for issue by the trustees on 21 July 2020.

b) Basis of preparation

The financial statements are prepared on a going concern basis using the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- land and buildings, electrical distribution assets, electrical generation assets and logistics assets are measured at revalued amounts;
- investment properties are measured at fair value; and
- listed investments are measured at fair value.

These financial statements are presented in New Zealand dollars (\$), which is the Trust Group's functional currency, and have been rounded to the nearest thousand unless otherwise stated.

Transactions in foreign currencies are translated to the respective functional currencies of the Trust Group's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in foreign currency at the beginning of the period, adjusted for effective interest and payments during the period.

The amortised cost in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the Statement of Comprehensive Revenue and Expense.

The Statement of Comprehensive Revenue and Expense has been prepared so that all components are stated exclusive of GST where appropriate. All items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST.

Consolidated Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

c) Use of estimates and judgments

The preparation of financial statements requires judgments to be made that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

Estimates and underlying assumptions are reviewed on an on-going basis. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Outcomes in the next financial period may be different to the assumptions made. It is impracticable to quantify the impact should assumptions be materially different to actual outcomes, which may result in material adjustments to the carrying amounts of property, plant and equipment and financial instruments reported in these financial statements.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies are designated by an (E) symbol within the following notes:

Note 7 Property plant and equipment (Estimates and Judgment), Note 9 Intangible assets, Note 18 Financial assets and liabilities (Estimate) and Note 19 Interest rate risk (Estimate).

d) Significant accounting policies

Accounting policies are disclosed within each of the applicable notes to these financial statements and are designated by a (P) symbol. The principal accounting policies have been applied consistently to all periods.

e) Impairment of non-financial assets

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the Statement of Comprehensive Revenue and Expense. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised. Impairment losses are not reversed on goodwill.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

Significant transactions and events

FOR THE YEAR ENDED 31 MARCH 2020

Trust Tairawhiti changed its name from Eastland Community Trust in September 2019 and the consolidated financial statements are presented to stakeholders.

The following significant transactions and events affected the financial performance and position of the Trust during the year.

a) Overall operating performance

Operating performance is less than previous year. The main reasons for this are:

- The first full year of trading for Te Ahi o Maui resulted in increased revenues, however, costs increased as a disproportionate rate due to higher than anticipated costs for plant consumables, emission trading scheme, insurance and software.
- Port operations had record shipping delays due to adverse weather events, resulting in the port being closed for a total of 60 days over winter. The Port was also affected by the onset of COVID 19 in China reducing log output during the final quarter of the year.
- Increased economic development activity and impairments of certain investments contributed to cost increases during the year.

b) Economic development initiatives

Trust Tairawhiti remains committed to regional economic development and job opportunities for the benefit of beneficiaries. The Trust achieves this through direct investments which are classified as assets as well as undertaking activity as part of the Trust Group operations. The key investments made for economic development were:

- a net investment of \$2.8 million for personnel and operating activities that deliver economic and tourism development initiatives, which are included in operating activities.
- a further investment of \$4.8 million into the Prime wood processing center of excellence. The vision for the wood processing cluster is to provide economic benefits and job opportunities for the benefit of beneficiaries. To date, 61 direct jobs have been created within the cluster.
 - a further \$3.3 million was invested into the Prime Sawmill. \$2.8 million was by way of convertible notes to provide working capital for the sawmill operator.
As a result of continued trading difficulties for the operator, the sawmill assets were re-acquired for \$1.7 million on 31 March 2020, with \$1.2 million used to repay the vendor loan, resulting in a net payment of \$0.5 million.
An impairment of \$2.93 million to the carrying value of the Spectrum Group Ltd investment was also made.
 - a further \$1.5 million was invested into WET Gisborne Ltd to provide working capital support for the wood engineering investment. This investment is carried at nil value as the share of losses made in WET Gisborne Ltd are reflected in non-operating expenses.

c) Airport terminal

Gisborne Airport Limited, a wholly owned subsidiary of Eastland Group Ltd commenced construction of an airport terminal with an estimated cost of \$12.5 million. The Trust Group committed to invest \$7.0 million towards the project with the remaining \$5.5 million funded by the Provincial Growth Fund. The contribution from the Provincial Growth Fund has been recognised as other income. At year end the construction costs associated with the completed portion have been capitalised, while costs incurred on stage 2 are reported as work in progress.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

d) Flick Energy Limited

Eastland Group, through its wholly owned subsidiary Eastland Energy Solutions Limited, owns 20.63% of Flick Energy Limited, which is recognised as an Investment in Associate. Flick Energy Limited is a development stage electricity retailer whose product offering is based on a digital platform and continues to build its business to profitability. Other expenses recognises \$1.4 million as the share of Flick Energy Limited's losses.

Further, the investment in Flick Energy Limited has been impaired by \$1.8 million, reducing the carrying value of the investment to \$5.9 million. This impairment is also included in other expenses.

e) Generation property, plant and equipment

Generation property, plant and equipment were revalued at 31 March 2020 in accordance with the accounting policy of cyclical revaluation of generation assets every five years. This resulted in an increase of \$47.5 million in asset value.

f) Geothermal project

Eastland Generation has signed a project agreement to investigate the development of a geothermal power plant. On signing the project agreement consideration was paid for development rights, which have been recognised as an intangible asset in line with policy.

Trust fund

Trustee's exercised their discretionary powers to capitalise income in accordance with the Trust Deed, to meet the purpose of preserving the value of capital.

The total trust fund is made up as follows:

a) Income available for beneficiaries

	2020 \$'000	2019 \$'000
Available for the benefit of income beneficiaries		
Opening balance	124,469	120,175
Allocation to income fund	3,649	4,294
Available for the future benefit of income beneficiaries	128,118	124,469

b) Capital preservation

	2020 \$'000	2019 \$'000
Opening balance	208,901	208,184
Allocation to capital fund	40,277	717
Amount of capital preserved	249,178	208,901

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

Novel coronavirus Covid-19

The outbreak of novel coronavirus (Covid-19) pandemic in January 2020 has impacted business and economic activity around the world. Effective 23 March 2020 the New Zealand government mandated restrictions on the operations of our businesses and required certain employees to work from home. Our businesses and investments have been directly impacted in the following ways:

- Eastland Port, which is dependent on log exports to China and India, has experienced a significant decline in volume during the months of March and April 2020.
- Gisborne Airport, which is dependent upon Air New Zealand flights, has experienced a decline in revenues as a result of national restrictions on travel, which are likely to continue in some form in 2020.
- Eastland Generation has been exposed to price declines as demand for electricity has reduced during periods of business closure.
- Investment properties, since the government restricted business operations, our rents from Commercial properties have declined.
- Investment portfolio declined in value as a result of the market response to COVID and it is possible that the income generated by these investments will decline.

At the time of approving the financial statements it is unclear what continuing impact government policies and the global economic impacts of Covid-19 will have on our businesses and the enduring operational effects. Shorter term asset assessments such as receivables and investment properties may be impacted by counterparty credit risk from an economic downturn and greater market uncertainty. Valuation of our assets are based on information available at the time of approving the financial statements and reasonable assessments of the potential impacts of the Group's response to this event. The directors are of the view the value of the Group's infrastructure assets, which are predominantly essential assets by government definition, will be maintained when considering the long-term investment horizon of both the individual assets and the Trust Group.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

1 Revenue

	2020 \$'000	2019 \$'000
Revenue from exchange transactions		
Revenue from rendering services		
Electricity distribution revenue	37,683	36,615
Logistics revenue	37,003	36,669
Economic development and tourism services	1,786	1,665
Management fees	79	79
Total revenue from rendering services	76,551	75,028
Revenue from sale of goods		
Electricity generation	23,750	18,011
Customer contributions	52	394
Total revenue from sale of goods	23,802	18,405
Other exchange transaction revenue		
Other income	2,525	1,454
Rental income	2,626	2,484
Interest income	995	1,211
Dividends received	964	1,179
Total other exchange transaction revenue	7,110	6,328
Total revenue from exchange transactions	107,463	99,761
Revenue from non-exchange transactions		
Other income	1,101	1,391
Total revenue from non-exchange transactions	1,101	1,391
Total revenue	108,564	101,152

P Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Trust Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

i. Regulated electricity distribution and electricity generation sales

Revenue from electricity distributed and generated is recognised in the Statement of Comprehensive Revenue and Expense when the electricity has been distributed or sold to the customers.

ii. Logistics revenue

Revenue from the sales of logistics services is recognised in the Statement of Comprehensive Revenue and Expense in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services provided.

iii. Rental income

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

Rental income is recognised in the Statement of Comprehensive Revenue and Expense on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

iv. Customer contributions

Revenue from customer contributions is recognised in the Statement of Comprehensive Revenue and Expense as revenue when all obligations to the customer are satisfied.

v. Dividends received

Dividends received are recognised when the right to receive payments is established. Dividends received from pre-acquisition net surpluses are deducted from the cost of the investment.

vi. Interest income

Interest income comprises income on funds invested, changes in the fair value of financial assets at fair value through the Statement of Comprehensive Revenue and Expense and gains on hedging instruments that are recognised in the Statement of Comprehensive Revenue and Expense. Interest income is recognised as it accrues, using the effective interest method.

vii. Other exchange income

Other forms of revenue outside of those detailed in this policy that are not material as an individual transaction and approximate value has been given in return for that revenue.

viii. Non-exchange income

Non exchange income comprises of income received from another party without directly giving approximate value in return.

2 Expenditure

	2020 \$'000	2019 \$'000
Operating expenses		
Electricity distribution expenses	10,781	10,844
Electricity generation expenses	5,422	3,453
Logistics expenses	3,788	3,384
Economic development and tourism services	2,633	1,900
Total operating expenses	22,624	19,581
Depreciation and amortisation		
Amortisation	224	101
Depreciation of property, plant and equipment	21,686	18,748
Total depreciation and amortisation	21,910	18,849
Administrative expenses		
Administration	15,370	11,962
Impairment losses and bad debt write-offs on trade receivables	62	23
Direct operating expenditure arising on investment properties that generated rental income	894	866
Auditor's remuneration to Deloitte comprises:		
audit of financial statements	334	286
audit of Commerce Commission reporting	79	48
Total administrative expenses	16,739	13,185

Sponsorships of \$184,972 were made during the financial year (2019: \$231,713).

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

3 Non-operating income

	2020 \$'000	2019 \$'000
Impairment losses recovered	1	3
PGF funding airport terminal	5,400	-
Increase in fair value of investment property	2,293	277
Gain on sale of investments	2,102	1,810
Total non-operating income	9,796	2,090

4 Non-operating expenditure

	2020 \$'000	2019 \$'000
Impairment of investment in associate	1,812	-
Impairment of investment in other investments	2,932	-
Loss on property, plant and equipment	440	315
Total non-operating expenditure	5,184	315

5 Taxation

	2020 \$'000	2019 \$'000
Income tax expense		
Current tax expense		
Current period	6,490	9,820
Adjustment for prior periods	(131)	(410)
Total current tax expense	6,359	9,410
Deferred tax expense		
Temporary differences for the year	2,975	(9)
Adjustment for prior periods	140	353
Total deferred tax	3,115	344
Total income tax expense	9,474	9,754

A reconciliation of income tax expense to the statutory income tax rate, is as follows:

	2020		2019	
	\$'000	%	\$'000	%
Accounting profit before income tax	22,693		28,725	
At the statutory income tax rate of 33%	(7,489)	(33.0%)	(9,479)	(33.0%)
Group eliminations	103	0.5%	430	1.5%
Adjustments in respect of current income tax of previous years	(9)	(0.0%)	55	0.2%
Allocated to beneficiaries	191	0.8%	-	0.0%
Non-deductible expenses	(2,852)	(12.6%)	(583)	(2.0%)
Share of loss of associate	(821)	(3.4%)	(779)	(2.7%)
Non-assessable gains and PIE income	1,403	6.2%	602	2.1%
	(9,474)	(41.7%)	(9,754)	(34.0%)

Note: The Trust tax rate is 33% and subsidiary companies tax rates are 28%. The Trust Group statutory tax rate is calculated at 33% with differences in subsidiary tax calculations eliminated. There is no legal right to offset the Trust tax refund with the tax payable within subsidiary companies.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

DEFERRED TAX ASSETS AND LIABILITIES

	2020					
	Property, plant and equipment \$'000	Provisions and accruals \$'000	Investment property \$'000	Hedge reserve \$'000	Other \$'000	Total \$'000
Balance at beginning of the period	(52,924)	675	133	4,874	629	(46,613)
Amounts recognised in the statement of financial performance:						
Relating to the current period	(2,934)	432	-	-	(473)	(2,975)
Prior period adjustments recognised in the current period	(126)	-	-	-	(14)	(140)
Amounts recognised directly in other comprehensive income	(13,294)	-	-	(1,524)	-	(14,818)
Net deferred tax liabilities	(69,278)	1,107	133	3,350	142	(64,546)

	2019					
	Property, plant and equipment \$'000	Provisions and accruals \$'000	Investment property \$'000	Hedge reserve \$'000	Other \$'000	Total \$'000
Balance at beginning of the period	(52,952)	534	133	2,724	(2)	(49,563)
Amounts recognised in the statement of financial performance:						
Relating to the current period	(824)	141	-	-	692	9
Prior period adjustments recognised in the current period	(292)	-	-	-	(61)	(353)
Amounts recognised directly in other comprehensive income	1,144	-	-	2,150	-	3,294
Net deferred tax liabilities	(52,924)	675	133	4,874	629	(46,613)

Group deferred tax net liability

The \$64.5 million (2019: \$46.7 million) net deferred tax liability includes \$69.3 million (2019: \$53.0 million) that relates to accounting depreciation on property, plant and equipment that has been revalued, with the remaining relating to differences between accounting and tax depreciation rates. As the network and port assets are held for the long term, this liability is unlikely to be realised.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

Ⓟ Tax Policy

Income tax expense is made up of current and deferred tax. Income tax expense is recognised in the Statement of Comprehensive Revenue and Expense except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The Trust has certain investments made through Portfolio Investment Entities and are excluded income for income tax purposes.

Deferred tax is recognised using the balance sheet method, which provides for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.
- Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

6 Statement of actual and budget

This note compares actual performance against the budget presented in the Statement of Intent for the Trust.

	The Trust		The Trust	
	2020	2020	2019	2019
	Actual	Budget	Actual	Budget
	\$'000	\$'000	\$'000	\$'000
Revenue				
Interest received from subsidiaries	4,715	4,085	4,061	3,742
Eastland Group Limited dividends	10,120	10,150	9,950	9,950
Inter entity subvention payment offset	(1,970)	(3,855)	-	(1,452)
Investment portfolios	1,703	1,295	2,068	1,841
Other income	2,173	-	1,836	-
Total revenue	16,741	11,675	17,915	14,081
Expenditure				
Administration	(900)	(618)	(617)	(534)
Communications and sponsorship	(194)	(210)	(151)	(262)
Staffing and contractors	(1,406)	(1,276)	(1,188)	(1,267)
Strategic and business development initiatives	(191)	(400)	(435)	(402)
Trustee costs	(304)	(314)	(280)	(327)
Total expenditure	(2,995)	(2,818)	(2,671)	(2,792)
Surplus before income tax	13,746	8,857	15,244	11,289
Income tax	(1,670)	-	(1,859)	-
Surplus after income tax	12,076	8,857	13,385	11,289

Explanation of significant variances

Financial year ended 31 March 2020

Revenue was above budget by \$5.1 million. This was because of the delay in subvention payments between the Trust Group subsidiaries and the gains made on the sale of investments during the year. Income from subsidiary entities was in line with expectations and the investment portfolio's performed better than expected.

Total expenditure was in line with expectations. Personnel and administration costs were higher than budgeted which were offset by lower costs for strategic initiatives. This is a result of cost allocations to better reflect the expenditure.

Financial year ended 31 March 2019

Revenue was above budget by \$3.8 million. This was because of the delay in subvention payments between the Trust Group subsidiaries and the gains made on the sale of investments during the year. Interest from subsidiary entities was higher than expected and income from investment portfolio's was higher than budget due to better portfolio performance than expected.

Total expenditure was below budget by \$121,000. Operating costs were higher than budgeted reflecting the change in premises and co-location of Activate Tairawhiti and the Trust, this was somewhat offset by lower administration costs. Staff costs were lower than budget as not all positions were filled, and Trustee costs were lower than anticipated.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

7 Property, plant and equipment

	2020							
	Land and buildings	Electricity distribution equipment	Electricity generation equipment	Assets at cost	Wharves walls and surfaces	Floating plant	Other plant and equipment	Work in progress
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 April 2019, Cost or fair value	57,384	153,354	201,967	6,500	110,068	18,039	26,040	19,874
Additions	8,174	9,166	5,324	5,945	15,584	674	3,455	(1,609)
Disposals	(513)	(326)	(4,500)	(113)	(513)	(14)	(286)	-
Revaluation	-	-	35,498	-	-	-	-	-
Transfers	1,220	-	(62,293)	60,508	-	-	-	-
As at 31 March 2020, Cost or fair value	66,265	162,194	175,996	72,840	125,139	18,699	29,209	18,265
Accumulated depreciation as at 1 April 2019	736	7,369	14,531	1,900	10,701	5,242	11,497	-
Depreciation charge for the year	726	5,671	8,222	448	3,361	910	2,348	-
Disposals	(4)	(33)	-	(90)	(471)	(14)	(121)	-
Revaluation	-	-	(12,114)	-	-	-	-	-
Transfers	-	-	(9,171)	9,107	-	-	-	-
As at 31 March 2020, accumulated depreciation	1,458	13,007	1,468	11,365	13,591	6,138	13,724	-
As at 31 March 2020, net of accumulated depreciation	64,807	149,187	174,528	61,475	111,548	12,561	15,485	18,265
	2019							
	Land and buildings	Electricity distribution equipment	Assets at cost	Electricity generation equipment	Wharves walls and surfaces	Floating plant	Other plant and equipment	Work in progress
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 April 2018, Cost or fair value	54,211	142,949	6,377	77,580	108,687	18,039	22,830	109,511
Additions	1,784	10,728	123	131,580	1,386	-	4,210	(89,637)
Disposals	(452)	(296)	-	-	(5)	-	(1,000)	-
Impairment	-	-	-	(7,193)	-	-	-	-
Revaluation	1,814	-	-	-	-	-	-	-
Transfers	27	(27)	-	-	-	-	-	-
As at 31 March 2019, Cost or fair value	57,384	153,354	6,500	201,967	110,068	18,039	26,040	19,874
Accumulated depreciation as at 1 April 2018	738	1,797	1,514	11,615	7,435	4,362	10,173	-
Depreciation charge for the year	596	5,589	386	5,938	3,267	880	2,092	-
Disposals	(57)	(16)	-	-	(1)	-	(768)	-
Impairment	-	-	-	(3,022)	-	-	-	-
Revaluation	(542)	-	-	-	-	-	-	-
Transfers	1	(1)	-	-	-	-	-	-
As at 31 March 2019, accumulated depreciation	736	7,369	1,900	14,531	10,701	5,242	11,497	-
As at 31 March 2019, net of accumulated depreciation	56,648	145,985	4,600	187,436	99,367	12,797	14,543	19,874

There are no restrictions on title, and property, plant and equipment pledged as security for liabilities.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

Other assets at cost include airport assets, geothermal wells and other land and leasehold improvements. These assets are not revalued. The current year value includes \$53 million of geothermal well costs and \$12.8 million of airport asset costs and \$1 million of other leasehold improvements (2019: \$4.6 million total).

In the year to 31 March 2020 \$0.5 million (2019: \$3.6 million) of interest has been capitalised. The weighted average capitalisation rate on funds borrowed was 4.31% (2019: 4.83%).

- Ⓟ Property, plant and equipment are tangible assets expected to be used during more than one financial period and include spares held for the servicing of other property, plant and equipment.

The initial cost of purchased property, plant and equipment is the value of the consideration given to acquire the property, plant and equipment and the value of other directly attributable costs, which have been incurred in bringing the property, plant and equipment to the location and condition necessary for the intended service.

The initial cost of self-constructed property, plant and equipment includes the cost of all materials used in construction, direct labour on the project, financing costs that are attributable to the project and an appropriate proportion of the other directly attributable overheads incurred in bringing the items to working condition for their intended use. Costs cease to be capitalised as soon as the property, plant and equipment is ready for productive use and do not include any costs of abnormal waste.

Subsequent expenditure relating to an item of property, plant and equipment is added to its gross carrying amount when such expenditure can be measured reliably and either increases the future economic benefits beyond its existing service potential, or is necessarily incurred to enable future economic benefits to be obtained, and that expenditure would have been included in the initial cost of the item had the expenditure been incurred at that time. The costs of day-to-day servicing of property, plant and equipment are recognised in the Statement of Comprehensive Revenue and Expense as incurred.

Land and buildings, electricity distribution, electricity generation equipment (excluding wells) and walls, wharves and surfaces are recognised at cost and are subsequently stated at revalued amounts, less any subsequent accumulated depreciation and impairment losses. Land and buildings, electricity distribution, electricity generation equipment (excluding wells) and walls wharves and surfaces are revalued with sufficient regularity to ensure that the carrying amount of these items does not significantly differ from that which would be determined using fair value at the date of the financial statements. The assumptions are reviewed annually to ensure that fair value is being stated.

Property, plant and equipment is revalued on a cyclical basis. Valuations are performed by registered valuers. For electricity distribution and electricity generation equipment assets and wharves, walls and surfaces, revaluations are carried out on a cyclical basis not exceeding five years, by independent valuers. Land and building revaluations are carried out on a cyclical basis not exceeding three years.

Any movement on revaluation is reflected through reserves for that class of asset unless there is insufficient reserve in which case that would flow through to the Statement of Comprehensive Revenue and Expense.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

All other plant and equipment is valued at historical cost including geothermal wells.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised in 'other non-operating income' or 'other non-operating expenses', depending on whether a gain or a loss respectively. When revalued assets are sold, the amounts included in the equity reserve are transferred to retained earnings and recognised through other comprehensive income.

Exploration and evaluation expenditure

Exploration and evaluation expenditure in relation to geothermal sites is accounted for in accordance with the area of interest method. The cost of drilling wells on an established geothermal field are capitalised on the basis that it is expected the expenditure will be recovered through future energy sales, or alternatively, by sale of the assets. Depreciation commences once the wells are put into productive use.

All exploration and evaluation costs, including directly attributable overheads, general permit activity, resource consents, geological testing, geophysical testing and drilling are initially capitalised as work in progress, pending the determination of the success of the area. Costs are expensed where the area of interest does not result in a successful discovery.

Exploration and evaluation expenditure is partially or fully capitalised where either:

- the expenditure is expected to be recovered through the successful development and exploration of the area of interest (or alternatively by its sale); or
- the exploration and evaluation activities in the area of interest have not, at the end of each reporting period, reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Capitalised costs are reviewed at the end of each reporting period to determine whether economic quantities of reserves have been found or whether further exploration and evaluation work is underway or planned to support the continued carry forward of the capitalised costs. Exploration and evaluation expenditure is impaired in the Statement of Comprehensive Revenue and Expense under the successful efforts method of accounting in the period that exploration work demonstrates that an area of interest is no longer prospective for economically recoverable reserves or when the decision to abandon an area of interest is made.

Land access rights for exploration activities are amortised over the life of the right.

⑤ I. Classification of expenditure in relation to property, plant and equipment

On initial recognition of items of property, plant and equipment, judgments must be made about whether costs incurred relate to bringing the items to working condition for their intended use, and therefore are appropriate for capitalisation as part of the cost of the item, or whether they should be expensed as incurred. As required by PBE IPSAS 17, Property, Plant and Equipment, judgment must be exercised to assess the amount of overhead costs which can be reasonably

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

directly attributed to the construction or acquisition of items of property, plant and equipment. For example, employee costs arising directly from such activities are capitalised within the initial cost of property, plant and equipment. Thereafter, judgment is also required to assess whether subsequent expenditure increases the future economic benefits to be obtained from that asset and is therefore also appropriate for capitalisation or whether such expenditure should be treated as maintenance and expensed.

II. Valuation and impairment of property, plant and equipment

Consideration must also be made on whether any indicators of impairment have occurred which might require impairment testing of the current carrying values of property, plant and equipment. Assessing whether individual assets or a grouping of related assets (which generate cash flows co-dependently) are impaired may involve estimating the future cash flows that those assets are expected to generate. This will in turn involve assumptions, including rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate (weighted average cost of capital) for discounting future cash flows. The standard assumptions across all valuations are inflation of 2% and a tax rate of 28%.

Revaluations

I. Land and buildings

Port land and buildings were revalued on 31 March 2018 (total fair value of \$33.1 million) by an independent valuer; Colliers International. The method of valuation was market-based for non-specialised land assets. The values ranged from \$10m² - \$240m² in the port location and \$7.8m² - \$9m² for rural storage sites. For specialised buildings, Optimised Depreciated Replacement cost (ODRC) was used. For other buildings a comparison was made of contract income to capitalised market yield rates. The range was from \$170m² - \$1,867m². The per metre rates were affected by building size and other factors. The net book value at 31 March 2020 was \$36.6 million (2019: \$32.1 million).

Network operational land and buildings were valued on 31 March 2019 (total fair value of \$7.4 million) by an independent valuer; AON New Zealand Limited. The method of valuation was the market approach. The methods used were direct comparison, income based, capitalisation and the capitalisation rate or yield. In addition to this valuation, land and buildings of \$7.3 million net book value at 31 March 2019 were revalued as part of the distribution asset valuation in 2018. The net book value at 31 March 2020 was \$14.7 million (2019: \$14.7 million).

Eastland Development Fund Limited's Commerce Place property, held for economic development, was valued on 29 March 2019 (total fair value of \$5.7 million) by an independent valuer; Lewis Wright Valuation and Consultancy Limited. The approaches used were the Income Approach, consisting of the Discounted Cash Flow and the capitalisation of the market rental methods, based on the properties' highest and best use and the Market Approach, which comprises a direct comparison with comparable sales based on the properties' highest and best use.

ii. Electricity distribution equipment

Electricity distribution assets and related land and buildings were last revalued on 30 November 2017 (fair value \$146.7 million) by PricewaterhouseCoopers ("PwC"). The net book value at 31 March 2020 was \$149.2 million (2019: \$145.9 million).

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

The valuation method used was a discounted cash flow basis, using the following key assumptions:

- Forecast revenue and operating costs
- Default Price Quality Path (WACC) assumptions 6.19% - 7.28%
- Closing 2030 Regulatory Asset Base used as the terminal value and discounted back to valuation date
- Forecast capital projects

An impairment assessment was performed at 31 March 2020, the key variables that changed were the WACC to 5.54% and the forecast allowable revenues under DPP3. As the value was in the range no impairment was made.

iii. Electricity generation equipment

Electricity generation equipment ("Gensets") were revalued at 31 March 2020 (total fair value of \$1.7 million) by an independent valuer; PwC. The net book value as at 31 March 2020 was \$1.7 million (2019: \$1.2 million). The valuation method used was a discounted cash flow basis, using the following assumptions:

- A nominal post-tax discount rate (WACC) of 7.00%, however annual WACC's are applied each year due to short term cashflows
- Revenue forecasts were based on the terms of a supply agreement together with assumptions on electricity spot price at time of generation.

The Waihi Hydroelectric Scheme was revalued as at 31 March 2020 (total fair value of \$6.0 million) by an independent valuer; PwC. The valuation used was a discounted cash flow basis, using the following assumptions:

- Outputs were based on an average plant availability of 25.5% of capacity resulting in an average production of 11.19 GWh.
- PWC price path
- A half-life overhaul of the generator and turbine equipment was assumed in capital expenditure in 2036.
- A nominal post-tax discount rate (WACC) of 7.00% which is reflective of the expectation an investor would expect to receive on private generation projects.

The geothermal plant, owned by Te Ahi o Maui Limited Partnership, was revalued at \$181.9 million less the carrying value of steam wells, at \$146.8 million as at 31 March 2020 by an independent valuer, PwC. The valuation used was a discounted cash flow basis using the following assumptions:

- Net output of 216.3 GWh
- PWC price path
- Capital expenditure was derived from the plant's asset management plan, with two new re-injection wells expected to be drilled in 2025.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

- A nominal post-tax discount rate (WACC) of 7.00% which was reflective of the return an investor in this asset would expect to receive on private generation projects.

The geothermal plant, owned by Geothermal Developments Limited was revalued at \$30.2 million less the carrying value of steam wells, at \$20.0 million as at 31 March 2020 by an independent valuer, PwC. The valuation used was a discounted cash flow basis using the following assumptions:

- Net output 69.9 GWh
- PwC price path
- Capital expenditure was derived from the plant's asset management plan, with a new re-injection well expected to be drilled in 2029.
- A nominal post-tax discount rate (WACC) of 7.00% which was reflective of the return an investor in this asset would expect to receive on private generation projects.
- The terminal value was based on free cash flow at 2041 with the valuation tested at terminal value growth rates of 1.5 - 3.5%.

The restoration provision for all generation assets of \$1.6 million (2019: \$4.5 million) has been recognised. This was valued by PwC in accordance with their valuation of generation equipment on 31 March 2020.

iv. Wharves, walls and surfaces

The port wharves, walls and surfaces and some other plant and equipment were revalued on 31 March 2016 (total fair value \$105.9 million) by independent valuers, Opus International Consultants Ltd. The net book value at 31 March 2020 was \$111.5 million (2019: \$99.4 million). The method of valuation was depreciated replacement cost which is supported by a discounted cash flow valuation prepared, using the following assumptions:

- Revenues were based on management's best estimate of cargo volumes (predominantly logs) over the years to 2030 with these estimates supported in the case of log exports by external reports and customer forecasts of likely log volumes
- Port charges for all log cargos increase from 1 April 2017 following a customer consultation period
- Capital expenditures include both maintenance and growth capital expenditure to support the estimated volumes
- The post-tax discount rate (WACC) of 8.5% was used
- The terminal value was based on free cash flow at 2030 with the valuation tested at terminal value growth rates of 1.5 - 3.5%.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

The following table identifies the key assumptions that have the most impact on the valuation and the effect a change in the assumption would have on fair value.

Valuation technique	Fair value measurement sensitivity to significant unobservable input	Valuations affected by input change
<i>Discounted cash flow model</i>		
Price path	A 1% increase in price path would result in a material increase in the fair value, and vice versa.	Generation equipment
Weighted Average Cost of Capital ("WACC")	A 1% decrease in WACC would result in a material increase in the fair value, and vice versa.	Generation equipment
Plant outputs/Revenue	A 1% increase in output or revenue would result in a material increase in the fair value, and vice versa.	Generation equipment, Distribution
<i>Optimised Depreciated replacement cost</i>		
Cost of construction	A 1% increase in construction costs would result in a material increase in the fair value, and vice versa.	Wharves, Walls and surfaces
<i>Market capitalisation</i>		
Gross market rent	A 1% increase in rent received would result in a material increase in the fair value, and vice versa.	Land & Buildings
Market capitalisation rate	A 1% decrease in market capitalisation rate would result in a material increase in the fair value, and vice versa.	Land & Buildings
<i>Direct sales comparison</i>		
Rate per square metre	A 1% increase in rate per square metre would result in a material increase in the fair value, and vice versa.	Land & Buildings

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

	2020 \$'000	2019 \$'000
Depreciation		
Depreciation of property, plant and equipment	21,686	18,748

- ⑨ Depreciation is recognised in the Statement of Comprehensive Revenue and Expense on a straight-line basis considering the estimated useful life of each part of an item of property, plant and equipment and its residual value. Land is not depreciated.

The estimated useful lives for significant classes of assets for the current and comparative periods are as follows:

Buildings	40-50 years
Electricity distribution equipment	10-70 years
Wells	15 years
Electricity generation equipment	10-50 years
Other plant and equipment:	
Plant and equipment	3-20 years
Motor vehicles	5-10 years
Wharves, walls and surfaces	3-100 years
Floating plant	2-25 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Commitments

As at 31 March 2020, the Trust Group had total capital commitments payable within the next 12 months of \$6.6 million (2019: \$16.5 million).

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

8 Investment properties

	2020 \$'000	2019 \$'000
Opening balance at 1 April	22,020	20,820
Additions	2,268	923
Transfers to operational property	(1,220)	-
Fair value adjustment	2,293	277
Closing balance at 31 March	25,361	22,020

Investment properties include parcels of land and buildings strategically located at Eastland Port, Inner Harbour, Gisborne Airport and various other locations in Gisborne.

They are measured at fair value, based on an annual valuation by an independent valuer; Telfer Young. These valuations were completed at 31 March 2020 and are in compliance with approved/accepted valuation standards.

The fair value is based on a discounted cashflow model using expected market rentals for the highest and best use of the property. An analysis of current property sales is also assessed in determining the value. The investment property that has been revalued is categorised as level 3 in the fair value hierarchy. There have been no transfers between levels or changes to valuation techniques in the current year.

Ⓟ Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in the Statement of Comprehensive Revenue and Expense within administrative expenses or other income and disclosed separately in the financial statements.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Property that is being constructed for future use as investment property is accounted for as property, plant and equipment until construction or development is complete, at which time it is revalued to a fair value and reclassified as investment property. Any gain or loss arising on revaluation is recognised in the Statement of Comprehensive Revenue and Expense.

When the use of a property changes from owner-occupied to investment property, the property is revalued to fair value and reclassified as investment property. Any gain arising on revaluation is recognised directly in equity. Any loss is recognised immediately in the Statement of Comprehensive Revenue and Expense.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

9 Intangible assets

	2020 \$'000	2019 \$'000
Geothermal development rights	4,110	1,753
Te Ahi o Maui - Vended assets	1,785	1,838
Resource consents	2,180	483
Goodwill	710	710
Access rights	1,257	1,285
Other	350	208
	10,392	6,277

The intangible asset groups shown above are amortised over their assessed lives. Goodwill relating to the weighbridge and Inner Harbour Marina is not amortised, is reviewed for impairment on an annual basis. The directors are comfortable with the carrying values.

The geothermal development rights relate to Te Ahi o Maui and Te Roopu Whakarite Mahi Limited Partnerships.

The amortisation charge relating to resource consent, access rights and other intangible assets for the year was \$223,691 (2019: \$101,000).

Ⓟ Goodwill

Goodwill represents the excess of the cost of the acquisition over the Trust Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the purchase. When the excess is negative (negative goodwill), it is recognised immediately in the Statement of Comprehensive Revenue and Expense. Impairment losses are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

The useful lives of goodwill are assessed as indefinite and tested for impairment each year.

Other Intangibles

Other intangibles are amortised over the defined finite life of the intangible asset.

Ⓜ Valuation of goodwill

The carrying value of goodwill is assessed at least annually to ensure that it is not impaired. Performing this assessment requires an estimate of future cash flows to be generated by operating segments to which goodwill has been allocated. Estimating future cash flows entails making judgments including the expected rate of growth of revenues, margins expected to be achieved, the level of future maintenance expenditure required to support these outcomes and the appropriate discount rate to apply when discounting future cash flows.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

10 Trade and other receivables

	2020 \$'000	2019 \$'000
Exchange trade and other receivables		
Trade receivables	8,053	8,145
GST receivable	-	-
Other receivables	4,347	4,373
Total trade and other receivables	12,400	12,518

Trade receivables are stated net of expected credit loss of \$59,083 (2019: \$88,279). The Group has recognised a loss allowance of 100% against all receivables over three months past due because historical experience has indicated that these receivables are generally not recoverable. The group assesses credit risk and recognises credit losses on recognition of a receivable and when a loss is probable. No expected credit losses have been recognised on related party receivables. There has been no change in the estimation techniques or significant assumptions during the current reporting period.

	2020 \$'000	2019 \$'000
Non-exchange other receivables		
Other receivables	848	348
Total non-exchange other receivables	848	348

11 Other Investments and receivables

Determination of fair value

The fair value of available-for-sale financial assets held by the Trust Group entities is based on broker quotes provided by the entities' investment advisors.

	2020 \$'000	2019 \$'000
Fixed interest financial instruments	16,715	17,588
Listed equities	25,906	30,668
Unlisted equities	-	2,932
Receivables greater than one year	3,000	1,232
Total other investments and receivables	45,621	52,420
Split between:		
Current asset	4,722	7,336
Non-current asset	40,899	45,084
Total other investments and receivables	45,621	52,420

Investments into fixed interest financial instruments and listed equities are made through investment managers. During the year, a portion of these investments were sold to provide the Trust with funds for further investment and distributions for the benefit of beneficiaries.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

Investment into Prime Sawmill assets:

The Trust through its subsidiary, Prime SPV Ltd, holds investments that make up part of the Prime wood processing cluster. These investments are to provide economic benefits and job opportunities for the benefit of beneficiaries, as well as providing diversification options for the wood industry, which is currently dominated by a single product to a single market.

At 31 March 2020 the Trust, through its subsidiary, Prime SPV Ltd, re-purchased the Prime Sawmill assets and associated buildings for \$1.7 million. The loan of \$1.2 million to Far East Sawmill Limited was repaid as part of the transaction.

In addition to the \$2.9 million equity investment in Spectrum Group Limited, further advances of \$2.8 million were made to Spectrum Group Limited, the parent company of Far East Sawmill Limited, the sawmill operator, to assist with cashflow management. These advances are by way of convertible notes with Interest charged at 9% which is capitalised to the notes on a monthly basis. These notes convert at the option of Prime SPV Ltd and are due 24 months from when the advance was made.

The equity investment in Spectrum Group Limited has been impaired by \$2.9 million, reducing the carrying value to Nil. This impairment is included in other expenses.

12 Payables and accruals

	2020 \$'000	2019 \$'000
Exchange payables and accruals		
Trade payables	6,931	8,010
Non-trade payables and accrued expenses	4,162	10,918
Interest payable	696	732
GST payable	9	154
Total exchange payables and accruals	11,798	19,814
Non-exchange payables and accruals		
Distribution payables	9,322	10,044
Total non-exchange payables and accruals	9,322	10,044
Total payables and accruals	21,120	29,858

Trade and other payables generally have terms of 30 days and are interest free. The carrying amount of trade and other payables approximates fair value because the amounts due will be settled within 12 months and are interest free.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

13 Investment in subsidiaries

Trust Tairawhiti is the 100% owner of Eastland Group Limited, which is governed by an independent Board of Directors. Eastland Group activities primarily comprise strategic asset intensive businesses crucial to the Gisborne district's economy focused on energy (lines network and power generation), and logistics (Port and airport management). Eastland Group Limited along with its subsidiaries, noted below, are all incorporated in New Zealand.

	Parent		Ownership Interest (%)	
			2020	2019
Eastland Network Limited	Eastland Group Limited	Electrical distribution	100%	100%
Eastech Limited	Eastland Group Limited	Contracting	100%	100%
Gisborne Airport Limited	Eastland Group Limited	Airport services	100%	100%
Eastland Energy Solutions Limited	Eastland Group Limited	Energy solutions	100%	100%
Eastland Generation Limited	Eastland Group Limited	Electrical generation	100%	100%
Geothermal Developments Limited	Eastland Generation Limited	Geothermal generation	100%	100%
Te Ahi O Maui Limited Partnership	Eastland Generation Limited	Geothermal generation	94%	94%
Te Ahi O Maui General Partnership Limited	Eastland Generation Limited	Geothermal generation	94%	94%
ROOPU Whakarite Mahi Limited Partnership	Eastland Generation Limited	Geothermal Generation	85%	-
Te Turapa Wai Ariki Limited	Eastland Generation Limited	Geothermal Generation	85%	-
Eastland Port Limited	Eastland Group Limited	Port services	100%	100%
Eastland Port Debarking Limited	Eastland Port Limited	Debarker services	100%	100%
Northland Debarking Limited	Eastland Port Debarking Limited	Debarker services	100%	100%
Eastland Investment Properties Limited	Eastland Group Limited	Investment property	100%	100%
Inner Harbour Marina Limited	Eastland Investment Properties Limited	Harbour services	100%	100%

Trust Tairawhiti is committed to supporting new investment initiatives outside Eastland Group Limited where the projects are aligned to delivering employment outcomes within the He Tohu Ora Wellbeing Framework. These investments are held in the following 100% owned subsidiaries, which are incorporated in New Zealand.

	Parent		Ownership Interest (%)	
			2020	2019
Eastland Development Fund Limited	Trust Tairawhiti	Economic development investment company	100%	100%
Prime SPV Limited	Trust Tairawhiti	Economic development investment company	100%	100%
Activate Tairawhiti Limited	Trust Tairawhiti	Economic development operations	100%	100%

There are no restrictions in place on the ability of subsidiaries to transfer funds to their parent in the form of cash dividends or to repay loans or advances. See Note 25 for transactions from the Trust to subsidiary entities.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

Ⓟ Subsidiaries

Subsidiaries are entities controlled, directly or indirectly by the Trust Group. The financial statements of subsidiaries are included in the consolidated financial statements using the acquisition method of consolidation.

Acquisition or disposal during the period

Where a business becomes or ceases to be a part of the Trust Group during the period, the results of the business are included in the consolidated results from the date that control or significant influence commenced until the date that control or significant influence ceased. Where a business is acquired all identifiable assets, liabilities and contingent liabilities are recognised at their fair value at acquisition date. The fair value does not take into consideration any future intentions by the Trust Group.

Goodwill arising on obtaining control of a subsidiary

Where an acquisition results in obtaining control of a subsidiary for the first time, the carrying amount of any previous non-controlling interest held by the Trust Group is first re-measured to fair value and the difference between the carrying amount and the re-measured fair value is recognised in the Statement of Comprehensive Revenue and Expense. Goodwill is then calculated as the sum of the fair value of the consideration paid, the re-measured fair value of the non-controlling interest previously held by the acquirer and the recognised amount of any remaining non-controlling interest in the acquiree held by third parties less the fair value of the total identifiable assets and liabilities of the acquiree at the date of the acquisition.

If the fair value of the total identifiable assets and liabilities acquired exceeds the sum of the fair value of the consideration paid, the re-measured fair value of the non-controlling interest previously held by the acquirer and the recognised amount of any remaining non-controlling interest in the acquiree held by third parties, then a gain representing a bargain purchase is recognised in the Statement of Comprehensive Revenue and Expense.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded as equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Transactions eliminated on consolidation

Intra-group advances are repayable on demand and eliminated on consolidation. Any interest income and interest expense incurred on these advances is eliminated in the Statement of Comprehensive Revenue and Expense on consolidation.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

14 Investment in associate

The Trust Group has one associate, Flick Energy Limited, which is incorporated in New Zealand and is accounted for using the equity method. The investment consists of:

	2020 \$'000	2019 \$'000
Investment in associate	5,864	9,887
Investment in Flick Energy Limited	5,864	9,887
Number of shares owned	11,967,627	11,967,627
Book value per share	\$0.49	\$0.83

Details of the investment in associate at the end of the reporting period is as follows:

Name of associate	Principal activity	Proportion of ownership interest and voting rights held by the Group	
		2020	2019
Flick Energy Limited	Retail electricity provider	20.63%	20.63%

The summarised financial information in respect of the interest in the associate is set out below.

	2020 \$'000	2019 \$'000
Share of:		
Loss from continuing operations	1,431	2,264
Other comprehensive income	780	(324)
Share of loss in associate	2,211	1,940

Reconciliation of the interest in the associate recognised in the consolidated financial statements:

Opening balance	9,887	7,529
Purchase of shares	-	356
Conversion of capital notes to shares	-	3,942
Share of change in net assets (share of loss in associate) at 22.60%	-	(1,398)
Share of change in net assets (share of loss in associate) at 20.63%	(1,431)	(866)
Impairment of associate	(1,812)	-
Share of associate - other comprehensive income	(780)	324
Carrying amount of the interest in associate	5,864	9,887

P Associates

An associate is where the Trust Group has significant influence over an investment that is neither a controlled entity nor an interest in a joint venture.

Associates are accounted for using the equity method of consolidation. Under the equity method of accounting, interests in associates are initially recognised at cost and adjusted thereafter to recognise the Trust Group share of the surplus or deficit of the investment.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

15 Investment in joint venture

Details of investment in joint ventures at the end of the reporting period are as follows:

Name of Joint Venture	Principal activity	Place of Incorporation	Proportion of ownership interest and voting rights held by the Group	
			2020	2019
Eastland Debarking	Debarking and anti-sap treatment of export logs stored at the port in Gisborne	New Zealand	50%	50%
WET Gisborne Limited	Wood engineering processing - 50,000 cubic meter plant	New Zealand	43.83%	49.9%

Eastland Debarking is a joint venture accounted for using the equity method with the other 50% share of the joint venture being held by East Coast Forests Limited.

WET Gisborne is a wood processing business accounted for using the equity method with the other 56.17% joint venture partner being Wood Engineering Technology Limited. During the year further investment of \$1.5 million was made and at that point the portion of ownership reduced to 43.83%. This investment is part of the wood cluster investments to create employment opportunities for beneficiaries. The share of the loss has been equity accounted to the extent of the carrying value for that investment, this equated to a loss of \$1.5 million. The carrying value of the investment is nil, and the actual share of loss was \$1.5 million for the financial year.

The summarised financial information in respect of the Trust Group's interest in joint ventures is set out below:

	2020 \$'000	2019 \$'000
Trust Group's share of:		
Profit from continuing operations	(374)	36
Group eliminations	116	119
Share of profit of joint ventures	(258)	155
Net assets of the joint venture	2,190	2,634
Proportion of the Group's ownership interest in the joint venture(s)	50.00%	50.00%
Carrying amount of the interest in the joint venture(s)	1,095	1,317
Significant restrictions		

There are no significant restrictions on the ability of the joint venture to transfer funds to the Group in the form of profit sharing.

Commitments

As at 31 March, total capital expenditure committed but not yet incurred was \$Nil (2019: \$Nil).

Contingent liabilities

As at 31 March, total contingent liabilities were \$Nil (2019: \$Nil).

Impairment

No assets employed in the jointly controlled operations were impaired during the year.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

⑨ ***Joint Ventures***

Joint ventures are contractual arrangements with other parties which establish joint control for each of the parties over the related operations, assets or entity. The Trust Group is jointly and severally liable in respect of costs and liabilities, and shares in any resulting profit/(loss) or output.

Joint ventures are accounted for through inclusion of the Trust Group 's share of the joint venture's operations in the financial statements, using the equity method of consolidation. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the share of the post-acquisition profits or losses and movements in the Statement of Comprehensive Revenue and Expense. Where the share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the net investment in the joint venture), the Trust Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. Unrealised gains on transactions between the Trust Group and its joint ventures are eliminated to the extent of the interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint venture have been changed where necessary to ensure consistency with the policies adopted by the Trust Group.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

16 Loans

All borrowings are in Eastland Group Limited and information about the contractual terms of interest-bearing loans and borrowings follows:

	2020 \$'000	2019 \$'000
The borrowings are repayable as follows:		
From one to two years	210,000	227,000
Within two to five years	40,000	-
Total bank borrowings	250,000	227,000
Classified as follows:		
Non-current liabilities	250,000	227,000
Total bank borrowings	250,000	227,000
	Drawn \$'000	Undrawn \$'000
As at 31 March 2020		
Facility A - Tranche A - maturing 1 April 2021	210,000	-
Facility A - Tranche B - maturing 1 April 2022	30,000	-
Facility A - Tranche C - maturing 1 April 2023	10,000	40,000
Facility B maturing 30 June 2021	-	15,000
	250,000	55,000
As at 31 March 2019		
Facility A - Tranche A - maturing 1 April 2021	210,000	
Facility A - Tranche B - maturing 1 April 2022	17,000	13,000
Facility A - Tranche C - maturing 1 April 2023	-	50,000
Facility B maturing 30 June 2020	-	15,000
	227,000	78,000

Eastland Group Limited has arranged bank funding from the ANZ Bank, ASB and BNZ ("Syndicate"). As at 31 March 2020 there were total bank facilities of NZD \$305 million (2019: \$305 million) which are unsecured and subject to a Deed of Negative Pledge. The borrowings are in the name of Eastland Group Limited, and the guaranteeing subsidiaries are as follows:

Gisborne Airport Limited	Geothermal Developments Limited
Eastland Port Limited	Inner Harbour Marina Limited
Eastland Port Debarking Limited	Eastland Network Limited
Eastland Investment Properties Limited	Eastech Limited
Eastland Generation Limited	Northland Debarking Limited
Te Ahi o Maui Limited Partnership	

These borrowings are rolled over at 90 day intervals spread throughout the year. The interest rate on these borrowings is the BKBM rate at the rollover date plus a margin of 0.76% to 1.21% (2019: 0.96% to 1.21%). As at 31 March 2020, the rates on borrowings range from 1.30% to 2.34% (2019: 2.86% to 3.19%).

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

Facilities with the Syndicate have expiry dates of 1 April 2021 Tranche A (\$210 million), 1 April 2022 Tranche B (\$30 million), 1 April 2023 Tranche C (\$50 million) and an evergreen facility of \$15 million which expires 18 months from drawdown. There have been no defaults during the period of principal, interest, sinking fund, covenants or redemption terms of those loans payable during the period.

17 Finance expenses

	2020 \$'000	2019 \$'000
Interest expense	10,606	7,196
Total finance expense	10,606	7,196

- Ⓟ Finance expenses comprises of interest expense on borrowings, changes in the fair value of financial assets at fair value through the Statement of Comprehensive Revenue and Expense and impairment losses recognised on financial assets (except for trade receivables), and losses on hedging investments that are recognised in the Statement of Comprehensive Revenue and Expense.

All borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for use. All other borrowing costs are recognised in the profit or loss section of the Statement of Comprehensive Revenue and Expense in the period which they are incurred.

18 Financial assets and liabilities

This note discloses the Trust Group's financial assets and liabilities, how they are valued and managed.

Comprehensive policies are in place to manage the risks of financial instruments. These outline the objectives and approach applied in the financial risk management processes. They cover, among other things, management of credit risk, interest rate risk, funding risk, liquidity risk, currency risk and operational risk. Non-derivative financial liabilities are categorised as 'amortised cost', derivative financial instruments are categorised as 'fair value through profit and loss' unless hedge accounting is applied. Hedge accounting is applied for all derivative financial instruments.

The financial assets and liabilities are presented below:

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

		2020				
	Notes	Cash and cash equivalents \$'000	Cashflow hedges \$'000	Loans and receivables \$'000	Other assets and liabilities \$'000	Fair value \$'000
Financial assets						
Cash and cash equivalents		20,611	-	-	-	20,611
Trade and other receivables	10	-	-	13,248	-	13,248
Electricity derivatives		-	3,825	-	-	3,825
Other investments and receivables	11	-	-	3,000	42,621	45,621
Total financial assets		20,611	3,825	16,248	42,621	83,305
Financial liabilities						
Payables and accruals	12	-	-	-	(21,119)	(21,119)
Employee entitlements	28	-	-	-	(3,931)	(3,931)
Electricity derivatives		-	(36)	-	-	(36)
Derivative financial instruments		-	(16,164)	-	-	(16,164)
Loans	16	-	-	-	(250,000)	(250,000)
Total financial liabilities		-	(16,200)	-	(275,050)	(291,250)
Total net financial assets/(liabilities)		20,611	(12,375)	16,248	(232,429)	(207,945)
		2019				
	Notes	Cash and cash equivalents \$'000	Cashflow hedges \$'000	Loans and receivables \$'000	Other assets and liabilities \$'000	Fair value \$'000
Financial assets						
Cash and cash equivalents		19,044	-	-	-	19,044
Trade and other receivables	10	-	-	12,866	-	12,866
Derivative financial instruments		-	191	-	-	191
Other investments and receivables	11	-	-	1,232	51,188	52,420
Total financial assets		19,044	191	14,098	51,188	84,521
Financial liabilities						
Payables and accruals	12	-	-	-	(29,858)	(29,858)
Employee entitlements	28	-	-	-	(2,257)	(2,257)
Electricity derivatives		-	(4,979)	-	-	(4,979)
Derivative financial instruments		-	(13,029)	-	-	(13,029)
Loans	16	-	-	-	(227,000)	(227,000)
Total financial liabilities		-	(18,008)	-	(259,115)	(277,123)
Total net financial assets/(liabilities)		19,044	(17,817)	14,098	(207,927)	(192,602)

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

E Valuation of financial assets and liabilities

The following methods and assumptions were used to estimate the carrying amount and fair value of each asset class of financial instrument carried at fair value. Where financial instruments are measured at fair value they have been classified at the following levels.

Level 1: Quoted prices (unadjusted) in active markets for assets or liabilities; or

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices); or

Level 3: Inputs for the asset and liability that are not based on observable market data (unobservable inputs).

Derivative financial instruments are interest rate swaps. These are based on Level 2 fair value methodologies, and were calculated using valuation models applying observable market data such as forward rates and contract rates, discounted at a rate that reflects the credit risk of various counterparties.

Electricity derivatives are contract for differences. These are based on level 3 fair value methodologies and were calculated using valuation models applying forward price rates and discount at a rate that reflects the credit risk of various counterparties.

19 Interest rate and electricity price risk

Loans predominantly have floating interest rates and interest rate exposure is managed in accordance with treasury policy. In this respect, at least fifty percent of interest costs must be fixed using interest rate swaps, forward rate agreements, options and other derivative instruments. The main objectives are to minimise the cost of total debt, control variations in the interest expense of the loans and to match the interest rate risk profile of debt with the expected return on assets. The treasury policy sets parameters for managing the interest rate risk profile.

Cash-flow hedging is applied to all of its interest rate swaps, a notional value totaling \$180 million (2019: \$200 million) with terms or maturity dates between 1 and 96 months, interest on a floating rate for fixed interest is between 2.03% to 5.94% (2019: 2.03% to 5.94%). The last cash-flow hedge swap matures on 31 March 2028.

The interest rate swaps that have been designated as cash-flow hedges affect profit and loss at the same time as the underlying interest expense is recognised on the retrospective borrowings. The hedge relationships are expected to be highly effective over the life of the swaps. All current hedges are effective.

Electricity generation revenues are managed in accordance with the electricity sales policy which assists with the management of the price risk in the wholesale electricity market. In this respect the policy requires a layered hedging profile to reduce revenue volatility in relation to electricity generated.

The following tables outline the hedges in place for interest rate and electricity revenue swaps. The interest rate swaps show the fixed interest rate and the amount of the swap while the electricity swaps show the amount of electricity generated and the applicable revenue price.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

	Average contract rate	2020 Notional Amount	Average contract rate	2019 Notional
	%	\$'000	%	\$'000
Interest rate swaps				
Maturing in less than 1 year	4.04	60,000	2.95	20,000
Maturing between 1 and 2 years	2.33	15,000	4.04	60,000
Maturing between 2 and 5 years	4.59	65,000	3.77	60,000
Maturing after 5 years	3.49	40,000	4.41	60,000
Total notional interest rate swaps		180,000		200,000
	\$	MWH	\$	MWH
Electricity revenue swaps				
Maturing in less than one year	109.91	92,832	93.70	109,368
Maturing between one and two years	102.09	72,144	117.00	17,520
Maturing between two and five years	102.87	22,368		-
		187,344		126,888

⑤ **Hedge accounting and sensitivity analysis**

The sensitivity analysis has been determined based on the exposure to interest rates and foreign exchange rates for both derivatives and non-derivative instruments at balance date. It is assumed that the amount of the liability at balance date was outstanding for the whole year. A one percent increase or decrease is used for interest rates and these changes represent management's current assessment of the reasonably possible change over a year.

Interest rate swaps hedging the floating rate debt are hedge accounted and treated as cash flow hedges and hence any changes in interest rates would have no material impact on profits as changes in the fair value of these swaps are taken through other comprehensive income where the hedge is an effective hedge. The fair value of these interest rate swaps is a \$10.0 million loss (2019: \$8.4 million loss). A fall of 1% in interest rates would result in a loss in other comprehensive income of \$3.4 million (2019: \$3.7 million) whereas an increase of 1% in interest rates would result in a gain in other comprehensive income of \$3.2 million (2019: \$3.6 million).

Forward starting interest rate swaps hedging the forecasted floating rate debt are also hedge accounted and are recognised as cash flow hedges and hence any changes in interest rates would have no material impact on profits as changes in the fair value of these swaps are taken through other comprehensive income where the hedge is an effective hedge. The fair value of these interest rate swaps and collars is a \$6.1 million loss (2019: \$4.6 million loss). A fall of 1% in interest rates would result in a loss in other comprehensive income of \$1.7 million (2019: \$2.5 million) whereas an increase of 1% in interest rates would result in a gain in other comprehensive income of \$1.6 million (2019: \$2.3 million).

Electricity derivatives hedge the forecasted revenues from electricity generation and are recognised as cash flow hedges, and hence any changes in electricity prices would have no material impact on profit as changes in fair value are recognised through other comprehensive income where the hedge is effective. The fair value of the electricity derivatives is \$4.0 million gain (2019: \$4.8 million loss). A reduction of 1% in electricity prices would result in a gain in other comprehensive income of \$155,414, (2019: \$162,162) whereas an increase in electricity prices would result in a loss in other comprehensive income of \$155,413 (2019: \$162,162).

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

Electricity contracts for differences that have been designated as cash-flow hedges affect profit and loss at the same time as the underlying electricity revenue is recognised. The hedge relationships are expected to be highly effective over the life of the contract for differences and no ineffectiveness has been recognised in the statement of financial performance.

The following tables reconcile the derivative balances and their movements.

The calculation for the derivatives is performed at balance date and reflects the position at that point and are expected to fluctuate over time. The liability for interest rate swaps is a result of the floating interest rate being lower than the rate the loans were fixed at. The asset for electricity swaps is a result of the electricity spot rate being lower than the price of the swap.

	Interest rate swaps	Electricity swaps	Total
	\$'000	\$'000	\$'000
Hedging derivatives			
Opening balance	(13,029)	(4,788)	(17,817)
Recognised in the Statement of Financial Performance:			
Interest expense of contract settlements	(3,362)	-	(3,362)
Electricity sales of contract settlements	-	(2,073)	(2,073)
Change in fair value recognised in other comprehensive income	225	10,652	10,877
Closing hedge (liability)/asset	(16,166)	3,791	(12,375)
Tax effect of hedges	4,631	(1,062)	3,569
Balance of hedge reserve	(11,535)	2,729	(8,806)

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
	\$'000	\$'000	\$'000	\$'000
Derivatives summary				
Interest rate swaps	-	(16,164)	-	(13,029)
Electricity revenue swaps	3,825	(36)	191	(4,979)
	3,825	(16,200)	191	(18,008)
Current	3,166	(772)	75	(4,990)
Non-current	659	(15,428)	116	(13,018)
	3,825	(16,200)	191	(18,008)

20 Liquidity risk

The risk that the Trust Group will not be able to meet its financial obligations as they fall due is described as liquidity risk. The approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to reputation.

There are sufficient funding and banking facilities available to meet the liquidity requirements of the Trust Group.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

2020							
		<6 months	6 -12	1-3 years	3-5 years	>5 years	Total
	Notes	\$'000	months	\$'000	\$'000	\$'000	\$'000
Financial assets							
Cash and cash equivalents		20,611	-	-	-	-	20,611
Trade and other receivables	10	13,248	-	-	-	-	13,248
Electricity derivatives		2,169	997	659	-	-	3,825
Other investments and receivables	11	3,816	906	7,913	5,978	27,008	45,621
Total financial assets		39,844	1,903	8,572	5,978	27,008	83,305
Financial liabilities							
Payables and accruals	12	(21,119)	-	-	-	-	(21,119)
Employee entitlements	28	(2,618)	-	(1,313)	-	-	(3,931)
Electricity derivatives		(4)	(29)	(3)	-	-	(36)
Derivative financial instruments		(565)	(175)	(2,220)	(6,735)	(6,469)	(16,164)
Loans and borrowings	16	-	-	(250,000)	-	-	(250,000)
Total financial liabilities		(24,306)	(204)	(253,536)	(6,735)	(6,469)	(291,250)
Liquidity gap		15,538	1,699	(244,964)	(757)	20,539	(207,945)
2019							
		<6 months	6 -12	1-3 years	3-5 years	>5 years	Total
	Notes	\$'000	months	\$'000	\$'000	\$'000	\$'000
Financial assets							
Cash and cash equivalents		19,044	-	-	-	-	19,044
Trade and other receivables	10	12,866	-	-	-	-	12,866
Electricity derivatives		-	75	116	-	-	191
Other investments and receivables	11	5,631	1,706	7,714	6,081	31,288	52,420
Total financial assets		37,541	1,781	7,830	6,081	31,288	84,521
Financial liabilities							
Payables and accruals	12	(29,858)	-	-	-	-	(29,858)
Employee entitlements	28	(2,257)	-	-	-	-	(2,257)
Electricity derivatives		-	(4,774)	(205)	-	-	(4,979)
Derivative financial instruments		-	(216)	(2,215)	(4,149)	(6,449)	(13,029)
Loans and borrowings	16	-	-	-	(227,000)	-	(227,000)
Total financial liabilities		(32,115)	(4,990)	(2,420)	(231,149)	(6,449)	(277,123)
Liquidity gap		5,426	(3,209)	5,410	(225,068)	24,839	(192,602)

21 Credit risk

Business transactions are largely with large wholesale intermediaries or agents representing a number of exporting clients. Sales transactions are typically settled intra-month resulting in relative low receivable balances. Our businesses incur credit risk in the following ways:

- Networks – distributes electricity selling to electricity retailers, who settle on the 20th of the month. Historically, there have been no defaults by electricity retailers.
- Ports – Export agents and logistics companies represent customers who ship product through Eastland Port using a variety of port services. These agents generally settle transactions intra-month while settling sale proceeds with their customers. Historically there have been no defaults by these agents.

Airport landing charges paid by Air New Zealand represent 80% of Gisborne Airports' revenue. These landing charges are typically settled on the 20th of the month.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

- Generation – The majority of power generated is sold through the NZX and settled on the 20th of the month. The NZX acts as clearing agent ensuring the cash settlement of electricity sold. Where electricity revenue is hedged, through the use of contracts for differences, counterparty credit risk may exist. Contract for differences are with multiple counterparties and are settled monthly, reducing this credit risk. Historically there have been no defaults on electricity sales.

Credit risk and expected credit losses are assessed on recognition of revenue. The credit risk of a debtor is assumed to have increased significantly since initial recognition if the contractual obligations are over 90 days past due. Assessments are made on increases in credit risk through consideration of changes in a debtors' industry or adverse changes in the debtor's environment that result in significant decreases in the debtors' ability to meet its obligations. Where there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. placed in liquidation or has entered into bankruptcy proceedings, the debt will be impaired and recognised as a bad debt in the Statement of Comprehensive Revenue and Expense.

Credit risk exposure in relation to the subsidiaries is not considered to be significant, and no specific risk management policies have been put in place in relation to inter-group balances.

There are no financial assets that have been pledged as collateral for liabilities or contingent liabilities.

Expected credit losses are recognised on trade and other receivables that are believed to be irrecoverable. The expected credit loss at 31 March 2020 was \$59,083 (2019: \$88,279). Actual bad debts written off in the Statement of Comprehensive Revenue and Expense were \$61,589 (2019: \$23,764) and there was no adjustment to the specific expected credit loss.

22 Capital management

A strong capital base is maintained so as to continue investor, creditor and market confidence and to sustain future development of the business. The return on capital is monitored on a regular basis. This involves the management of reserves and issued capital.

The Trust Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

(P) x. Non-derivative financial instruments

Financial Assets

Financial assets consist of cash and cash equivalents, loans and receivables.

Cash and cash equivalents, loans and receivables

Trade receivables, loans, cash and cash equivalents and other receivables are initially recorded at fair value and subsequently measured at amortised cost less impairment. Fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the inception of the loan or receivable. Discounting is not undertaken when the receivable is expected to be collected within twelve months. A provision for doubtful debts is recognised to allow for the reduction in fair value attributable to expected doubtful or delayed collection of receivables.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when there is a legal right to offset the amounts and intend to either settle on a net basis or realise the asset and settle the liability simultaneously. Cash and cash equivalents comprise cash on hand, cash in banks and short term deposits maturing within three months. Bank

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

overdrafts that are repayable on demand and form an integral part of cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

Other assets

Certain perpetual shares and listed equities held by the Trust Group are classed as being available-for-sale and are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly in the investment revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the investment revaluation reserve is included in profit or loss for the period.

Certain fixed interest securities, capital notes and convertible notes held by the Trust Group are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial liabilities

Loans are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in finance costs in the Statement of Comprehensive Revenue and Expense over the period of the borrowing using the effective interest rate method.

Other financial liabilities comprise trade and other payables. Discounting is not undertaken when the payable is expected to be paid within twelve months. Financial liabilities are when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset, and the net amount presented in the Statement of Financial Position when, and only when, there is a legal right to offset the amounts and intend to either settle on a net basis or realise the asset and settle the liability simultaneously.

xi. Derivative financial instruments

Derivative financial instruments are entered into to manage its exposure to interest rate and foreign exchange rate risk, including interest rate and foreign exchange forwards, swaps and options. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance date. The resulting gain or loss is recognised in the Statement of Comprehensive Revenue and Expense immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the Statement of Comprehensive Revenue and Expense depends on the nature of the designated hedge relationship. Certain derivatives designated as either hedges of the fair value of recognised assets, liabilities or firm commitments (fair value hedges), or hedges of highly probable forecast transactions (cash flow hedges). Documentation of the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions is maintained at the inception of the transaction. The assessment, both at hedge inception and on an on-going basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items is also documented.

Fair value hedge

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Comprehensive Revenue and Expense immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. The gain or loss relating to both the effective and the ineffective portion of interest rate swaps hedging fixed rate borrowings is recognised in the Statement of Comprehensive Revenue and Expense within finance costs. Changes in the fair value of the underlying hedged fixed rate borrowings attributable to interest rate risk are also recognised in the Statement of Comprehensive Revenue and Expense within finance costs.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the Statement of Comprehensive Revenue and Expense from that date.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion, if any, is recognised immediately in the Statement of Comprehensive Revenue and Expense within finance costs.

Amounts accumulated in equity are recognised as finance costs in the Statement of Comprehensive Revenue and Expense in the periods when the hedged item is recognised in the Statement of Comprehensive Revenue and Expense. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the Statement of Comprehensive Revenue and Expense within finance costs, when the underlying transaction affects earnings.

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Thereafter, any cumulative gain or loss previously recognised in equity is only recognised in the Statement of Comprehensive Revenue and Expense when the forecast transaction is ultimately recognised in the Statement of Comprehensive Revenue and Expense. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was previously recognised in equity is recognised immediately in the Statement of Comprehensive Revenue and Expense.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Statement of Comprehensive Revenue and Expense within finance costs.

Non-derivative financial instruments comprise of trade and other receivables, cash and cash equivalents, related party borrowings, capital notes, and payables and accruals.

xii. Debt and equity instruments

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Statement of Comprehensive Revenue and Expense within finance costs.

Non-derivative financial instruments comprise of trade and other receivables, cash and cash equivalents, related party borrowings, capital notes, and payables and accruals.

Interest and dividends

Interest paid and dividends paid are classified as expenses or as distributions of profit consistent with the Statement of Financial Position classification of the related debt or equity instruments.

xiii. Impairment of financial assets

The carrying amount of assets is reviewed at balance date to determine whether there is any evidence of impairment. Where assets are deemed to be impaired, the impairment loss is the amount that the carrying amount exceeds its recoverable amount. Impairment losses reduce the carrying amount of assets and are recognised as an expense in the Statement of Comprehensive Revenue and Expense within non-operating expenses.

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted using the effective interest method.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. For trade receivables which are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on numbers of days overdue and taking into account the historical loss experience in portfolios with a similar amount of days overdue.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the Statement of Comprehensive Revenue and Expense within administrative expenses.

⑤ Valuation of financial instruments

Fair value of financial instruments has been estimated based on valuation models that use observable market inputs. Note 18 of these financial statements provides a list of the key observable inputs that management have applied in reaching their estimates of the fair values of financial instruments and also provides a sensitivity analysis detailing the potential future impacts of reasonably possible changes in those observable inputs over the next financial period.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

23 Operating leases

Operating leases receivable

The Trust Group has leased certain investment properties (refer to Note 8) and some other land and buildings, under operating leases. These are recognised under rental income in the Statement of Comprehensive Revenue and Expense. The future minimum lease payments receivable under non-cancellable leases are as follows:

	2020 \$'000	2019 \$'000
Less than one year	2,592	2,689
Between one and five years	3,751	3,470
More than five years	541	535
Total operating leases receivable	6,884	6,694

Operating leases payable

The Trust Group leases land and/or buildings in Gisborne, Kawerau, Whakatane and Northland, as well as some other office equipment and vehicles. The Trust Group leases land sites throughout the East Coast for the right to lay and maintain power cables and radio transmissions on these sites.

	2020 \$'000	2019 \$'000
Less than one year	1,068	1,166
Between one and five years	1,953	3,672
More than five years	2,068	18,153
Total operating leases payable	5,089	22,991

Operating lease payments of \$1,274,269 were made during this financial year (2019: \$1,184,956). These are recognised within operating expenses on the Statement of Comprehensive Revenue and Expense.

P Operating leases

i. as lessee

Payments made under operating leases, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased property, plant and equipment are recognised in the Statement of Comprehensive Revenue and Expense on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease. Property, plant and equipment used under operating leases are not recognised in the Statement of Financial Position.

ii. as lessor

Assets leased under operating leases are included in Investment property in the Statement of Financial Position. Rental income (net of any incentives given to lessees) is recognised on a straight line basis over the lease term. For more details see the Investment property policy.

Leasehold improvements

The cost of improvements to leasehold property are capitalised and depreciated over the unexpired period of the lease or the estimated useful life of the improvements, whichever is the shorter.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

24 Controlled Entity

Eastland Network Charitable Trust is a Charitable Trust established by the Trust Deed dated 19 April 2002 and was incorporated under the Charitable Trust Act 1957 on 4 December 2002. The purpose of the Trust is to support charitable purposes for which the trustees of Trust Tairawhiti could apply income. The trustees of Eastland Network Charitable Trust are the same as Trust Tairawhiti.

Eastland Network Charitable Trust receives distributions from Trust Tairawhiti and distributes these onto charitable applicants.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

25 Related parties

Wholly owned subsidiaries

Eastland Group Limited, Eastland Development Fund Limited, Prime SPV Limited and Activate Tairawhiti Limited are wholly owned by Trust Tairawhiti. All transactions with controlled subsidiaries have been eliminated on consolidation.

Joint ventures

Eastland Debarking and WET Gisborne Limited are joint ventures of the Trust Group.

Associate

Flick Energy Limited is an associate of the Trust Group.

Controlled entity

Eastland Network Charitable Trust is a controlled entity of the Trust Group, refer to Note 24 for further details.

	Notes	2020 \$'000	2019 \$'000
Transactions with associates, joint ventures and controlled entities			
Distributions to Eastland Network Charitable Trust	30	1,778	6,437
Electricity derivative with Flick Energy Limited	18	1,262	954
Settlements of sales of electricity were made to Flick Energy Limited		599	420
Provision of heat to WET Gisborne Limited		500	300
Lease to WET Gisborne Limited Joint Venture		169	169

Other transactions

Trustees and management may transact with the Trust Group in the ordinary course of business on an arm's length basis.

During the year Eastland Group Limited contracted the services of Diane Murphy, a related party to the Trust CEO, to assist with health and safety and risk management at Te Ahi o Maui. Payments of \$82,574 were made during the year on an arm's length basis.

Subvention payments of \$1.97 million (2019: \$Nil) were made between Eastland Group Limited, Prime SPV Limited and Eastland Development Fund Limited to maximise tax efficiencies.

26 Trustees' information

Trustee fees are paid by Trust Tairawhiti. Total fees paid including GST were \$259,917 (2019: \$250,000).

P Reynolds (Chairman)	60,863	M Foon	15,665
A Cuthbert	32,846	M Muir	8,211
J Chrisp	32,846	R Stoltz	8,211
J Clarke	32,846	S Dowsing	10,949
L Evans	24,634	T Kupenga	32,846

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

All trustees are shareholders in Eastland Group Limited, Prime SPV Limited, Eastland Development Fund Limited and Activate Tairāwhiti Limited. All trustees are also trustees of Trust Tairāwhiti and directors in Prime SPV Ltd and Activate Tairāwhiti Ltd. In addition to these, trustees have noted the following:

Dr P Reynolds gave general notice that he has the following interests and will therefore be interested in all transactions between any of them and the Trust.

Chair AgResearch Ltd	Chair Sir Peter Blake Trust
Deputy Chair Landcare Research Ltd	Chair Toitū Envirocare
Director Eastland Development Fund Limited	Chair Student Volunteer Army Foundation

Mr T Kupenga gave general notice that he has the following interests and will therefore be interested in all transactions between any of them and the Trust.

Trustee Te Pariha o Hikurangi Charitable Trust	Director Te Runanganui o Ngati Porou Trustee Ltd
Director/Shareholder Gizza Look Ltd	Director /Shareholder Te Amokura Consultants Ltd
Trustee The NZ Archive of Film & Television & Sound	Director/Shareholder Waihuka Ltd
Trustee in Hiruharama Marae Trust	Director /Shareholder Te Amokura Properties Ltd
Trustee Te Kura Maori o Porirua Board of Trustees	Member, Governance Advisory Board, Stats NZ

Mr J Clarke gave general notice that he has the following interests and will therefore be interested in all transactions between any of them and the Trust.

Director NZW Wines General Partner Ltd	Independent Chair Makauri Aquifer Recharge Ltd
Chair The Sunrise Foundation	Chair New Zealand Winegrowers Inc.
Director Thos Corson Holdings Ltd	Chair Rawhiti Orchard (GP) Ltd
Trustee Ilfracombe Trust	Civil Defence Group Controller - GDC

Ms A Cuthbert gave general notice that she has the following interests and will therefore be interested in all transactions between any of them and the Trust.

Associate Director Dragon Capital Group Ltd

Dr J Chrisp gave general notice that she has the following interests and will therefore be interested in all transactions between any of them and the Trust.

Shareholder Waiapu Investments (Hikurangi Cannabis Company Ltd)	Tairāwhiti Waka Hourua Voyaging Trust
Partner C J Development Consultants	Tairāwhiti Rainbow Action

Mr Lyall Evans gave general notice that he has the following interests and will therefore be interested in all transactions between any of them and the Trust.

Employee of BDO Gisborne Limited	Gisborne Volunteer Coastguard Incorporated
Trustee Sport Gisborne Tairāwhiti	Wainui Surf Lifesaving Club

Mr Shannon Dowsing gave general notice that he has the following interests and will therefore be interested in all transactions between any of them and the Trust.

Councilor Gisborne District Council	President Gisborne Thistle AFC
Director and Shareholder TD3 Limited	The Beauty Depot Limited

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

27 Management compensation

Key management compensation comprises of the Trust's and Eastland Group's Chief Executive's Chief Financial Officer's and the General Managers:

	2020 \$'000	2019 \$'000
Short term employee benefits	4,312	2,994
Kiwisaver and other contributions	303	220
Total key management compensation	4,615	3,214

28 Employee entitlements

	2020 \$'000	2019 \$'000
Provisions for:		
Annual leave	1,242	1,149
Short-term benefits	2,609	1,032
Post-employment benefits	80	76
Total employee entitlements	3,931	2,257
Expenses recognised in profit or loss:		
Wages and salaries	16,227	12,650
Contributions to defined contribution plans	688	632
Total personnel expenses	16,915	13,282

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

During the year the following number of employees received remuneration of at least \$100,000.

	2020	2019
100,000 - 109,999	6	11
110,000 - 119,999	6	7
120,000 - 129,999	7	3
130,000 - 139,999	3	3
140,000 - 149,999	4	1
150,000 - 159,999	2	5
160,000 - 169,999	4	3
170,000 - 179,999	1	2
180,000 - 189,999	2	1
190,000 - 199,999	2	-
200,000 - 209,999	2	2
210,000 - 219,999	1	-
230,000 - 239,999	-	2
240,000 - 249,999	1	2
250,000 - 259,999	2	1
260,000-269,999	3	-
280,000 - 289,999	1	1
300,000 - 309,999	-	1
310,000 - 319,999	-	1
350,000 - 359,999	1	1
360,000-369,999	2	-
390,000-399,999	1	-
400,000 - 409,999	-	1
540,000 - 549,999	1	-
620,000 - 629,999	-	1
680,000 - 689,999	1	-

(P) Short-term benefits

Short-term benefits, payable within 12 months, are measured on an undiscounted basis and are expensed as the related service is provided. This includes wages, salaries, retirement benefits, annual leave and sick leave.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Trust Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

29 Trust Group equity

The Trust was established in part to preserve the value of the capital of the trust fund having regard to the effect of inflation and profits and losses from time to time. Each year, Trustees determine the amount preserved as capital for the capital beneficiary (Gisborne District Council) and that available for distribution to income beneficiaries.

Trustee's exercised their discretionary powers in accordance with the Trust Deed, and have made the following allocations as part of their duties to meet the purpose of preserving the value of capital.

	Notes	2020 \$'000	2019 \$'000
Capital allocation			
Balance at beginning of period		208,901	208,184
Movement in equity allocated as capital		40,277	717
		249,178	208,901
Available for income beneficiaries			
Balance at beginning of period		124,469	120,175
Movement in equity available for income beneficiaries		3,649	4,294
		128,118	124,469
Total equity		377,296	333,370

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

30 Distributions approved and paid

In the current year, distributions and the related tax effect has been disclosed in the Statement of Comprehensive and Expense. Previously, these amounts were disclosed in the Statement of Changes in Net Assets/Equity. The change in the current year was made to reflect that the distributions are made to beneficiaries of the Trust based on the merits of an application rather than as in its capacity as owners.

	2020	
	Approved	Paid
	\$	\$
Eastland Network Charitable Trust for:		
Te Tairāwhiti Arts Festival Trust	1,500,000	-
Te Runanga o Turanganui a Kiwa	100,000	100,000
Tairāwhiti Connex Charitable Trust	50,000	50,000
Surf Life Saving New Zealand	50,000	-
Springboard Trust	50,000	-
Te Aroha Kanarahi Trust	45,000	-
Weetbix TRYathlon Foundation	33,000	-
Gisborne City Vintage Railway Inc	25,000	25,000
Taki Rua Productions Society Incorporated	10,000	10,000
Poverty Bay A & P Assn	10,000	10,000
Hinenui Whānui Charitable Trust	10,000	-
Terrier Race Against Time	10,000	10,000
Turanga FM	10,000	10,000
Gisborne Stroke Support Group Inc	10,000	10,000
Tairāwhiti Multicultural Council	16,000	6,000
Little Sprouts Charitable Trust	10,000	10,000
Tu Te Ora Charitable Trust	10,000	-
Gizzy School Lunches	9,906	9,906
Life Education Trust	9,900	-
Historic Places Tairāwhiti Inc	9,833	9,833
Mind Over Manner	9,420	-
Living Theatre Charitable Trust	9,130	9,130
Womens Native Tree Project Trust	9,000	9,000
Paiea Whitiāia Trust	8,924	8,924
Gisborne Riding for Disabled	8,674	8,674
Gisborne Toy Library	8,470	8,470
Motu Community Trust	8,000	8,000
Road Safety Education Ltd	7,121	-
Te Runanga o Turanganui a Kiwa	6,500	-
Tauāwhi Mens Centre	5,000	5,000
Nga Taonga A Nga Tama Toa Trust	5,000	5,000
Epilepsy Association of NZ	5,000	5,000
Poverty Bay Hockey Association	5,000	5,000
Life Education Trust (NZ) Inc	5,000	-
Evolution Theatre Company Trust	4,000	4,000
Black Grace	2,992	2,992
Farming Women Tairāwhiti Inc	2,500	-
Eastland Triathlon & Multisport Club Incorporated	2,500	-
Turanganui Schools Māori Cultural Festival	2,000	-
Prior year distributions returned or no longer	(314,720)	-
	1,778,150	339,929

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

	2020	
	Approved	Paid
	\$	\$
Distributions to others		
Te Poho o Rawiri Marae	1,130,000	79,417
Matai Lab	500,000	-
Te Tairawhiti Arts Festival Trust	250,000	-
Gizzy Kai Rescue	231,363	64,896
Ecobulb	188,516	166,774
Gisborne Trampoline Club Inc	69,000	-
Plus Business	60,000	60,000
Turanga Health	50,000	-
Futurity Group Ltd	30,000	30,000
Kaiti School	30,000	30,000
Poverty Bay A & P Assn	30,000	-
Carloads Ltd	30,000	30,000
Sofitech Limited	30,000	30,000
Whangara Global Genetics Ltd	30,000	30,000
Tamanuhiri Tutu Poroporo Trust	30,000	-
Nga Taonga o Hinerupe	30,000	30,000
Te Rimu Trust	23,413	23,413
Parafed Gisborne Tairawhiti	22,000	16,492
Hikurangi Enterprises Ltd	20,000	20,000
Gisborne Harriers Club	18,000	18,000
Mangapapa Union Parish	15,000	10,000
Te Kuri Farm	14,100	14,100
Marangairoa C4 Incorporation Block	11,200	11,200
Gisborne Kindergarten Association	10,000	10,000
Te Hauora o Turanganui a Kiwa (Turanga Health)	10,000	-
Tairawhiti Haupoi Maori Society Inc	10,000	10,000
Te Runanga o Nga Ariki Kaiputahi	10,000	-
Te Runanganui o Ngati Porou	10,000	-
Te Karu O Te Ika Voyaging Trust – Climate Change	10,000	10,000
Tolaga Bay Bowling Club	9,999	9,999
Gisborne Trampoline Club Inc	9,500	9,500
Hikurangi Sports Club Inc	9,500	9,500
Gisborne Competitions Society Incorporated	9,500	-
Hikurangi Bioactives Limited Partnership	9,200	-
BeachedAZ & Volleyball NZ	8,000	8,000
Eastcate	7,600	-
Mangahanae Marae	7,477	-
Gisborne Boardriders Club	5,950	5,950
East Coast Bodybuilding	5,700	5,700
Poverty Bay Rugby Football Union	5,000	5,000
Gisborne East Coast Area Floral Art Society of NZ	5,000	-
Gisborne Ear Clear	3,159	3,159
Barry Memorial Croquet Club	3,080	-
Eastland Swim	1,936	1,936
Gisborne Ceramic Artists and Potters Group	900	900
Prior year distributions returned or no longer	(8,433)	-
	2,995,660	753,936
	4,773,810	1,093,865

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

	2020 Paid \$
Approved prior years paid this year	
Energy Options Charitable T/A Smart Energy	632,500
Te Aitanga a Hauiti Centre of Excellence	535,108
Gisborne District Council	530,000
Te Ha 1769 Sestercentennial Trust	500,000
Eastland Helicopter Rescue Trust	350,000
Tairawhiti Museum	250,000
Aotearoa Social Enterprise Trust	249,550
Whakarua Park Trust Board	195,000
The Gisborne Cycle and Walkway Trust	123,179
Springboard Trust	100,000
Ka Pai Kaiti	75,000
Gizzy School Lunches	72,735
Wainui Surf Life Saving Club	67,000
Gisborne Intermediate School	60,000
Surf Lifesaving NZ	50,000
Rongowhakaata Iwi Trust	40,363
Straker Tanslations Limited	37,695
International Music Competition	30,000
Swim for Life Tairawhiti	20,000
Think Safe Ltd	19,897
Huringa Pai Charitable Trust	19,560
Te Whare Hukahuka	10,000
Muscular Dystrophy Association (Tuaatara/Central	10,000
Waikohu Sports Club	9,580
Gisborne Competitions Society Incorporated	9,500
Te Runanga o Nga Ariki Kaiputahi	9,485
Barry Memorial Croquet Club	3,080
Tongan Methodist Youth Group	3,000
Total distributions paid during the year	<u>5,106,097</u>

Ⓟ Distribution policy

Distributions are allocated to beneficiaries, or for the benefit of beneficiaries, from current year income. These are recorded through comprehensive revenue and expenses and recognised as a payable when distributions are approved by Trustees.

Consolidated Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2020

31 Contingencies

At 31 March 2020, there were no known contingent liabilities (2019:\$Nil).

32 Subsequent events

Effective 1 April 2020 the coupon on our Capital Notes, issued to our Shareholder, repriced to 4.0% from the previous coupon of 7.1%. The coupon on capital notes is repriced every five years. The terms of the capital notes are summarised in note 21.

An agreement was signed on 6 May 2020 between Geothermal Developments Limited (“GDL”) and Ngati Tuwharetoa Geothermal Assets Limited (“NTGA”) to supply geothermal fluid to our GDL plant. The management and operation of our GDL production well KA24, will transfer and be treated as a lease receivable from 1 May 2020.

As described in note 1 (e), the outbreak of novel coronavirus (Covid-19) and the business and government response to it, continues to influence The Group’s businesses and people. The outcomes and impact are currently difficult to predict.