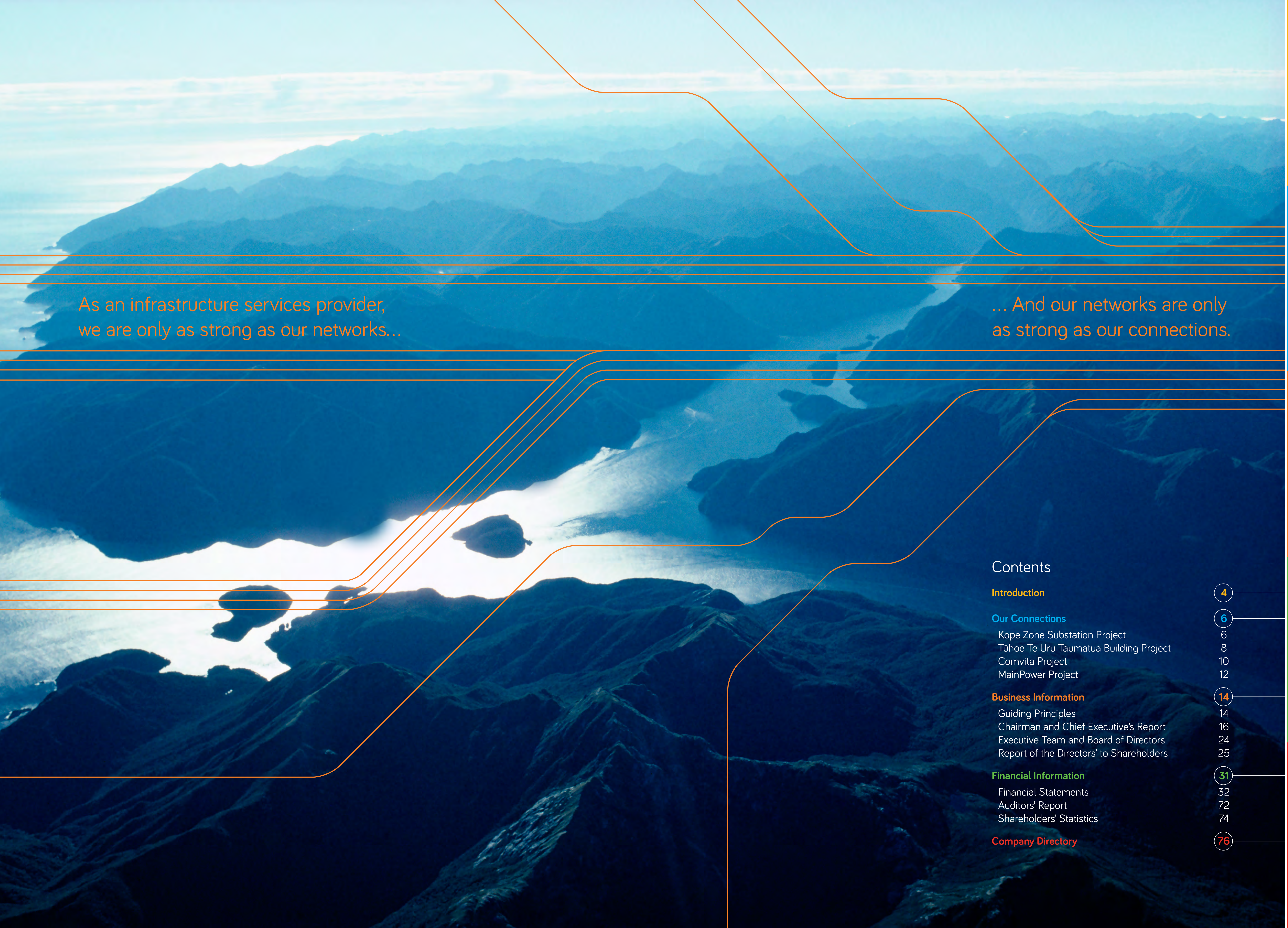
The Power of Connections

Annual Report 2014

HORIZON ENERGY



As an infrastructure services provider,
we are only as strong as our networks…

… And our networks are only
as strong as our connections.

Contents

Connections that enable our communities to live, work and play.

Electricity Supply Chain in New Zealand

Generation

Generators produce electricity at various hydro, gas, coal, wind farms and geothermal power stations throughout New Zealand to meet the needs of all consumers.

Transmission

Transpower transmits the electricity produced by generators. They operate the national grid – the system of extra high voltage power lines that allow power to be sent up and down the entire country.

Distribution

Network companies (Distribution or Lines companies) such as Horizon Energy, own the power lines and networks that connect to the national grid and deliver energy to each business and home in the company's local areas.

Retailer

Retailers purchase energy in bulk from the generators and pay for delivery services from Network companies. They repackage those costs and resell the energy at a variety of retail rates to meet their customers' requirements.

Customer

Customers determine the amount of electricity that has to be generated and where and when it is required to be delivered.

Horizon Energy Group

Our vision is to be a nationally recognised infrastructure services provider that generates long term value for our shareholders.

Horizon Energy

The Eastern Bay of Plenty's electricity distribution company. Horizon Energy owns, manages and operates over 2,300 kilometres of high voltage lines supplying 8,400 square kilometres of the Eastern Bay of Plenty, covering a diverse geographical area. Horizon Energy manages four large connections to the transmission system and more than 24,700 connections to customers' homes and businesses in the Eastern Bay of Plenty.

Horizon Services

Based in Whakatane with an electrical services business in Tauranga (Stewart Browne Electrical), Horizon Services maintains the Horizon Energy Network as well as provides specialised electrical and vegetation services to external customers in the Bay of Plenty region.

A1 Stump & Tree Services

A1 Stump and Tree Services enhances the vegetation capabilities of Horizon Services through the provision of vegetation management and control services to a range of customers within the Eastern Bay of Plenty.

Stewart Browne Electrical

Established in 1972 and based in Tauranga, Stewart Browne Electrical complements Horizon Services operations by providing electrical services and data and security solutions to industrial, commercial and residential customers throughout the wider Bay of Plenty region.

Aquaheat

A national provider of heating, ventilation, cooling construction, servicing and infrastructure solutions with offices based in Auckland, Wellington and Christchurch. In August 2013, Aquaheat acquired Airpro Services and Clean Air Management complementing its existing Auckland contracting business.

Airpro Services

Airpro Services has been operating for twenty-three years, providing planned and non-planned air conditioning and refrigeration maintenance services to customers within the wider Auckland region.

Operating from modern premises in Auckland, Airpro Services operate 24/7, 365 days of the year.

Clean Air Management

Clean Air Management is a specialist commercial heating, ventilation and air conditioning (HVAC) company that provides HVAC duct cleaning, kitchen exhaust system and air conditioning coil cleaning.

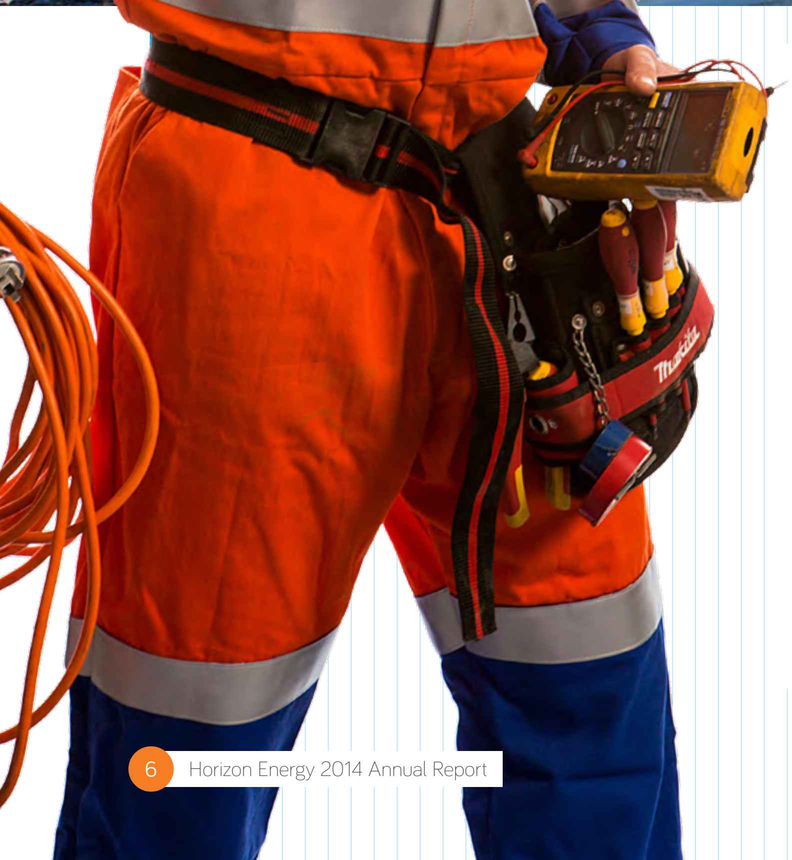
Clean Air Management operates out of Auckland and services the needs of both regional and national customers who operate within various market segments.

Horizon Energy

Improving our connections...

Kope Zone Substation Project

Kieron Robinson – Electrical Fitter



The Kope Zone Substation upgrade project reflects our commitment to identifying and upgrading ageing infrastructure, providing a safe, compliant and reliable power supply for future generations.

The transformer at the Kope Zone Substation is the heartbeat of the community, connecting directly to 5,500 consumers who rely on a secure and safe electricity supply to go about their daily lives. The loss of this asset would be felt in the commercial sector, health services, supermarkets, retailers, and farmers, all the way down to the teenager who needs to charge their cell phone.

Although regular maintenance and monitoring of the old and overloaded transformer meant it had extended its life expectancy, we knew it was due for replacement, along with an upgrade to a more modern protection system.

With the new transformer expected to last for the next 50 years it was important that we focused on meeting the town's energy needs, not only now, but well into the future.

$1.5m project cost

2 yrs from start to completion

7 members of staff on the project

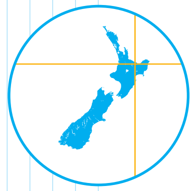
Plant and equipment manufactured around the world

Horizon Services

Connecting the past and future...

Tūhoe Te Uru Taumatua Building Project

David Ash – Electrical Estimator



Gathering image with thanks to Tūhoe

Tūhoe's revolutionary $15 million facility presented an exciting challenge for our team, who provided electrical installation and mechanical wiring services for what is New Zealand's first 'Living Building'.

The tribal headquarters, which provide a focal point for Tūhoe connections, is the first Living Building Challenge compliant building in New Zealand. The project's commitment to sustainable living meant rewriting the rule book to avoid using products containing any red listed items including halogen, PVC, and many types of wood treatments. Light fittings and cabling were sourced and customised so the facility was able meet the standards of a non-toxic, water independent building with net zero energy usage.

Frequently during the project we were working alongside 100 other sub-contractors, architects, and engineers. It was essential that everyone worked together to deliver on time despite the pressures a project of this scale and time frame presented.

With extensive automated lighting and energy controls installed throughout the building, the overall quality achieved speaks highly of the effort put in by all involved.

$15m **building project**

5 members of staff on the project

100+ **people on site**

Building opened on 8 March 2014

9 month project completed in 6 months

Stewart Browne Electrical

Connecting with consumers...

Comvita Project

Alan McLean – Project Manager

The Stewart Browne Electrical team was recently involved in their second Comvita project, upgrading the sales and promotion facility.

The team provided electrical and data wiring services for the facility, from switchboards and underground cabling, to the building and provision of power and lighting outlets.

The upgrade has enabled Comvita to connect consumers to their products, with more engaging product displays and honey cycle demonstration areas. Other upgrades include improved parking and the installation of an upmarket coffee shop.

Despite a number of detail changes throughout the project, the team delivered on time and to budget for another satisfied customer in the commercial sector.

- 6 months from start to completion
- 12 members of staff on the project
- Our second Comvita project
- A New Zealand icon

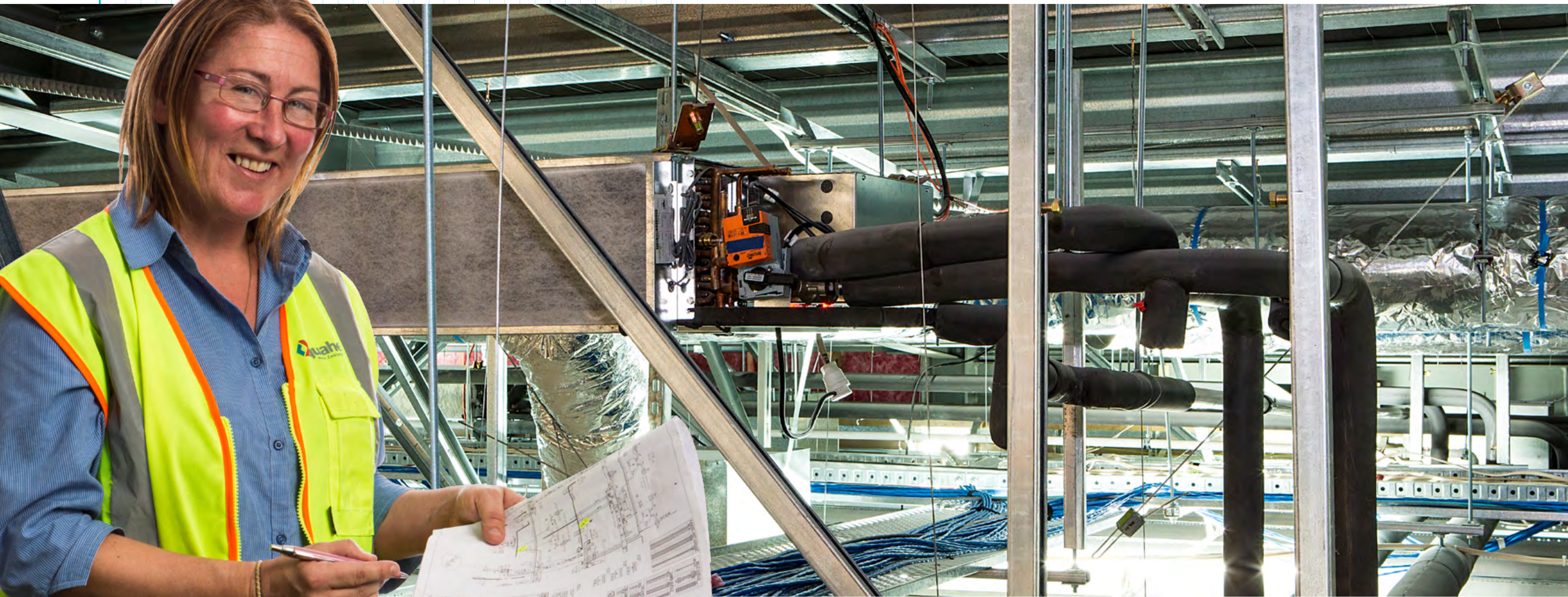
Beekeeper image with thanks to Comvita

Aquaheat

Connecting with industries…

MainPower Project

Jo Cox – Project Manager Southern Region



Our team were involved in MainPower's new two-level office block in Southbrook Business Park, providing mechanical services to the offices, amenities building, and workshop.

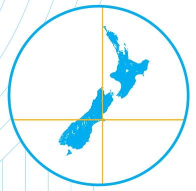
Our involvement included the supply of air conditioning to the offices, with cooling provided via a chilled water system, as well as the provision of electrical heating. We also delivered general fume extraction and vehicle pit extraction for the MainPower workshop.

We worked alongside another construction company for the duration of the project, coordinating several sub-contractors and on site resources to ensure successful project delivery.

The overall result was a fully automated, climate controlled building management system for heating, cooling, and fresh air – delivered on time to a specified design.

Our involvement in this project has strengthened business connections with other contractors and helped to support MainPower as they connect with communities in North Canterbury and Kaikoura.

- Seismic building design to IL4 standard
- Energy efficient CO_2 monitoring
- Heat recovery to reheat fresh air
- Ongoing service support for MainPower



SWITCH
ARE YOU SWITCHED ON?

Our guiding principles connect us to a shared vision.

SUSTAINABILITY
Investing in our future

WELLBEING
Creating success through our people

INNOVATION AND EXCELLENCE
Thinking beyond the horizon

TRANSPARENCY
Acting with honesty and integrity in everything we do

CUSTOMER FOCUS
Striving to exceed expectations all the time

HEALTH AND SAFETY
Act safe, work safe, live safe

Chairman and Chief Executive's Report

We are now seeing the benefits of our growing connections.

Rob Tait
Chairman

Ajay Anand
Chief Executive

A word from the top

We are pleased to present to you Horizon Energy Group's Annual Report for the year ended 31 March 2014 which incorporates the audited Financial Statements of our parent, Horizon Energy Distribution Limited and its subsidiaries.

Overview

The Group has reported an audited net profit after tax of $7.2 million for the year, an increase on the previous year which was significantly impacted by the Mainzeal receivership and returns the Group to historical levels of profitability.

The theme of this year's report is 'The Power of Connections' and reflects the ongoing journey of building sustainable partnerships and relationships that will support our vision of becoming a national infrastructure services business that will generate long term value for our shareholders.

The Group's subsidiary businesses Horizon Services and Aquaheat have contributed approximately 18% of the Group's after tax net profit.

The Board is pleased that we are now beginning to see the financial benefit of the deliberate strategy designed to grow non-regulated operating segments within the Group.

Key Achievements for the Year

During the year the Group made significant progress towards achieving a number of goals. We formally launched our SWITCH organisational guiding principles, across all of our businesses, which define the required standard of behaviours we expect from all Horizon Energy Group employees including the Board. Our SWITCH guiding principles are detailed on pages 14 and 15 of this report.

Consistent with our values and commitment to health and safety we have approved the implementation of a Group wide integrated safety system. This will enhance the level of safety awareness and transparency on every safety related incident that occurs within the Group. The system will allow employees to share their knowledge relating to health and safety issues to reduce the reoccurrence of similar accidents within the Group.

As a diversified infrastructure services business we rely on our people and during the year staff succession plans were developed for key roles across the Group to ensure continuity of this important resource. We will be implementing our succession plans over the coming years.

Several business acquisition opportunities were investigated during the year consistent with our strategy to add non-regulated value accretive businesses to the Group. We acquired and successfully integrated Auckland based business Airpro Services into our Aquaheat business which reinforces our HVAC servicing capability in the Auckland region.

Our regulated electricity distribution business has performed well during the year and within the performance criteria set by the Commerce Commission. However, the financial performance of the electricity distribution business remains challenging as a consequence of declining consumption, revenue constraints, increased compliance and operating costs, and increased network capital investment.

Group Financial

The Group has delivered a sound result for the year despite the challenges with the profitability of the regulated electricity distribution business. The increased Group profitability for the year can be attributed not only to the turnaround in the profitability and contribution made by the non-regulated businesses but also to several notable receipts and accounting adjustments, these being:

- Reduced allowable revenue of $0.8 million (after tax) required for a claw-back price adjustment as a consequence of the 2010–2015 price reset announced in November 2012;
- The Company has enjoyed a non-cash gain this year of $1.3 million (after tax) in its interest rate derivative portfolio. This gain follows several years of accounting for losses as the interest rate swap portfolio is mark to market at balance date;
- A provision of $0.3 million (after tax) has been made for a refund as a result of a breach relating to the Default Price-Quality Path in the 2012 year;
- A $0.5 million gain relating to a claim associated with the purchase of the Aquaheat business being accounted for as income in the current financial year; and
- A payment of $0.4 million (after tax) received from an embedded generator associated with a committed supply agreement.

Strong Cash Flows and Balance Sheet

The overall Group performance improvement was reflected in an increase of $2.6 million in operating cashflows from the previous year and shareholders' funds increasing by $4.7 million to $66.9 million. External debt increased by $0.3 million to $35.1 million despite increased capital expenditure and acquisition activities during the year.

With total assets of approximately $148 million and relatively low external debt, the Group continues to enjoy a strong Balance Sheet.

Health and Safety and Quality

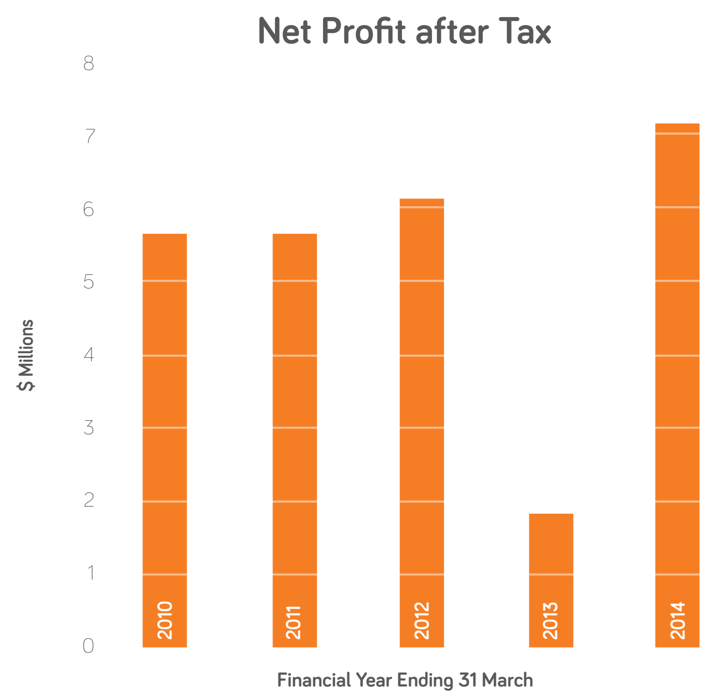
Health and safety remains a priority in our business and significant progress has been made in improving the health and safety culture within the Group.

Despite the above, our health and safety results for the year were disappointing with increased levels of lost time injuries and vehicle accidents suffered across the Group. Every accident and incident has been investigated and we are pleased to report that the processes and policies employed by the Group are robust and meet the relevant industry standards.

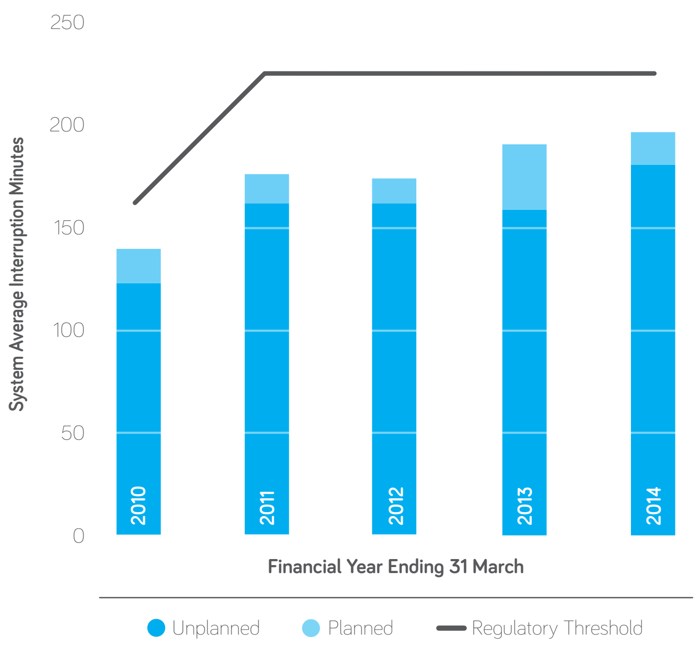
Consistent with our values and commitment to zero harm, the Company will continue to invest as required in initiatives to ensure we provide a safe workplace.

During the year, the Horizon Energy Group maintained all current health and safety accreditations within the Bay of Plenty operations and successfully achieved ISO 9001 accreditation, which reinforces our commitment to improving the overall performance and compliance of the business. We will continue to work towards full compliance for the ISO Quality Systems framework for Auckland and Christchurch operations.

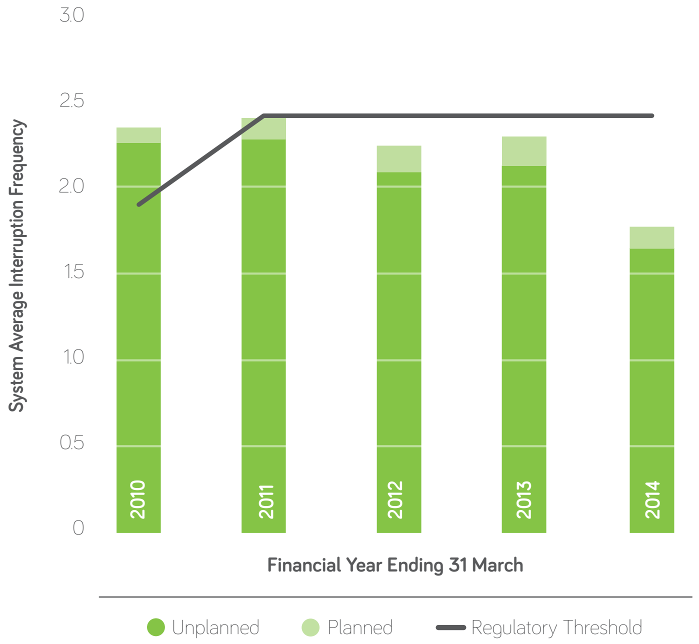
Five Year Profit Comparison



Normalised SAIDI Performance



Normalised SAIFI Performance



Regulated Segment

Operationally the electricity distribution business has had a successful year remaining within its price and quality thresholds as set by the Commerce Commission. The graphs adjacent show the five year trends in network SAIDI (duration of outages) and SAIFI (frequency of outages).

Prior to normalisation the SAIDI result for the 2014 year was influenced by the unavailability of the Aniwhenua generator during a prolonged outage to the Snake Hill feeder. Once normalised for this event, the 2014 year is comparable with the results from the previous three years.

The reduction in the SAIFI performance is pleasing and is a reflection of the ongoing network capital investment and maintenance programmes that ensures the ongoing robustness and reliability of the network assets.

Credit should also be given to the commitment of Horizon Energy Group staff who undertake the planning, preparation and execution of the work on the network, often in challenging geographical and climatic conditions. The most recent severe electrical storms during Easter 2014 are a good example of Horizon Energy Group staff working tirelessly in atrocious weather conditions over several days to re-establish power across large areas of the network that suffered damage.

Regulated Revenue Issues

Declining Consumption

There continues to be a decline in electricity consumption on our network. This is attributable to a reduction in usage by industrial consumers and also a gradual decline in the general domestic electricity consumption. As shown in the graph, further growth in the number of new domestic and commercial consumers is limited and has been relatively flat at approximately 0.5%.

Mid-Period Adjustment

Allowable distribution revenues for the regulatory period 2010-2015 were not announced by the Commerce Commission until November 2012. As a result of this decision, Horizon Energy was required to reduce its allowable revenue by 2.9% for the 2014 year. This price reset reduction in 2014 was passed through to retailers by way of reducing the electricity lines charges to customers connected to the Horizon Energy network.

Breach of the 2012 Default Price-Quality Path

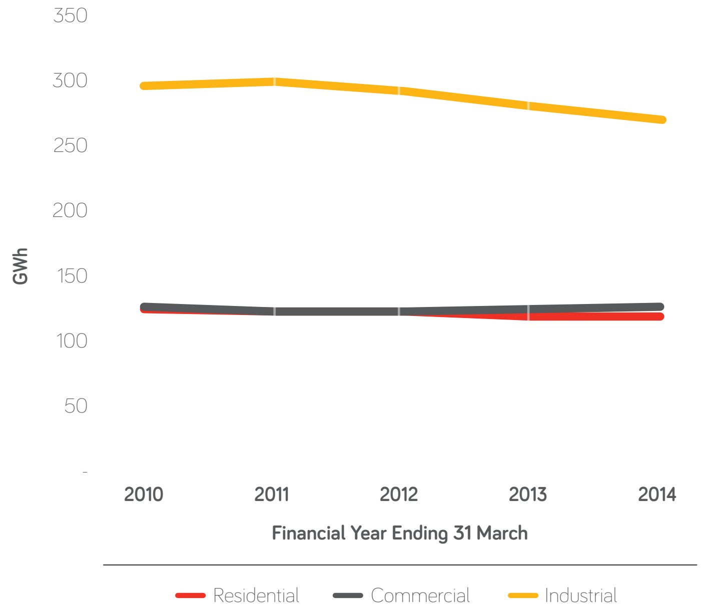
The 2014 Group result has been impacted by a provision relating to the inadvertent breach of the 2012 price path under the Default Price-Quality Path regulation. Under the Default Price-Quality Path regulations, Horizon Energy is required each year to set distribution prices for the ensuing year based on estimates of consumption volume and forecast pass through costs which includes transmission charges payable to Transpower. At year end, once these amounts are known, compliance with the price path requirements is assessed. Horizon Energy accepts the breach, which occurred due to mitigating circumstances which are explained in our 2012 Compliance Statement. A provision of $0.3 million (after tax) has been provided for in this year's accounts and the Company is still in negotiations with the Commerce Commission regarding the final value of the settlement.

Price Reset in 2015

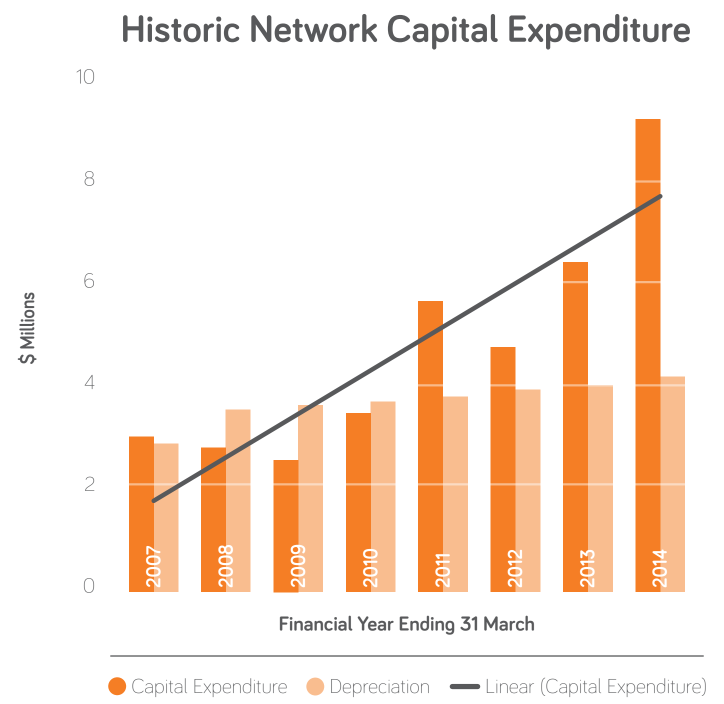
The Commerce Commission has commenced consultation on the Default Price-Quality Path starting price for the 2015-2020 period. Following preliminary views expressed by the Commerce Commission, Horizon Energy is not expecting any significant uplift in revenue resulting from a starting price adjustment.

Horizon Energy is actively providing submissions to the Commerce Commission on several aspects of the proposed starting price methodology, seeking to vary a number of key inputs that will have a bearing on the profitability of the electricity distribution business.

Electricity Supplied



Introduction
Our Connections
Business Information
Financial Information
Directory



Asset Management Plan

While the future electricity distribution network profitability will be constrained by limited consumption growth, restricted revenue, and increased operating costs, the Company's current ten year 2014-2024 Asset Management Plan forecasts an increased level of capital development required in order to meet the operational, reliability and forecast growth requirements.

Despite these challenges, the Board will continue to ensure that a prudent level of spend is maintained on the network to ensure the Eastern Bay of Plenty has a reliable, efficient and safe electricity network capable of meeting the current and future needs of consumers. The level of capital expenditure as shown in the graph above illustrates our commitment to ensuring we have a safe and reliable network.

Several projects were completed during the year, including the following key projects:

- Kope T2 Transformer Replacement and Protection Upgrade
  $1.5 million
- Reliability Improvement Projects
  $1.0 million
- Purchase 1000 KVA Generator
  $625,000
- East Bank Protection Upgrade
  $340,000
- Low Voltage Undergrounding of Bracken Street
  $165,000

Non-Regulated Segment

Aquaheat New Zealand Limited

Following the acquisition of the Aquaheat business in September 2012, Horizon Energy immediately undertook an extensive review and development of management resources, ICT systems and procedures required to grow this business. The Aquaheat business has recovered well following the Mainzeal receivership in February 2013.

The immediate financial support provided to Aquaheat by Horizon Energy's Board was recognised by the construction industry as a demonstration of the strength behind Aquaheat and that Horizon Energy was serious about growing this Company. Although there was a loss of momentum immediately following the Mainzeal receivership, several contracts were re-negotiated and replacement work was pursued. Through targeted business development opportunities and successful project delivery, Aquaheat has established itself as the preeminent contractor of choice for complex and challenging mechanical services projects across the country.

During the year, Aquaheat acquired the business and assets of Airpro Services (including Clean Air Management). This acquisition was consistent with our strategy of developing a nationwide construction and servicing business. The Auckland businesses were consolidated during the year onto one site and over the coming months the newly acquired business will be rebranded to Aquaheat Service.

This subsidiary contributed a net profit of $0.6 million for the year. Although small, this is a credible result given the period of hiatus in activity following the Mainzeal collapse and a number of additional unbudgeted costs associated with resourcing the Christchurch division in anticipation of workflow for the Christchurch city re-build, the expansion of the Auckland contracting business and additional due diligence and integration costs as a result of the purchase of the Airpro businesses.

In early 2014, the Executive General Manager, Paul De Bernardo moved into a strategic advisory role and Gary Diggs was appointed to the role of Chief Operating Officer for Aquaheat.

The business continues to focus on expanding its footprint in its current market whilst developing growth strategies in related markets such as industrial and refrigeration contracting. The future for the Aquaheat business is positive with all divisions having good forward orders for the 2015 financial year.

Horizon Services Limited

During the year, Stewart Browne Group Limited was renamed to Stewart Browne Electrical and the operations amalgamated with Horizon Services Limited.

The combined businesses have performed well despite challenging and competitive market conditions and continue to diversify their revenue base and broaden their geographic reach in the Bay of Plenty. Several large projects were completed namely the new headquarters for Tūhoe in Taneatua, Comvita's new facility in Paengaroa, and a new 11kV private line in Gisborne, all of which contributed to the year end result.

As with most similar businesses we continue to face recruitment challenges for skilled staff. However, with the continued support of the Eastern Bay Energy Trust further apprentices will be taken on next year.

The future outlook for Horizon Services is positive as it continues to build scale, capability and diversifies and expands its operations into new markets.

Dividends

The fully imputed final dividend for the year of 9 cents per share together with the interim dividend of 6 cents per share brings the total dividend paid for the year to 15 cents per share. This is greater than last year (10 cents per share) and reflects the improved position of the business following Mainzeal's receivership in 2013.

Although the final dividend is higher than last year, it is lower than historic levels and reflects the Board's continuing view that a prudent level of dividend payment is required given the uncertainty surrounding the future price reset, increased need for capital investment on the network and the need for the Company to continue to progress its strategic objectives.

Strategic Direction

There is a very positive attitude throughout the Group. We are encouraged by the focus and commitment of all staff and a universal 'buy-in' to our vision "To be a nationally recognised infrastructure services provider that generates long term value for our shareholders".

The current regulatory environment and the parameters foreshadowed by the Commerce Commission for the next regulatory period will in all probability continue to erode the revenue and ultimately the profitability of Horizon Energy's electricity distribution business. The need to focus on growing our non-regulated businesses and maximising profitability from every segment that we operate in is imperative for the Group if we are to grow the value for shareholders.

The Group continues to look for profitable growth and acquisition opportunities that meet the Board's investment criteria.

To support our vision we need to have the right strategy, structure, plans and systems and it is our view that we have made significant progress during this reporting year in all of these areas.

Sponsorships and the Community

Horizon Energy is actively involved in the community through its continued support of the following organisations and events:

- Sponsorship of the biennial Horizon Business Excellence Awards in Whakatane;
- Principal sponsor of the Horizon Energy Motu Challenge;
- Naming sponsor of the Horizon Energy Library;
- Principal sponsor of Stadium Horizon; and
- Sponsor of the Eastern Bay Chamber of Commerce.

Appreciation and Acknowledgements

We extend our sincere thanks to Directors, Executives, and all Horizon Energy Group employees for your ongoing commitment, contribution and support.

2015 is shaping up to be a very exciting year for the Group as we progress the implementation of our strategic growth plans and tackle the daily operational tasks that keeps us all SWITCHED ON!

Robert Tait
Chairman

Ajay Anand
Chief Executive

Horizon Energy Group Executive Team

Ajay Anand
Chief Executive

John Anderson
Acting Chief Financial Officer / Company Secretary

Peter Middlemiss
General Manager - Network

Jan Pedersen
General Manager - People and Performance

Kiran Watkins
General Manager - Commercial

Karla Meharry
General Manager - Contracting

Gary Diggs
Aquaheat
Chief Operating Officer

Board of Directors

Robert Tait
Chairman,
BCom, MInstD

John McDonald
Audit Committee Chairman,
BCA(Hons), BCom, CA, CMA, MInstD

Christopher Boyle
Director
MBA, BE, AFNZIM, MIPENZ, MInstD

Anthony de Farias
Director
MInstD

Report of the Directors' to Shareholders

Dear Shareholders

The Directors take pleasure in presenting their report, including the consolidated financial statements of Horizon Energy Distribution Limited (the Company) and its subsidiaries, for the year ending 31 March 2014.

Overview

Principal Activities

During the period, the Company has been engaged principally in the operation of an electricity distribution network and the provision of electrical contracting and infrastructure construction services in the Eastern Bay of Plenty, and a nationwide heating, ventilation and cooling construction and servicing business. The Company is listed on the NZX Main Board.

Significant Changes

Mr Todd Campbell, Chief Financial Officer and Company Secretary, left the Company in April 2014. Mr John Anderson is acting in this role.

Financial Performance

Financial Results

The consolidated financial statements for the Group appear on pages 32 to 71 of this report. The after tax profit for the Group for the period was $7.2 million. The equity of the Group as at 31 March 2014 is $66.961 million, an increase of $4.7 million from the previous year.

Dividends

On 27 May 2014, the Directors approved a final dividend of 9 cents per ordinary share for the year ended 31 March 2014. This dividend will be paid on 26 June 2014 to shareholders registered as at 13 June 2014. It follows payment of an interim dividend of 6 cents per ordinary share and brings the total dividends paid for the 2014 financial year to 15 cents per share. Full imputation credits attach to the dividends.

Directors

Board Composition

The Company's Constitution authorises Directors to fix the number of Directors at no more than eight and no less than three. The Board of Directors (the Board) is currently comprised of four Directors. A listing of the present Directors is contained in the Directory on page 76 of this report. All present Directors are ordinarily resident in New Zealand and all have been determined by the Board to be Independent Directors as that term applies in the NZX Main Board Listing Rules. The Board normally meets once each month.

Committees of the Board

All Directors are currently members of the Audit Committee. Mr John McDonald Chairs the Audit Committee and is a Chartered Accountant.

The function of the Audit Committee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 1993. It pronounces on matters relating to Management's accounting practices, policies and controls relevant to the Company's financial position, and liaises with external auditors on behalf of the Board. The Audit Committee has the responsibility for monitoring the effectiveness of the Company's risk management activities.

Rotation, Resignation and Retirement of Directors

In accordance with the Company's Constitution, at each Annual Shareholders Meeting of the Company one third (or the number nearest to one third) of the Directors must retire from office. A retiring Director is eligible for re-election. At the 2014 Annual Shareholders Meeting, Mr John McDonald retires by rotation and offers himself for re-election. A brief profile of the retiring Director is detailed on the adjacent page.

John McDonald

Audit Committee Chairman: BCA (Hons), BCom, CA, CMA, MInstD

John's business career began after graduation in the mid 1960s with Tasman Pulp and Paper in Kawerau before moving in the 1980s to join Fletcher Challenge as a senior executive. This was an association which gave him knowledge of, and affection for, the Eastern Bay of Plenty. John has farming interests at Manawahe and lives at Ohope. He also has considerable national and international experience in management, finance and corporate governance as an Executive and Director of private and publicly listed companies.

John is also a graduate of the AMP program at the Harvard Business School.

Other directorships include: Fletcher Building Retirement Plan; Fletcher Building Educational Fund Limited; Tenon Employee Educational Fund Limited; and Pohutukawa Private Equity Limited.

Previous directorships include Air New Zealand and Solid Energy New Zealand Limited.

Directors' Statutory Information

Shareholders approve the remuneration for Directors. The maximum total aggregate fees payable annually to Directors is set at $240,000. The level of fees paid during the year was $240,000.

Directors' remuneration paid during the period under review was as follows:

Director	Directors Fees	
	2014	2013
R.Tait (Chairman)	$90,500	$85,625
J. McDonald	$56,500	$52,500
C. Boyle	$46,500	$42,500
A. de Farias	$46,500	$42,500
Totals	**$240,000**	**$223,125**

Disclosures of Interest

There are no disclosures of interest to report for the year.

Directors' Insurance

The Company has effected insurance of $10 million for Directors and Executive employees with QBE Insurance (International) Limited. This ensures that to the extent permitted by law, Directors or Executive employees will incur no monetary loss as a result of action undertaken by them as Directors or employees.

Use of Information by Directors

There were no requests received from Directors of the Company, to use Company information received in their capacities as Directors, which would not otherwise have been available to them.

Share Dealings by Directors

There have not been any acquisitions or disposals of shares, either beneficially or non-beneficially, by Directors during the period under review.

Corporate Governance

The Company's Board and Executive are committed to conducting the Company's business ethically and with high standards of corporate governance. The Board regularly reviews governance structures and processes to ensure consistency in form and substance, observing best practice and meeting the requirements of an entity listed on the NZX Main Board.

Building long-term shareholder value is the Board's primary objective with due regard to other stakeholder interests. This is achieved through the provision of strategic direction and providing guidance on its successful execution.

The Board's Charter sets out the governance principles, authority, responsibilities, membership and operation of the Board.

Compliance

Appropriate observance of best practice recommendations for listed companies is made in accordance with the extent and nature of the Company's operations. These recommendations include the NZX Listing Rules, NZX Corporate Governance Best Practice Code and the Corporate Governance Principles and Guidelines published by the New Zealand Securities Commission. Together, these are hereinafter referred to as 'the Principles'.

This section of the Annual Report is aligned with the requirements of the New Zealand Securities Commission's Corporate Governance Principles and Guidelines. It is the view of the Board that the Company's corporate governance principles, policies, and practices do not materially differ from the Principles.

The Company's Constitution, the Board and Committee Charters, Codes and Policies referred to in this document can be viewed online at www.horizonenergy.net.nz in the Investors section.

Governance Principles And Guidelines

Principle 1 Ethical Standards: Directors Observe and Foster High Ethical Standards

As a minimum standard, the Company expects its Directors, Officers and Employees to act legally, maintain sound ethical standards and demonstrate integrity consistent with Company policies, guiding principles and values. These standards are encapsulated in a Director's Code of Ethics which can be viewed in the Investors section of the Company's website at www.horizonenergy.net.nz.

Policies are in place to ensure that the Company maintains high standards of performance and behaviour in its interactions with customers, suppliers, shareholders and staff. Additionally, specific policies refer to environment management, Privacy Act requirements, confidentiality, complaints from stakeholders, and trading in Company securities.

Conflicts of Interest

The Company's Directors' Code of Ethics requires that individuals and the Board restrict their involvement in other businesses that could result in a conflict of interest. The salient interests are recorded in an Interest Register. Where a conflict arises, the affected Director must advise the Board and absent themselves from discussions and voting.

Trading in the Company's Securities

The Board is required to consider whether any matters under consideration are likely to materially influence the present or future market expectations of the Company, including share value. It must determine if share trading by Directors or Officers of the Company is permissible, and policy requires a specific declaration in respect of this matter to be made as appropriate in order to prevent insider trading. All proposed transactions by Directors or Officers require specific prior approval by the Chairperson of the Board, who in turn requires approval from the Audit Committee Chairperson.

Principle 2 Board Composition and Performance

A balance of independence, skill, knowledge, experience and perspective is required of the Board to enable it to effectively execute its mandate.

Board Size and Composition

The Board of the Company is comprised of individuals who bring a depth and breadth of qualifications, skills and experience appropriate to the Company's business.

The Board calls for nominations for director candidates each year in advance of the Company's Annual Shareholders Meeting. The Board also keeps under review the need for additional directors' skills, knowledge, experience and perspectives, and has the ability to appoint directors between shareholder meetings.

Board Processes

The Board has a regular on-site meeting schedule complemented by teleconference meetings. There were ten Board Meetings, four Teleconference Special Meetings and three Audit Committee Meetings for the 12 month period ending 31 March 2014.

Director	Board Meetings		Conference Calls & Special Meetings		Audit Committee (incl. Conference calls)	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
R. Tait (Chairman)	10	10	4	4	3	3
J. McDonald	10	9	4	4	3	3
C. Boyle	10	10	4	4	3	2
A. de Farias	10	10	4	4	3	3

Note: In addition to the formal board meetings and conference calls, there are a number of unofficial discussions with either the full Board or subsets of the Board. Board members that are not available for any particular board meeting or conference call usually discuss their views on key issues with the Chairman in advance of the meeting.

When appointing directors the Board has regard to the guidelines for appointments contained in the Corporate Governance Principles and Guidelines.

The four Directors on the Board, as at 31 March 2014, are as follows:

- Robert Tait (Chairman);
- John McDonald;
- Christopher Boyle; and
- Anthony de Farias.

No Directors ceased to hold office during the financial year.

As at 31 March 2014, all of the Directors act in a non-executive role, with one member being elected as Chairperson annually. A biography of each member is provided on the Company's website at www.horizonenergy.net.nz.

Independence of Directors

In the opinion of the Board, independence from the Executive is fundamental. There should be no relationship which could interfere materially (or be perceived to interfere) with a Director's exercise of his or her unclouded judgment.

The Board Charter specifies the issues considered in determining Director Independence. The Company is satisfied that the provisions for independence are met. Furthermore, the Board is satisfied that, as at 31 March 2014, each of its Directors are independent under the NZX Main Board Listing Rules.

Responsibilities of the Board and Management

The business and affairs of the Company are executed under the direction of the Board on behalf of shareholders.

Board responsibilities include:

- appointment of the Chief Executive and monitoring performance;
- approval of the Company's objectives and values;
- engagement in strategic direction formulation and review;
- approval of Company strategies and transactions involving merger, acquisition or divestment or other transactions of a material nature;

- review and approval of Company budgets and business plans and progress monitoring;
- review of key risk identification processes and systems; monitoring risk management;
- approval and review of overall policy framework within which the business of the Company is conducted. This includes remuneration, financial reporting, compliance, treasury management, insider trading, market disclosure and travel;
- monitoring the performance of Management with respect to these matters; and
- communication and reporting to shareholders.

The Board delegates responsibility for the day-to-day operations and administration to the Chief Executive and the Senior Management team.

Principle 3
Board Committees

Given its small size, the Board has determined that it is appropriate for the full Board to administer the review of Executive remuneration, succession planning (including nomination of Directors) and performance reviews of the Chief Executive.

Audit Committee

A separate Audit Committee has all four of the non-executive Directors as members. The Audit Committee meets a minimum of three times per annum. This Committee is chaired independently from the Chairman of the Board and operates under its own Charter document, which can be viewed in the Investors section of the Company's website at www.horizonenergy.net.nz.

The role of the Audit Committee is to review the annual audit process, the financial and operational information provided to the stakeholders and others, to monitor the management of business risk to the organisation, and review the framework of internal control and governance which the Executive and the Board have established. The Chief Executive and Chief Financial Officer regularly attend meetings at the invitation of the Audit Committee. The Company's external auditors attend committee meetings as deemed necessary by the Committee.

Principle 4
Reporting and Disclosure

The Board insists on integrity in financial reporting and in the timeliness and balance of disclosure on Company affairs. This is considered essential, together with the provision of information to the market and shareholders which reflects a considered view on the present and future prospects of the Company.

Financial Reporting

The quality and integrity of external financial reporting including the accuracy, completeness and timeliness of the financial statements is overseen by the Audit Committee.

This Committee reviews the financial statements on a six-monthly basis and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements, and the results of the external audit.

The Chief Executive, Chief Financial Officer and the Chairman of the Audit Committee certify in writing that the Company's financial report presents a true and fair view of the Company's performance and position in all material respects.

Timely and Balanced Disclosure

The Board has complied with the general and continuous disclosure obligations under the Companies Act 1993 and the NZX Main Board Listing by advising the market about any material events and developments as soon as the Company becomes aware of them. The Company has policies and a monitoring programme in place to ensure that it complies with these obligations on an on-going basis.

Principle 5
Remuneration

The remuneration of Directors is transparent, fair and reasonable and is approved by shareholders.

Principle 6
Risk Management

The Board regularly verifies that the Company has appropriate processes to identify and manage potential and relevant risks.

Business Risks

A risk management plan which identifies and addresses areas of significant business risk is in place. Adequate insurance policies cover the insurable risks of the Company, and where appropriate exposure to any foreign exchange risk and on-going interest rate risk is managed in accordance with policies laid down by the Directors.

Together with the Executive team, the Chief Executive is required to identify major risks the business faces and to develop mitigation strategies. Upon identification of significant risks, the Board will be advised and discuss such risks. The Executive is mandated to undertake prompt corrective action to mitigate and monitor the risk.

Health and Safety & Quality

Given the inherent risks associated with both the lines business and the electrical and construction industries, the Company takes a proactive stance to its Health and Safety obligations.

Health and Safety management practices are deployed across the Company and a detailed monthly report is provided to the Board on all pertinent safety matters. The Company's on-going commitment to providing a safe work environment is evidenced by maintaining the ACC Tertiary Level Accreditation of Workplace Safety Management Programme. Throughout the year under review we are pleased to advise that the Company has also maintained the AS/NZS 4801 Health and Safety Management Systems standard and the NZS 7901 Public Safety standard.

In addition, during the year under review, the Bay of Plenty operations of the Group have attained full compliance with the ISO 9001 Quality Systems framework. The Group now has full compliance with ISO 9001 in all its operations, except for its Auckland and Christchurch operations which are currently working towards full compliance.

Chief Executive and Chief Financial Officer Assurance

The Chief Executive and Chief Financial Officer have provided the Board with written confirmation that the Group's 2014 consolidated financial statements are founded on a sound system of risk management and internal compliance and control. They assert that all such systems are operating efficiently and effectively in all material respects.

Risk Monitoring

The Audit Committee annually reviews the Company's risk management policies and processes and the Executive provides an updated risk assessment profile at each Board meeting.

Principle 7
Auditors

The Board ensures the quality and independence of the external audit process and monitors this through the Audit Committee. To ensure the independence of the Company's external auditors, the Board has agreed the external auditors will not provide any services prohibited under the International Federation of Accountants Regulations.

External Auditor

As at 31 March 2014, the Company's external auditor is PricewaterhouseCoopers.

Deloitte was engaged during 2013 to provide assurance over the 2014 results of Aquaheat New Zealand Limited.

The Directors will be recommending to the shareholders at the Annual Shareholders Meeting on 31 July 2014 that KPMG be appointed as the external auditor for the Company and the Group for the 2015 financial year.

Principle 8
Shareholder Relations

The Board fosters constructive relationships with shareholders and encourages engagement with the Company. It takes measures to keep all shareholders abreast of information necessary to assess the strategic direction and performance of the Company.

This is achieved through a communication strategy that includes:

- periodic and continuous disclosure to NZX;
- information distribution to local and national media;
- regular briefings to the major shareholders;
- half-yearly and Annual Reports;
- the Annual Shareholders Meeting, which is conducted in an open manner which permits a wide range of questions; and
- the Company website, which includes a comprehensive Investor relations section at www.horizonenergy.net.nz.

Principle 9
Stakeholder Interests

The Company seeks to manage its business to produce positive outcomes for all stakeholders including the public, customers, staff, shareholders and suppliers. The Company is an active and committed member of the communities in which it operates; it acts in a socially responsible manner with all stakeholders. This commitment is demonstrated in the activities described throughout this report.

Subsidiary Companies

The following persons held the office of Director of the respective subsidiaries during the year:

- Horizon Services Limited (previously Horizon Energy Investments Limited) – Mr A. Anand
- Horizon Energy Group Limited – Mr A. Anand
- Horizon Energy Limited – Mr A. Anand
- Stewart Browne Group Limited - Mr R. Tait and Mr A. Anand, until 30 September 2013 when Stewart Browne Group Limited was amalgamated with Horizon Services Limited.
- Aquaheat New Zealand Limited – Mr R. Tait, Mr J. McDonald, Mr C. Boyle and Mr A. de Farias.

Diversity Policy and Disclosure

The Company has not adopted a formal diversity policy. The gender diversity at Senior Management and Board level is shown in the following table:

	Male	Female	Male	Female
	2014		2013	
Board of Directors	4	-	4	-
Executive Management	5	2	5	2

Employee Remuneration

Details of the salary ranges for employees or former employees of the parent Company and subsidiaries receiving remuneration and benefits in excess of $100,000 for the year ended 31 March 2014 are as follows:

Remuneration Range	Number of Employees 2014	2013
$460,001 - $470,000	1	-
$380,001 - $390,000	-	1
$300,001 - $310,000*	1	-
$210,001 - $220,000	1	-
$200,001 - $210,000	2	-
$190,001 - $200,000	-	1
$180,001 - $190,000	1	-
$170,001 - $180,000	1	1
$160,001 - $170,000	4	-
$150,001 - $160,000	1	-
$140,001 - $150,000	3	-
$130,001 - $140,000	5	2
$120,001 - $130,000	6	4
$110,001 - $120,000	7	4
$100,001 - $110,000	6	2

*Includes restructuring payments

Events Subsequent to Balance Date

The Directors are not aware of any other matter or circumstance at the end of the financial year, not otherwise dealt with in this report or in the financial statements, which may significantly affect the operations of Horizon Energy Distribution Limited and its subsidiary companies, the results of these operations, or the state of affairs of the Group.

Donations

No donations were made by the Company during the financial year.

Annual Report Certificate

This Annual Report is dated 4 June 2014 and is signed on behalf of the Board by:

Robert Tait
Chairman

John McDonald
Director

Our Financial Statements

Statement of Comprehensive Income

	Note	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Trading Operations					
Operating Revenue	6	104,388	67,124	30,220	31,138
Operating Expenses	6	(94,964)	(62,594)	(22,515)	(22,235)
Operating Profit		**9,424**	**4,530**	**7,705**	**8,903**
Other Income					
Other Income	6	871	155	369	220
		871	**155**	**369**	**220**
Financing Income and Expenses					
Interest Income		68	9	402	271
Less Finance Expenses					
Interest Expense		(2,279)	(1,962)	(2,261)	(1,950)
Fair Value Movement of Financial Derivatives	19	1,784	11	1,784	11
		(427)	**(1,942)**	**(75)**	**(1,668)**
Profit before Tax		**9,868**	**2,743**	**7,999**	**7,455**
Income Tax Expense	7	(2,699)	(801)	(2,088)	(1,978)
Net Profit after Tax		**7,169**	**1,942**	**5,911**	**5,477**
Other Comprehensive Income					
Items that will not be Reclassified to Profit or Loss					
Revaluation of Network Distribution Assets	10	-	6,458	-	5,132
Other Comprehensive Income for the Year (Net of Tax)		**-**	**6,458**	**-**	**5,132**
Total Comprehensive Income for the Year		**7,169**	**8,400**	**5,911**	**10,609**
Profit Attributable to:					
Equity Holders of Horizon Energy Distribution Limited		7,169	1,894	5,911	5,477
Non-Controlling Interest		-	48	-	-
		7,169	**1,942**	**5,911**	**5,477**
Total Comprehensive Income Attributable to:					
Equity Holders of Horizon Energy Distribution Limited		7,169	8,352	5,911	10,609
Non-Controlling Interest		-	48	-	-
		7,169	**8,400**	**5,911**	**10,609**

Earnings per share for profit attributable to the Equity Holders of the Company during the year were:

		GROUP 2014 cents	GROUP 2013 cents
Basic and Diluted Earnings per Share (Cents per Share)	27	**28.69**	**7.58**

Notes on pages 36 to 71 are an integral part of these Financial Statements

Balance Sheet

		GROUP		PARENT	
	Note	2014 $000	2013 $000	2014 $000	2013 $000
Current Assets					
Cash and Cash Equivalents	11	712	707	66	51
Trade and Other Receivables	11	17,589	12,546	4,199	3,599
Construction Work in Progress	23	2,614	1,473	-	-
Inventories	12	2,103	1,825	162	162
Derivative Financial Instruments	19	1	-	1	-
Current Tax Assets		195	-	-	-
Total Current Assets		**23,214**	**16,551**	**4,428**	**3,812**
Non-Current Assets					
Restricted Bank Deposits	11	-	1,050	-	-
Investments in Subsidiaries	24	-	-	5,151	5,151
Property, Plant and Equipment	13	118,997	114,672	114,395	109,392
Intangible Assets	14	4,869	4,011	3,069	2,932
Derivative Financial Instruments	19	676	47	676	47
Intercompany Loan	31	-	-	3,079	7,004
Other Receivables		83	88	83	88
Total Non-Current Assets		**124,625**	**119,868**	**126,453**	**124,614**
Total Assets		**147,839**	**136,419**	**130,881**	**128,426**
Current Liabilities					
Trade and Other Payables	15	14,132	10,643	3,709	4,481
Current Tax Liabilities		-	149	282	763
Employee Benefit Accruals	16	2,049	1,681	618	431
Provisions	17	657	397	-	-
Construction Revenue in Advance	23	4,641	2,507	-	-
Deferred Capital Contributions	18	18	18	18	18
Current Portion of Bank Loans	20	-	3,850	-	3,850
Derivative Financial Instruments	19	62	-	62	-
Intercompany Loan	31	-	-	348	-
Total Current Liabilities		**21,559**	**19,245**	**5,037**	**9,543**
Non-Current Liabilities					
Employee Benefit Accruals	16	124	144	36	35
Provisions	17	380	-	380	-
Deferred Capital Contributions	18	576	593	576	593
Non-Current Portion of Bank Loans	20	35,115	31,000	35,115	31,000
Derivative Financial Instruments	19	809	2,025	809	2,025
Deferred Tax Liabilities	8	22,315	21,120	21,643	21,356
Total Non-Current Liabilities		**59,319**	**54,882**	**58,559**	**55,009**
Total Liabilities		**80,878**	**74,127**	**63,596**	**64,552**
Net Assets		**66,961**	**62,292**	**67,285**	**63,874**
Equity					
Share Capital	9	8,433	8,433	8,433	8,433
Retained Earnings		26,303	21,634	28,297	24,886
Revaluation Reserves	10	32,225	32,225	30,555	30,555
Total Equity		**66,961**	**62,292**	**67,285**	**63,874**
Total Equity and Liabilities		**147,839**	**136,419**	**130,881**	**128,426**

Robert Tait
Director
29 May 2014

John McDonald
Director

Notes on pages 36 to 71 are an integral part of these Financial Statements

Statement of Changes in Equity

	Note	Share Capital $000	Retained Earnings $000	Revaluation Reserves $000	Non-Controlling Interest $000	Total Equity $000
GROUP						
Balance as at 31 March 2012		**8,433**	**23,490**	**25,767**	**45**	**57,735**
Net Profit after Tax		-	1,894	-	48	1,942
Revaluation of Network Distribution Assets (Net of Deferred Tax)	10	-	-	6,458	-	6,458
Total Comprehensive Income for the Year		**-**	**1,894**	**6,458**	**48**	**8,400**
Unclaimed Dividends Now Presented		-	(1)	-	-	(1)
Dividends Paid		-	(3,749)	-	(93)	(3,842)
Balance as at 31 March 2013		**8,433**	**21,634**	**32,225**	**-**	**62,292**
Net Profit after Tax		-	7,169	-	-	7,169
Total Comprehensive Income for the Year		**-**	**7,169**	**-**	**-**	**7,169**
Unclaimed Dividends Now Presented		-	(1)	-	-	(1)
Dividends Paid		-	(2,499)	-	-	(2,499)
Balance as at 31 March 2014		**8,433**	**26,303**	**32,225**	**-**	**66,961**
PARENT						
Balance as at 31 March 2012		**8,433**	**23,159**	**25,423**	**-**	**57,015**
Net Profit after Tax		-	5,477	-	-	5,477
Revaluation of Network Distribution Assets (Net of Deferred Tax)	10	-	-	5,132	-	5,132
Total Comprehensive Income for the Year		**-**	**5,477**	**5,132**	**-**	**10,609**
Unclaimed Dividends Now Presented		-	(1)	-	-	(1)
Dividends Paid		-	(3,749)	-	-	(3,749)
Balance as at 31 March 2013		**8,433**	**24,886**	**30,555**	**-**	**63,874**
Net Profit after Tax		-	5,911	-	-	5,911
Total Comprehensive Income for the Year		**-**	**5,911**	**-**	**-**	**5,911**
Unclaimed Dividends Now Presented		-	(1)	-	-	(1)
Dividends Paid		-	(2,499)	-	-	(2,499)
Balance as at 31 March 2014		**8,433**	**28,297**	**30,555**	**-**	**67,285**

Notes on pages 36 to 71 are an integral part of these Financial Statements

Cash Flow Statement

	Note	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Operating Activities					
Cash Receipts from Customers		102,776	72,494	29,935	31,371
Cash Paid to Suppliers		(62,201)	(42,710)	(14,287)	(13,857)
Salaries and Wages Paid to Employees		(24,120)	(15,967)	(3,438)	(2,963)
Total Operating Receipts and Payments		**16,455**	**13,817**	**12,210**	**14,551**
Interest Received		49	9	3	2
Interest Paid		(2,550)	(1,820)	(2,533)	(1,808)
Cash Flow from Operating Activities Before Tax	33	**13,954**	**12,006**	**9,680**	**12,745**
Income Tax Paid		(1,869)	(2,546)	(1,804)	(2,438)
Net Cash Generated from Operating Activities		**12,085**	**9,460**	**7,876**	**10,307**
Investing Activities					
Dividends Received		-	-	-	140
Purchases of Property, Plant and Equipment		(9,232)	(6,810)	(9,335)	(6,622)
Purchases of Intangible Assets		(621)	(776)	(429)	(424)
Business Combinations - Acquisitions	28	(1,592)	(5,039)	-	(5,039)
Business Combinations - Escrow Refund	28	500	-	-	-
Purchase of Investments		-	(31)	-	(31)
Loan Repayments (to)/from Subsidiaries		-	-	4,134	(3,583)
Restricted Bank Deposits		1,050	(1,050)	-	-
Proceeds on Disposal of Property, Plant and Equipment		49	155	3	78
Net Cash Used in Investing Activities		**(9,846)**	**(13,551)**	**(5,627)**	**(15,481)**
Financing Activities					
Dividends Paid		(2,499)	(3,842)	(2,499)	(3,749)
Loan from Minority Shareholder		-	(483)	-	-
Draw Down of Term Debt		43,969	33,515	43,969	33,515
Repayment of Term Debt		(43,704)	(24,490)	(43,704)	(24,490)
Net Cash (Used In)/Generated from Financing Activities		**(2,234)**	**4,700**	**(2,234)**	**5,276**
Net Increase in Cash and Cash Equivalents		**5**	**609**	**15**	**102**
Cash and Cash Equivalents at the Beginning of the Year		707	98	51	(51)
Cash and Cash Equivalents at the End of the Year	11	**712**	**707**	**66**	**51**

Notes on pages 36 to 71 are an integral part of these Financial Statements

Notes to the Financial Statements

1. GENERAL INFORMATION

Horizon Energy Distribution Limited ('Horizon Energy' or the 'Company' or 'Parent') is a limited liability company incorporated in New Zealand. The Company is listed on the New Zealand Stock Exchange.

The address of the Company's registered office is 52 Commerce Street, Whakatane. The principal activities of Horizon Energy and its Subsidiaries ('the Group') consists of owning and operating an electricity distribution network; an electrical contracting and infrastructure construction business, both in the Eastern Bay of Plenty, and a nationwide heating, ventilation, and cooling construction and servicing business. The Company and Group are designated as profit-oriented entities for financial reporting purposes.

The Financial Statements were authorised for issue by the Directors on 29 May 2014.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of Preparation

The Company and Group are reporting entities for the purposes of the Financial Reporting Act 1993 and their Financial Statements comply with that Act and the Companies Act 1993. The Financial Statements have been prepared in accordance with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for profit-oriented entities.

These Financial Statements comply with International Financial Reporting Standards.

The Consolidated Financial Statements have been prepared on the historical cost basis, as modified by the revaluation of network distribution assets (including land and buildings related to network distribution assets) and derivative financial instruments at fair value through profit or loss.

Basis of Consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and its subsidiaries, as listed in Note 24.

The Consolidated Financial Statements incorporate the assets and liabilities of all subsidiaries of Horizon Energy as at 31 March 2014.

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

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

Business Combinations

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

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition related costs are expensed as incurred. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with NZ IAS 39 either in profit or loss or as a change to other comprehensive income. Amalgamations within the Group are accounted for by the surviving entity taking on the assets and liabilities of the non-surviving entity at the values at the date of amalgamation.

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

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

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

Segment Reporting

The operating segments have been determined based on the reports reviewed by the chief operating decision maker. The chief operating decision maker who is responsible for allocating resources, assessing performance of the operating segments and making strategic decisions for the Group, has been identified as the Chief Executive of the Company.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services, including distribution

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED...

revenue generated in the normal course of business, net of rebates and discounts, net of Goods and Services Tax (GST) and after eliminating sales within the Group. Distribution revenue is based on actual and assessed readings and includes an allowance for unread meters at balance date.

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

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

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

Construction Contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at balance date, as measured by the proportion that contract costs for work performed to date bear to the total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer and can be reliably measured.

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

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

Capital Contributions from Non-Government Entities

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

Finance Leases

Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Operating Leases

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

Currencies

Functional and Presentation Currency

Items included in the Financial Statements of each of the Group's entities are measured and presented using the currency of the primary economic environment in which the entity operates ('the functional currency').

The Financial Statements are presented in New Zealand dollars, rounded to the nearest thousand, which is the Company's functional currency and the Group's presentation currency.

Foreign Currency Transactions and Balances

The Group does not have significant transactions involving foreign currencies.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the Statement of Comprehensive Income in the period in which they are incurred.

Goods and Services Tax (GST)

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

Employee Benefits

Wages, Salaries and Annual Leave

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

Long Service Leave and Retirement Gratuity

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

Bonus Plans

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED...

Taxation

Current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at balance date. The income tax expense or revenue for the year in the Statement of Comprehensive Income is the current tax adjusted by changes in deferred tax assets and liabilities.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Statements and their corresponding tax bases using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity (such as asset revaluations).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, Plant and Equipment

Network Distribution

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

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

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

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

Land and Buildings

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

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

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

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

Plant, Vehicles, Furniture and Fittings

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

Gain or Loss on Disposal

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

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED...

Estimated Useful Lives

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method. No depreciation is charged on land.

The following estimated useful lives are used in the calculation of depreciation. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period.

Category	Estimated Useful Life (Years)
Network Distribution	8 - 70
Buildings	40 - 100
Plant and Equipment	2 - 10
Motor Vehicles	5 - 10
Furniture and Fittings	10

Intangible Assets

Computer Software

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

Goodwill

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

Impairment of Non Financial Assets

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

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

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

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

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

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes the cost of direct materials and other charges, such as freight costs, that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

Financial Instruments

Financial assets and financial liabilities are recognised on the Group's Consolidated Balance Sheet when the Group becomes a party to the contractual provisions (the trade-date) of the instrument.

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

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

Trade Receivables

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

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

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

Cash and Cash Equivalents

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

Bank overdrafts are shown within borrowings in current liabilities in the Balance Sheet.

Bank Borrowings

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

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

Notes to the Financial Statements

Trade Payables

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

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

Derivative Financial Instruments

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

Further details of derivative financial instruments are disclosed in Note 19.

Provisions

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

Cash Flow Statement

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

Investing activities include the purchase and disposal of assets, shown exclusive of GST. Financing activities include loans drawn and/or repaid and finance raised from equity holders or dividends paid to shareholders and interest paid on instruments classified as equity.

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

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

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

Standards, amendments and interpretations to existing standards that were adopted by the Group from 1 April 2013.

NZ IAS 1
Amendments Presentation of Items of Other Comprehensive Income

The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This does not affect the measurement of any of the items recognised in the Balance Sheet or in profit or loss in the current period.

NZ IFRS 10
Consolidated Financial Statements

NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 Consolidated and Separate Financial Statements, and NZ SIC 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. There is no impact on the Group's composition.

NZ IFRS 12
Disclosures of Interests in Other Entities

NZ IFRS 12 sets out the required disclosures for entities reporting under the two new standards, NZ IFRS 10 and NZ IFRS 11, and replaces the disclosure requirements currently found in NZ IAS 28. Application of this standard by the Group does not affect any of the amounts recognised in the Financial Statements, but impacts the type of information disclosed in relation to the Group's investments.

NZ IFRS 13
Fair Value Measurement

NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Group has determined that its current measurement technique for financial derivatives changes as a result of the new guidance as outlined under Fair Value of Derivatives. This has been applied for this reporting period and has resulted in changes in disclosures but with no significant impact on the fair value of derivatives.

XRB A1

The Group has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-Profit Entities Update) (XRB A1). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Group is a Tier 1 entity. There was no impact on the current or prior year Financial Statements.

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

NZ IFRS 9
Financial Instruments

This standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. NZ IFRS 9 was issued in November 2009 and October 2010 and it was amended again in December 2013. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of IAS 39 requirements. The main change is that in cases where the fair value option is taken for financial liabilities, the part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess NZ IFRS 9's full impact and intends to adopt NZ IFRS 9 no later than 1 April 2017.

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

3. CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the entity's accounting policies, which are described in Note 2, Management have made the following judgements and estimates that have significant effects on the amounts recognised in the Financial Statements.

Revenue Recognition

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

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

These adjustments are immaterial compared with the total distribution revenue.

Valuation of Construction Work in Progress

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

Fair Value of Derivative Financial Instruments

The fair value of financial instruments is determined using valuation techniques. The methodology utilised is comparison of the Net Present Value of the future cash flows/valuations of the financial instruments on a risk-free basis to the Net Present Value with the inclusion of a credit spread. The difference between the two Net Present Values is the Credit Value Adjustment for 'in-the-money' financial derivatives and the Debit Value Adjustment for 'out-of-the-money' financial derivatives.

Goodwill

Goodwill acquired through business combinations has been allocated to three cash generating units ('CGU's') for impairment testing, comprising Horizon Services and Stewart Browne Electrical both divisions of Horizon Services Limited and Aquaheat New Zealand Limited. The Directors have reviewed the carrying value of goodwill and do not believe there is any impairment on the basis that the budgeted cash flows for the next five years exceed the carrying value of each business including goodwill.

Valuation of Network Distribution Assets

The Group estimates the fair value of the network distribution assets using independent valuers in accordance with the property, plant and equipment accounting policy. Because of the specialised nature of the network and the infrequency of network distribution asset sale transactions, there is a lack of market-based evidence available to determine fair value. The last valuation undertaken was at 31 March 2013 and was compiled using the discounted cash flow technique (as was the previous valuation at 31 March 2010). Prior to these valuations the network distribution assets were valued using a depreciated replacement cost method as there was insufficient regulatory certainty to perform a reliable discounted cash flow valuation.

Changes in these valuation estimates could have a material effect on the carrying amount of the network distribution assets disclosed in Note 13.

The key valuation assumptions relating to the network distribution assets revaluation performed at 31 March 2013 are outlined in the adjacent table and were adopted in determining the fair value of the Group's network distribution assets:

i. Network distribution assets have been valued on a going concern basis;

ii. Revenue is based on the current pricing applying the CPI-X methodology (with X = 0 for the full forecast period). For 2015 the revenue has been reduced by the estimated value of the regulatory claw back resulting from the Commerce Commission determined default price-quality path determinations announced on 30 November 2012;

iii. In-fill growth being new connections to existing infrastructure is estimated at 50% of historic growth rates being 0.4% growth;

iv. Costs were based on 2013 forecasts;

v. A post tax discount rate (WACC) of 7.01% has been used in discounting the present value of expected cash flows;

vi. Inflation has been applied at 2.4% and the terminal growth rate at 2.0%.

Valuation Sensitivity

The nature of the valuation methodology adopted provides that a small number of key variables can have a significant value impact. The key sensitivities are provided below with the forecast impact on value as the result of the possible identified change.

Key Variable	Change	Value Impact ($million)	
Horizon WACC (7.01%)	+ / - 0.4%	-8.7	+10.2
CPI	+ / - 0.5%	-6.8	+7.0
Organic growth as % total forecast growth (50%)	+ / - 100%	-2.5	+2.5
Capital Expenditure	+ / - 10%	-8.3	+8.3

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

Notes to the Financial Statements

4. FINANCIAL RISK MANAGEMENT

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

a) Market Risk

(i) Foreign Exchange Risk

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

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

(ii) Cash Flow and Fair Value Interest Rate Risk

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

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

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

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

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

At 31 March 2014, if interest rates had changed by +/- 1% (2013: +/- 1%) with all other variables held constant, post tax profit and equity for the year would have been $76,600 lower/higher (2013: $49,600 lower/higher).

b) Credit Risk

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

For banks and financial institutions, only independently rated parties with a minimum credit rating of A are accepted. If other customers are independently rated, these credit ratings are used. Otherwise, if there is no independent rating, Management assess the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits by customers is regularly monitored by Management.

Three customers comprised 31.3% of the Group's total trade and other receivables as at 31 March 2014 (2013: 49.4%). Subsequent to the balance dates, the amounts due were cleared.

c) Liquidity Risk

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

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

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

The Board approves all new borrowing facilities.

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

The classifications of borrowings and facilities available are disclosed in Note 20. In the adjacent table cash flows relating to bank loans are presented in accordance with facility maturity dates.

4. FINANCIAL RISK MANAGEMENT CONTINUED...

Maturity Analysis - Financial Liabilities

31 March 2014	Less than 1 year $000	Between 1 and 2 years $000	Between 2 and 5 years $000	Over 5 years $000
GROUP				
Trade and Other Payables	14,132	-	-	-
Bank Overdrafts and Loans	1,359	14,293	9,984	13,171
Derivatives				
- Inflows	(1,150)	(1,305)	(3,249)	(2,049)
- Outflows	1,503	1,511	3,234	1,560
	15,844	**14,499**	**9,969**	**12,682**
PARENT				
Trade and Other Payables	3,709	-	-	-
Intercompany Loan	348	-	-	-
Bank Overdrafts and Loans	1,359	14,293	9,984	13,171
Derivatives				
- Inflows	(1,150)	(1,305)	(3,249)	(2,049)
- Outflows	1,503	1,511	3,234	1,560
	5,769	**14,499**	**9,969**	**12,682**
31 March 2013				
GROUP				
Trade and Other Payables	10,643	-	-	-
Bank Overdrafts and Loans	4,780	967	32,695	-
Derivatives				
- Inflows	(909)	(941)	(2,308)	(2,246)
- Outflows	1,507	1,430	3,252	2,206
	16,021	**1,456**	**33,639**	**(40)**
PARENT				
Trade and Other Payables	4,481	-	-	-
Bank Overdrafts and Loans	4,780	967	32,695	-
Derivatives				
- Inflows	(909)	(941)	(2,308)	(2,246)
- Outflows	1,507	1,430	3,252	2,206
	9,859	**1,456**	**33,639**	**(40)**

Notes to the Financial Statements

4. FINANCIAL RISK MANAGEMENT CONTINUED...

d) Capital Risk Management

The Group manages its capital structure and makes adjustments to it in light of economic conditions and business requirements. Total capital is calculated as 'equity' shown in the Balance Sheet plus net debt. To maintain or adjust the existing structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by net debt plus equity. The Group includes within net debt, borrowings less cash and cash equivalents. The Group complied with all borrowing covenants during the year.

The gearing ratios are as follows:

	GROUP	
	2014	2013
	$000	$000
Borrowings	35,115	34,850
Plus / (Less) Cash and Bank	(712)	(707)
Net Debt	**34,403**	**34,143**
Equity	66,961	62,292
Equity plus Net Debt	**101,364**	**96,435**
Gearing Ratio	**34%**	**35%**

5. OPERATING SEGMENTS

Segment information is presented in respect of the Group's business. The Group operates in one geographical region being New Zealand.

Operating Segments

The Group comprises of the following main operating segments:

- Electricity Distribution
- Heating Ventilation and Air Conditioning (HVAC) Construction and Servicing
- Electrical Contracting

The chief operating decision maker assesses the performance of the operating segments based on operating profit/(loss) after tax. Intersegment pricing is determined on agreed terms and conditions.

	Electricity Distribution	HVAC Construction & Servicing	Electrical Contracting	Elimination	Group
	$000	$000	$000	$000	$000
Year ended 31 March 2014					
Revenue					
External Revenue	30,220	65,164	9,004	-	104,388
Internal Revenue	-	-	10,811	(10,811)	-
Total Segment Revenue	**30,220**	**65,164**	**19,815**	**(10,811)**	**104,388**
Interest Income	402	63	1	(398)	68
Interest Expense	2,261	223	193	(398)	2,279
Depreciation	4,386	401	536	(65)	5,258
Amortisation	330	9	-	-	339
Fair Value Movement of Financial Derivatives (Gain)/Loss	(1,784)	-	-	-	(1,784)
Income Tax Expense	2,088	299	455	(143)	2,699
Operating Profit After Income Tax	**5,911**	**597**	**1,027**	**(366)**	**7,169**
Assets and Liabilities					
Segment Assets	130,881	17,311	9,496	(9,849)	147,839
Total Assets	**130,881**	**17,311**	**9,496**	**(9,849)**	**147,839**
Segment Liabilities	63,596	15,476	6,295	(4,489)	80,878
Total Liabilities	**63,596**	**15,476**	**6,295**	**(4,489)**	**80,878**
Capital Additions	9,933	730	262	(574)	10,351
Goodwill Additions	-	567	-	-	567

One customer in the electricity distribution segment (Nova Energy) comprised 15.04% of the Group's revenue in 2014 (2013: 26.4%).

5. OPERATING SEGMENTS CONTINUED...

	Electricity Distribution $000	HVAC Construction & Servicing $000	Electrical Contracting $000	Elimination $000	Group $000
Year ended 31 March 2013					
Revenue					
External Revenue	31,138	27,316	8,670	-	67,124
Internal Revenue	-	-	8,958	(8,958)	-
Total Segment Revenue	**31,138**	**27,316**	**17,628**	**(8,958)**	**67,124**
Interest Income	271	6	1	(269)	9
Interest Expense	1,950	61	220	(269)	1,962
Depreciation	4,194	200	555	(48)	4,901
Amortisation	182	5	-	-	187
Fair Value Movement of Financial Derivatives (Gain)/Loss	(11)	-	-	-	(11)
Income Tax Expense	1,978	(1,345)	324	(156)	801
Operating Profit/(Loss) After Income Tax	**5,477**	**(3,763)**	**811**	**(583)**	**1,942**
Assets and Liabilities					
Segment Assets	128,426	13,967	8,836	(14,810)	136,419
Total Assets	**128,426**	**13,967**	**8,836**	**(14,810)**	**136,419**
Segment Liabilities	64,552	12,729	6,663	(9,817)	74,127
Total Liabilities	**64,552**	**12,729**	**6,663**	**(9,817)**	**74,127**
Capital Additions	7,102	2,517	686	(663)	9,642
Revaluation of Network Distribution Assets	7,127	-	-	1,829	8,956

6. OPERATING REVENUES & EXPENSES BY NATURE

		GROUP		PARENT	
		2014	2013	2014	2013
	Note	$000	$000	$000	$000
Operating Revenue					
Distribution Revenue		29,671	30,188	29,671	30,188
Contracting Revenue		74,168	35,986	-	-
Capital Contributions Revenue		549	950	549	950
Total Operating Revenue		**104,388**	**67,124**	**30,220**	**31,138**
Other Income					
Sundry Income		421	150	367	215
Net Gain on Acquisition	28	447	-	-	-
Recovery of Bad Debts		3	5	2	5
Total Other Income		**871**	**155**	**369**	**220**
Operating Expenses Include the Following					
Depreciation	13	5,258	4,901	4,386	4,194
Software Amortisation	14	339	187	330	182
Net (Gain)/Loss on Sale of Property, Plant and Equipment		82	123	75	59
Operating Lease Payments		942	547	99	98
Movement in Doubtful Debt Provisions	11	(1,328)	1,344	-	-
Directors' Remuneration	31	240	223	240	223
Maintenance of Network Distribution Assets*		2,815	2,506	2,885	2,560
Employee Costs		24,377	15,224	3,627	2,964
Transmission Charges		8,630	8,627	8,630	8,748
Bad Debts Expense		24	2,807	-	-

* Maintenance of Network Distribution Assets includes employee costs incurred by Horizon Services Limited for the services they provide to the Group. These employee costs are also disclosed within Employee Costs.

7. INCOME TAX EXPENSE

		GROUP		PARENT	
		2014	2013	2014	2013
	Note	$000	$000	$000	$000
Income Tax Expense Comprises:					
Current Tax		1,504	1,537	1,801	2,074
Deferred Tax		1,195	(736)	287	(96)
Income Tax Expense		**2,699**	**801**	**2,088**	**1,978**

The applicable tax rate is 28% (2013: 28%).

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

		GROUP 2014	GROUP 2013	PARENT 2014	PARENT 2013
Profit before Tax		**9,868**	**2,743**	**7,999**	**7,455**
Expenses Not Deductible for Tax Purposes		738	370	263	53
Income Not Subject to Tax		(450)	(19)	-	(159)
Taxable Profit		**10,156**	**3,094**	**8,262**	**7,349**
Income Tax Expense at 28%		**2,844**	**866**	**2,313**	**2,058**
Prior Year Adjustments		6	(65)	(74)	(80)
Prior Period Tax Losses Transferred for No Consideration	31	(151)	-	(151)	-
Income Tax Expense		**2,699**	**801**	**2,088**	**1,978**
Effective Income Tax Expense Rate		27.4%	29.2%	26.1%	26.5%

Notes to the Financial Statements

8. DEFERRED TAX

The following are the deferred tax liabilities and assets recognised by the Company and Group including movements during the current and prior reporting period.

	Property, Plant & Equipment $000	Derivatives Fair Value $000	Provisions & Accruals $000	Total $000
GROUP				
At 31 March 2012	**19,909**	**(557)**	**233**	**19,585**
Adjustments through Income Tax Expense	(263)	3	(476)	(736)
Deferred Tax recognised on Business Acquisition	-	-	(237)	(237)
Revaluation of Network Distribution Assets	2,508	-	-	2,508
At 31 March 2013	**22,154**	**(554)**	**(480)**	**21,120**
Adjustments through Income Tax Expense	(173)	499	869	1,195
At 31 March 2014	**21,981**	**(55)**	**389**	**22,315**
PARENT				
At 31 March 2012	**19,686**	**(557)**	**327**	**19,456**
Adjustments through Income Tax Expense	(250)	3	151	(96)
Revaluation of Network Distribution Assets	1,996	-	-	1,996
At 31 March 2013	**21,432**	**(554)**	**478**	**21,356**
Adjustments through Income Tax Expense	(181)	495	(27)	287
At 31 March 2014	**21,251**	**(59)**	**451**	**21,643**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	GROUP		PARENT	
	2014 $000	2013 $000	**2014 $000**	2013 $000
Deferred Tax Assets				
Recoverable after more than 12 Months	(162)	(554)	(172)	(554)
Recoverable within 12 Months	(789)	(1,132)	(95)	(121)
	(951)	**(1,686)**	**(267)**	**(675)**
Deferred Tax Liabilities				
Recoverable after more than 12 Months	22,436	22,806	21,080	22,031
Recoverable within 12 Months	830	-	830	-
	23,266	**22,806**	**21,910**	**22,031**
Net Deferred Tax Liabilities	**22,315**	**21,120**	**21,643**	**21,356**

9. SHARE CAPITAL

	GROUP & PARENT	
	2014	2013
	$000	$000
Issued and Fully Paid Share Capital	8,433	8,433
Share Capital Comprises:	No. of Shares	No. of Shares
Ordinary Shares Issued and Fully Paid	24,991,385	24,991,385

All ordinary shares have no par value and rank equally with one vote attached to each fully paid share.

10. REVALUATION RESERVES

The asset revaluation reserve arises on the revaluation of network distribution system assets, and land and buildings that are part of the network distribution system. Where an asset is sold the portion of the asset revaluation reserve which relates to that asset is effectively realised and is transferred directly to retained earnings.

	Network Distribution Assets $000	Network Land & Buildings $000	Total $000
GROUP			
At 31 March 2012	**25,705**	**62**	**25,767**
Revaluation Gain (Net of Tax)	6,458	-	6,458
At 31 March 2013	**32,163**	**62**	**32,225**
At 31 March 2014	**32,163**	**62**	**32,225**
PARENT			
At 31 March 2012	**25,361**	**62**	**25,423**
Revaluation Gain (Net of Tax)	5,132	-	5,132
At 31 March 2013	**30,493**	**62**	**30,555**
At 31 March 2014	**30,493**	**62**	**30,555**

Notes to the Financial Statements

11. OTHER FINANCIAL ASSETS

	GROUP		PARENT	
	2014	2013	**2014**	2013
	$000	$000	**$000**	$000
Cash and Cash Equivalents				
Cash at Bank	712	707	66	51
	712	**707**	**66**	**51**

Bank balances and cash comprise cash held by the Group and short-term bank deposits with a maturity of three months or less. The carrying amount of these assets equates to fair value.

Trade and Other Receivables

Trade Receivables	17,464	13,806	3,990	3,441
Less Provision for Doubtful Debts	(121)	(1,449)	(5)	(5)
Trade Receivables Owing by Subsidiary (Note 31)	-	-	12	9
Prepayments	246	189	202	154
	17,589	**12,546**	**4,199**	**3,599**

All receivables are denominated in New Zealand dollars.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value. There are no significant amounts where settlement is expected in more than 12 months.

The provision for doubtful debts in 2013 included the provision in respect of the receivership of Mainzeal, a major customer of Aquaheat New Zealand Limited.

Trade receivables are assessed for impairment on an individual basis. The only receivables impaired are provided for within doubtful debts. As at 31 March 2014, trade receivables of $2,124,916 (2013: $1,405,097) were past due; these relate to a number of independent customers for whom there is no recent history of default and are not impaired.

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

Up to 3 months	16,721	11,415	3,925	3,367
Over 3 months	622	942	60	69
	17,343	**12,357**	**3,985**	**3,436**

Movements in the provision for impairment of trade receivables are as follows:

Balance at Beginning of Year	**(1,449)**	**(105)**	**(5)**	**(5)**
Net Provision Provided For	1,328	(1,344)	-	-
Balance at End of Year	**(121)**	**(1,449)**	**(5)**	**(5)**

Restricted Bank Deposits

Restricted bank deposits are cash deposited into term investment accounts as security for performance guarantees provided by the bank on large construction contracts.

The carrying amount of these assets approximates fair value.

Balance at End of Year	**-**	**1,050**	**-**	**-**

12. INVENTORIES

Inventories at balance date were comprised of:

Raw Materials	355	328	-	-
Finished Goods	1,748	1,497	162	162
Balance at End of Year	**2,103**	**1,825**	**162**	**162**

13. PROPERTY, PLANT AND EQUIPMENT

	Network Distribution (At Valuation) $000	Land & Buildings (At Cost) $000	Plant & Equipment (At Cost) $000	Furniture & Fittings (At Cost) $000	Vehicles (At Cost) $000	Finance Leased Assets (At Cost) $000	Total $000
GROUP							
Cost or Valuation							
At 31 March 2012	**105,054**	**1,545**	**3,277**	**638**	**2,847**	**201**	**113,562**
Additions	4,225	8	411	135	580	19	5,378
Additions from Business Combinations	-	-	1,542	-	719	-	2,261
Revaluation Movement	(2,343)	-	-	-	-	-	(2,343)
Asset Reclassification	-	-	(75)	58	-	17	-
Disposals	(268)	-	(114)	-	(308)	(17)	(707)
Capital Works in Progress Movement	1,508	-	-	-	-	-	1,508
At 31 March 2013	**108,176**	**1,553**	**5,041**	**831**	**3,838**	**220**	**119,659**
Additions	9,787	30	407	58	179	-	10,461
Additions from Business Combinations	-	-	340	-	-	-	340
Disposals	(122)	-	(6)	-	(101)	-	(229)
Capital Works in Progress Movement	(1,141)	-	61	-	-	-	(1,080)
At 31 March 2014	**116,700**	**1,583**	**5,843**	**889**	**3,916**	**220**	**129,151**
Accumulated Depreciation and Impairment							
At 31 March 2012	**7,480**	**91**	**2,365**	**509**	**1,319**	**-**	**11,764**
Depreciation Charge for the Year	3,951	68	372	39	453	18	4,901
Asset Reclassification	-	-	(10)	6	-	4	-
Revaluation Movement	(11,299)	-	-	-	-	-	(11,299)
Eliminated on Disposal	(132)	-	(103)	-	(139)	(5)	(379)
At 31 March 2013	**-**	**159**	**2,624**	**554**	**1,633**	**17**	**4,987**
Depreciation Charge for the Year	4,128	71	488	56	501	14	5,258
Eliminated on Disposal	(45)	-	(1)	-	(45)	-	(91)
At 31 March 2014	**4,083**	**230**	**3,111**	**610**	**2,089**	**31**	**10,154**
Carrying Amount (Net Book Value)							
At 31 March 2013	**108,176**	**1,394**	**2,417**	**277**	**2,206**	**203**	**114,672**
At 31 March 2014	**112,617**	**1,353**	**2,732**	**279**	**1,827**	**189**	**118,997**

Notes to the Financial Statements

13. PROPERTY, PLANT AND EQUIPMENT CONTINUED...

	Network Distribution (At Valuation) $000	Land & Buildings (At Cost) $000	Plant & Equipment (At Cost) $000	Furniture & Fittings (At Cost) $000	Vehicles (At Cost) $000	Finance Leased Assets (At Cost) $000	Total $000
PARENT							
Cost or Valuation							
At 31 March 2012	**106,321**	**576**	**2,235**	**556**	**319**	**201**	**110,208**
Additions	4,888	-	174	-	38	-	5,100
Revaluation Movement	(4,275)	-	-	-	-	-	(4,275)
Transfer from Subsidiary	-	-	-	-	32	-	32
Disposals	(268)	-	(103)	-	(56)	-	(427)
Capital Works in Progress Movement	1,508	-	-	-	-	-	1,508
At 31 March 2013	**108,174**	**576**	**2,306**	**556**	**333**	**201**	**112,146**
Additions	10,363	-	139	7	54	-	10,563
Disposals	(122)	-	(1)	-	(21)	-	(144)
Capital Works in Progress Movement	(1,141)	-	44	-	-	-	(1,097)
At 31 March 2014	**117,274**	**576**	**2,488**	**563**	**366**	**201**	**121,468**
Accumulated Depreciation and Impairment							
At 31 March 2012	**7,535**	**27**	**1,889**	**477**	**307**	**-**	**10,235**
Depreciation Charge for the Year	3,999	29	124	16	12	14	4,194
Depreciation Transferred from Subsidiary	-	-	-	-	18	-	18
Revaluation Movement	(11,402)	-	-	-	-	-	(11,402)
Eliminated on Disposals	(132)	-	(103)	-	(56)	-	(291)
At 31 March 2013	**-**	**56**	**1,910**	**493**	**281**	**14**	**2,754**
Depreciation Charge for the Year	4,193	29	107	27	20	10	4,386
Eliminated on Disposals	(45)	-	(1)	-	(21)	-	(67)
At 31 March 2014	**4,148**	**85**	**2,016**	**520**	**280**	**24**	**7,073**
Carrying Amount (Net Book Value)							
At 31 March 2013	**108,174**	**520**	**396**	**63**	**52**	**187**	**109,392**
At 31 March 2014	**113,126**	**491**	**472**	**43**	**86**	**177**	**114,395**

The network distribution assets were last revalued on 31 March 2013 by Deloitte on a discounted cash flow basis in accordance with generally accepted valuation techniques.

The carrying amount of the Group and Parent network distribution commissioned assets had they been recognised under the cost model is $97.4 million (2013: $89.8 million).

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

Interest capitalised for the 2014 year was $133,032 (2013: $Nil) at the Group's effective weighted interest rate.

14. INTANGIBLE ASSETS

	Note	Software $000	Goodwill $000	Total $000
GROUP				
Cost				
At 31 March 2012		**2,845**	**1,050**	**3,895**
Software Additions		495	-	495
At 31 March 2013		**3,340**	**1,050**	**4,390**
Software Additions		439	-	439
Goodwill Additions	28	-	567	567
Information Systems Work in Progress		191	-	191
At 31 March 2014		**3,970**	**1,617**	**5,587**
Accumulated Amortisation				
At 31 March 2012		**192**	**-**	**192**
Amortisation Charge for the Year		187	-	187
At 31 March 2013		**379**	**-**	**379**
Amortisation Charge for the Year		339	-	339
At 31 March 2014		**718**	**-**	**718**
Carrying Amount (Net Book Value)				
At 31 March 2013		**2,961**	**1,050**	**4,011**
At 31 March 2014		**3,252**	**1,617**	**4,869**

Goodwill and Intangible Assets

Allocation of Goodwill to Cash Generating Unit

Goodwill is allocated to the Group's cash generating units, being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other groups of assets. Goodwill acquired through business combinations has been allocated to three cash generating units ('CGU's') for impairment testing, comprising Horizon Services and Stewart Browne Electrical, both divisions of Horizon Services Limited, and Aquaheat New Zealand Limited.

The recoverable amounts have been determined based on a value in use calculation using cash flow projections based on financial forecasts approved by Senior Management covering a five year period. The pre-tax discount rate applied to cash flow projections is 21% (2013: 21%).

Carrying Amount of Goodwill Allocated to each Cash Generating Unit

	2014 $000	2013 $000
Horizon Services	252	252
Stewart Browne Electrical	798	798
Aquaheat New Zealand Limited	567	-
	1,617	**1,050**

The Calculation of Value in Use for Cash Generating Units

The calculation of value in use for all CGU's is most sensitive to assumptions on discount rates and growth rates. Discount rates are based on the Company's cost of capital and growth has been assumed to be between 2% and 3%, (2013: 3% and 10%), with a terminal growth rate of 2.4% (2013: 3%).

Sensitivity

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

Notes to the Financial Statements

14. INTANGIBLE ASSETS CONTINUED...

	Software $000	Goodwill $000	Total $000
PARENT			
Cost			
At 31 March 2012	**2,833**	**-**	**2,833**
Additions	462	-	462
At 31 March 2013	**3,295**	**-**	**3,295**
Additions	376	-	376
Information Systems Work In Progress	91	-	91
At 31 March 2014	**3,762**	**-**	**3,762**
Accumulated Amortisation			
At 31 March 2012	**181**	**-**	**181**
Amortisation Charge for the Year	182	-	182
At 31 March 2013	**363**	**-**	**363**
Amortisation Charge for the Year	330	-	330
At 31 March 2014	**693**	**-**	**693**
Carrying Amount (Net Book Value)			
At 31 March 2013	**2,932**	**-**	**2,932**
At 31 March 2014	**3,069**	**-**	**3,069**

Interest is capitalised to Software Assets where the project is undertaken over a period of time to reflect the financing costs to the Company attributable to the acquisition of qualifying assets, in accordance with the Group's accounting policy on borrowing costs.

Interest capitalised for the 2014 year was $Nil (2013: $58,080) with the interest rate applied for the 2013 year being 5.34%.

15. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2014 $000	2013 $000	**2014 $000**	2013 $000
Trade Payables	11,117	7,485	793	1,049
Trade Payables Owed by Parent Company to Subsidiary (Note 31)	-	-	1,093	1,428
Other Payables	3,015	3,158	1,823	2,004
Total Trade Payables and Other Payables	**14,132**	**10,643**	**3,709**	**4,481**

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

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

16. EMPLOYEE BENEFIT ACCRUALS

	GROUP		PARENT	
	2014	2013	2014	2013
	$000	$000	$000	$000
Classified as:				
Current Employee Costs	2,049	1,681	618	431
Non-Current Employee Costs	124	144	36	35
Total Employee Costs	**2,173**	**1,825**	**654**	**466**

The Employee Benefits Accrual includes accrued wages, bonuses, accrued holiday pay, long service leave and retirement costs.

17. PROVISIONS

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Balance at Beginning of Year	397	406	-	-
Provisions Made during the Year	904	279	380	-
Provisions Used during the Year	(176)	(79)	-	-
Provisions Reversed during the Year	(88)	(209)	-	-
Balance at End of Year	**1,037**	**397**	**380**	**-**
Represented by:				
Current Liabilities	657	397	-	-
Non-Current Liabilities	380	-	380	-
Total Provisions	**1,037**	**397**	**380**	**-**

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

Warranty Provision

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Balance at Beginning of Year	397	406	-	-
Provisions Made during the Year	524	279	-	-
Provisions Used during the Year	(176)	(79)	-	-
Provisions Reversed during the Year	(88)	(209)	-	-
Balance at End of Year	**657**	**397**	**-**	**-**
Represented by:				
Current Liabilities	**657**	**397**	**-**	**-**

Provision for warranty costs are recognised at the date of sale of the relevant products, at the best estimate of the expenditure required to settle the Group's obligation.

Default Price Path Breach Provision

	GROUP 2014 $000	GROUP 2013 $000	PARENT 2014 $000	PARENT 2013 $000
Provisions Made during the Year	380	-	380	-
Balance at End of Year	**380**	**-**	**380**	**-**
Represented by:				
Non-Current Liabilities	**380**	**-**	**380**	**-**

The provision of $380,000 in relation to the 2012 Default Price Path breach is referred to in Note 29.

Notes to the Financial Statements

18. DEFERRED CAPITAL CONTRIBUTIONS

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
Balance at Beginning of Year	612	629	612	629
Less Amounts Recognised as Revenue during Year	(18)	(17)	(18)	(17)
Balance at End of Year	594	612	594	612
Classified as:				
Current	18	18	18	18
Non-Current	576	594	576	594
Total Deferred Capital Contributions	594	612	594	612

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

19. DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Swaps

The notional value and fair value of the interest rate swaps the Group and Parent held are as follows:

Commencement Date	Rate	Term	Expiry Date	Notional Value 2014 $000	Fair Value 2014 $000	Notional Value 2013 $000	Fair Value 2013 $000
21 Jun 2012	3.83%	120 Months	21 Jun 2022	2,000	138	2,000	3
21 Jun 2012	3.83%	120 Months	21 Jun 2022	2,000	138	2,000	6
12 Feb 2013	3.84%	96 Months	12 Feb 2021	3,000	157	-	-
3 Oct 2014	3.90%	84 Months	3 Oct 2021	-	-	4,000	38
3 Oct 2014	3.90%	84 Months	3 Oct 2021	4,000	242	-	-
22 Jun 2015	4.60%	9 Months	22 Mar 2016	2,000	1	-	-
Total Non-Current Assets				**13,000**	**676**	**8,000**	**47**
21 Dec 2011	4.99%	33 Months	21 Sep 2014	2,000	(17)	-	-
5 Mar 2012	6.44%	30 Months	5 Sep 2014	2,800	(45)	-	-
Total Current Liabilities				**4,800**	**(62)**	**-**	**-**
5 Jul 2007	6.44%	140 Months	5 Mar 2019	2,000	(164)	2,000	(324)
9 Mar 2009	4.60%	84 Months	9 Mar 2016	2,000	(24)	2,000	(92)
17 Aug 2009	4.61%	93 Months	17 May 2017	3,000	(31)	3,000	(168)
21 Jun 2010	5.25%	60 Months	21 Jun 2015	2,000	(38)	2,000	(103)
26 Sep 2010	6.58%	117 Months	26 Jun 2020	3,000	(291)	3,000	(563)
26 Sep 2010	6.58%	93 Months	26 Jun 2018	2,000	(158)	2,000	(309)
26 Sep 2010	5.85%	63 Months	29 Dec 2015	1,000	(31)	1,000	(76)
21 Dec 2011	4.99%	33 Months	21 Sep 2014	-	-	2,000	(66)
21 Dec 2011	5.33%	57 Months	21 Sep 2016	2,000	(55)	2,000	(147)
5 Mar 2012	6.44%	30 Months	5 Sep 2014	-	-	2,800	(152)
12 Feb 2013	3.84%	96 Months	12 Feb 2021	-	-	3,000	(25)
5 Sep 2014	4.64%	36 Months	5 Sep 2017	2,800	(7)	-	-
29 Dec 2015	5.09%	48 Months	30 Dec 2019	1,000	(1)	-	-
29 Jun 2018	5.58%	36 Months	28 Jun 2021	2,000	(9)	-	-
Total Non-Current Liabilities				**22,800**	**(809)**	**24,800**	**(2,025)**
Total Net Liabilities				**40,600**	**(195)**	**32,800**	**(1,978)**

The non-current assets fair value is the credit value adjustment for 'in-the-money' interest rate swaps. The current liabilities and non-current liabilities fair value is the debit value adjustment for 'out-of-the-money' interest rate swaps.

Under interest rate swap contracts the Group agrees to exchange the difference between floating and fixed rate interest amounts calculated on notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on a portion of the Group's debt as set out in Note 2, Accounting Policy - Derivative Financial Instruments.

No interest rate swaps or forward foreign exchange contracts have been designated as cash flow hedges and are therefore classified as 'held for trading'. Consequently changes in fair value have been charged directly to the Statement of Comprehensive Income.

Management regularly monitors the level of interest derivatives held and the rates currently available and adjusts the interest derivatives portfolio as they believe prudent. During the financial year five additional interest rate swaps were purchased and no interest rate swaps matured.

As at 31 March 2014 there are five forward start swaps in place with a notional value of $11,800,000 (2013: $4,000,000)

As at 31 March 2014 there were two immaterial forward foreign exchange contracts with a change in fair value of $1,000 (2013: $Nil) represented as a current asset.

Net Increase/(Decrease) in Fair Value recognised in the Statement of Comprehensive Income	GROUP & PARENT 2014 $000	GROUP & PARENT 2013 $000
Fair Value at 31 March	(194)	(1,978)
Net Change in Fair Value	**1,784**	**11**

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the Balance Sheet.

Introduction
Our Connections
Business Information
Financial Information
Directory

Notes to the Financial Statements

20. BANK LOANS

	GROUP		PARENT	
	2014	2013	2014	2013
	$000	$000	$000	$000
The borrowings are repayable as follows:				
Within One Year	-	3,850	-	3,850
Within One to Two Years	13,000	-	13,000	-
Within Two to Three Years	9,000	13,000	9,000	13,000
Within Three to Five Years	13,115	18,000	13,115	18,000
Total	**35,115**	**34,850**	**35,115**	**34,850**
Classified as follows:				
Amount due for Settlement within 12 Months (Current)	-	3,850	-	3,850
Amount due for Settlement after 12 Months (Non-Current)	35,115	31,000	35,115	31,000
Total	**35,115**	**34,850**	**35,115**	**34,850**

Bank loans are drawn down at floating rates and expose the Group to interest rate risk. Borrowings are classified as current and non-current based on the terms of available facilities as these represent unconditional rights to defer payments until maturity.

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

All term loans are unsecured and are subject to negative pledge undertakings. The weighted average floating interest rate, inclusive of margins, on term loans was 4.75% (2013: 4.29%). The weighted average floating interest rate excludes the effect of the Company's interest rate risk management.

As at 31 March 2014, the Company had debt facilities available of $50 million (2013: $50 million), with undrawn debt facilities of $14.9 million (2013: $15.2 million).

		GROUP & PARENT	
	Expiry Date	Drawn	Undrawn
		$000	$000
At 31 March 2013			
Tranche A	23 Nov 2013	19,000	-
Tranche B	23 Nov 2015	13,000	-
Tranche C	29 Aug 2017	2,850	6,150
Tranche D	30 Nov 2016	-	9,000
		34,850	**15,150**
At 31 March 2014			
Tranche A1	23 Nov 2018	3,500	6,500
Tranche A2	23 Nov 2020	615	8,385
Tranche B	23 Nov 2015	13,000	-
Tranche C	29 Aug 2017	9,000	-
Tranche D	30 Nov 2016	9,000	-
		35,115	**14,885**

All borrowings are with the same financial institution. As at 31 March 2014 all borrowings are non-current. As at 31 March 2013 the non-current undrawn debt facilities of $15.2 million, which were available at 31 March 2013, were offset against the fully drawn facility of $19.0 million which expired within the next year. Horizon Energy had the discretion to rollover Tranche A financing into Tranche C and D. Consequently the current portion of loans disclosed in the Balance Sheet as at 31 March 2013 were $3.9 million.

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

21. FINANCIAL INSTRUMENTS

Categories of Financial Instruments - Assets	Assets at Fair Value through Profit or Loss $000	Loans & Receivables $000	Total $000
GROUP			
Cash and Cash Equivalents	-	707	707
Trade and Other Receivables	-	12,357	12,357
Derivative Financial Instruments	47	-	47
Other Receivables	-	88	88
Restricted Bank Deposits	-	1,050	1,050
At 31 March 2013	**47**	**14,202**	**14,249**
Cash and Cash Equivalents	-	712	712
Trade and Other Receivables	-	17,343	17,343
Derivative Financial Instruments	676	-	676
Other Receivables	-	83	83
At 31 March 2014	**676**	**18,138**	**18,814**
PARENT			
Cash and Cash Equivalents	-	51	51
Trade and Other Receivables	-	3,436	3,436
Derivative Financial Instruments	47	-	47
Other Receivables	-	88	88
Intercompany Loans	-	7,004	7,004
At 31 March 2013	**47**	**10,579**	**10,626**
Cash and Cash Equivalents	-	66	66
Trade and Other Receivables	-	3,985	3,985
Derivative Financial Instruments	676	-	676
Other Receivables	-	83	83
Intercompany Loans	-	3,079	3,079
At 31 March 2014	**676**	**7,213**	**7,889**

Notes to the Financial Statements

21. FINANCIAL INSTRUMENTS CONTINUED...

	Liabilities at Fair Value through Profit or Loss $000	Measured at Amortised Cost $000	Total $000
Categories of Financial Instruments - Liabilities			
GROUP			
Bank Loans	-	34,850	34,850
Derivative Financial Instruments	2,025	-	2,025
Trade and Other Payables	-	10,643	10,643
At 31 March 2013	**2,025**	**45,493**	**47,518**
Bank Loans	-	35,115	35,115
Derivative Financial Instruments	871	-	871
Trade and Other Payables	-	14,132	14,132
At 31 March 2014	**871**	**49,247**	**50,118**
PARENT			
Bank Loans	-	34,850	34,850
Derivative Financial Instruments	2,025	-	2,025
Trade and Other Payables	-	4,481	4,481
At 31 March 2013	**2,025**	**39,331**	**41,356**
Bank Loans	-	35,115	35,115
Derivative Financial Instruments	871	-	871
Trade and Other Payables	-	3,709	3,709
At 31 March 2014	**871**	**38,824**	**39,695**

22. FAIR VALUE MEASUREMENT

Fair Value Measurements Recognised in the Balance Sheet

The following table provides an analysis of assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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

	Note	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
GROUP					
31 March 2013					
Assets Designated at Fair Value					
Network Distribution Assets	13	-	-	108,176	108,176
Derivative Financial Instruments	19	-	47	-	47
		-	**47**	**108,176**	**108,223**
Financial Liabilities Designated at Fair Value					
Derivative Financial Instruments	19	-	2,025	-	2,025
		-	**(1,978)**	**108,176**	**106,198**
31 March 2014					
Assets Designated at Fair Value					
Network Distribution Assets	13	-	-	112,617	112,617
Derivative Financial Instruments	19	-	676	-	676
		-	**676**	**112,617**	**113,293**
Financial Liabilities Designated at Fair Value					
Derivative Financial Instruments	19	-	809	-	809
		-	**(133)**	**112,617**	**112,484**
PARENT					
31 March 2013					
Assets Designated at Fair Value					
Network Distribution Assets	13	-	-	108,174	108,174
Derivative Financial Instruments	19	-	47	-	47
		-	**47**	**108,174**	**108,221**
Financial Liabilities Designated at Fair Value					
Derivative Financial Instruments	19	-	2,025	-	2,025
		-	**(1,978)**	**108,174**	**106,196**
31 March 2014					
Assets Designated at Fair Value					
Network Distribution Assets	13	-	-	113,126	113,126
Derivative Financial Instruments	19	-	676	-	676
		-	**676**	**113,126**	**113,802**
Financial Liabilities Designated at Fair Value					
Derivative Financial Instruments	19	-	809	-	809
		-	**(133)**	**113,126**	**112,993**

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

Notes to the Financial Statements

22. FAIR VALUE MEASUREMENT CONTINUED...

Assets and Liabilities in Level 2

Derivative Financial Assets and Liabilities

The methodology used is a simple current exposure methodology of comparing the Net Present Value of the future cash flows and valuations of the financial instrument on a risk-free basis to the Net Present Value which includes a credit spread.

The valuation is based on the New Zealand zero curve at 31 March 2014 with credit adjustments to reflect the credit curves for both the counterparty and the Group. The credit value adjustment is calculated for 'in-the-money' derivatives as at 31 March 2014. The debit value adjustment is calculated for 'out-of-the-money' derivatives as at 31 March 2014.

The Credit Curves Applied are:
For the counterparty (Westpac and BNZ) is AA-;
For the Group the basis is the refinancing of debt that took place during the year.

Assets and Liabilities in Level 3

Network Distribution Assets

The valuation techniques, inputs and sensitivities used in the fair value measurement are disclosed in Note 3.

Disclosure of the Level 3 movement in fair value in the Network Distribution Assets is disclosed in Note 13.

Of the total losses for the period recognised in profit or loss, $77,974 (Parent $77,594) (2013: $136,860 (Parent: $136,860)) relates to Network Distribution Assets written off during the reporting period. Fair value gains or losses on these assets are included in the Statement of Comprehensive Income.

23. CONSTRUCTION WORK IN PROGRESS

The following amounts relating to construction contracts in progress at balance date are included within Construction Work in Progress, Trade and Other Receivables and Trade and Other Payables in the Balance Sheet. Refer to Note 2, Accounting Policies - Construction Contracts.

	GROUP		PARENT	
	2014	2013	**2014**	2013
	$000	$000	**$000**	$000
Gross Construction Work in Progress plus Margin to Date	68,759	29,000	-	-
Progress Billings	(70,786)	(30,034)	-	-
Work in Progress	**(2,027)**	**(1,034)**	**-**	**-**
Construction Contracts with Net Work in Progress	2,614	1,473	-	-
Construction Contracts with Net Funds Received in Advance of Cost and Margin	(4,641)	(2,507)	-	-
Net Carrying Amount at the End of the Year	**(2,027)**	**(1,034)**	**-**	**-**
Retentions Owing within Trade Debtors on Completed Construction Contracts	**3,489**	**2,638**	**-**	**-**

24. SUBSIDIARY COMPANIES

The Company has four wholly owned subsidiary companies being:

- Horizon Services Limited (formerly Horizon Energy Investments Limited)
- Horizon Energy Group Limited
- Horizon Energy Limited
- Aquaheat New Zealand Limited

Horizon Energy Investments Limited was established on 26 October 2006 for the Group's electrical contracting operation. On 30 July 2013 Horizon Energy Investments Limited changed its name to Horizon Services Limited. Horizon Services Limited is a wholly owned subsidiary of Horizon Energy Distribution Limited the Parent Company. Horizon Services Limited is a New Zealand registered company. The subsidiary has been fully consolidated with inter-company transactions eliminated. Horizon Services Limited is recorded at $Nil cost in the Balance Sheet of the Parent.

In the year ended 31 March 2013 Horizon Energy Distribution Limited acquired a further 400 shares in Stewart Browne Group Limited and now holds 100% of shares in the company. A new wholly owned company Aquaheat New Zealand Limited was incorporated on the 3 August 2012. Further information regarding the purchase of Aquaheat New Zealand Limited is contained in Note 28.

Horizon Energy Group Limited and Horizon Energy Limited were incorporated on 10 January 2014 and have not traded during the year.

On 30 September 2013 Stewart Browne Group Limited was amalgamated with Horizon Services Limited. Horizon Services Limited continues to trade under the trade names of Horizon Services and Stewart Browne Electrical.

	PARENT		PARENT	
	Number of Shares Held		Value of Shares Held	
	2014	2013	**2014**	2013
			$000	$000
Shares held in Horizon Services Limited (previously Horizon Energy Investments Limited)	100	100	150	-
Shares held in Aquaheat New Zealand Limited	5,001	5,001	5,001	5,001
Shares held in Stewart Browne Group Limited	-	1,000	-	150
			5,151	**5,151**

Notes to the Financial Statements

25. DIVIDENDS (CENTS PER SHARE)

Amounts recognised as distributions to Equity Holders in the period:

	GROUP	
	2014	2013
	cents	cents
Final (for Previous Financial Year)	4.0	9.0
Interim	6.0	6.0

All dividends had full imputation credits attached.

As set out in Note 30 a fully imputed final dividend for the year ended 31 March 2014 was declared post year end. The financial impact of this dividend has not been recognised in these Financial Statements.

26. IMPUTATION CREDIT MEMORANDUM ACCOUNT

Imputation credits are gained through income tax being paid by the Group and are subsequently available for attachment to future dividend payments.

	GROUP		PARENT	
	2014	2013	**2014**	2013
	$000	$000	**$000**	$000
Imputation Credits available for Subsequent Reporting Periods	**4,120**	**3,914**	**4,597**	**4,528**

27. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to Equity Holders of the Company by the weighted average number of ordinary shares on issue during the year.

	GROUP	
	2014	2013
Profit Attributable to Equity Holders of the Company ($000)	7,169	1,894
Weighted Average Number of Ordinary Shares on Issue	24,991,385	24,991,385
Basic Earnings per Share (Cents per Share)	**28.69**	**7.58**

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has no category of dilutive potential ordinary shares, therefore diluted earnings per share is equal to basic earnings per share.

28. BUSINESS COMBINATIONS

Purchase of the Remaining Shares of Stewart Browne Group Limited

On 20 December 2012 Horizon Energy acquired the remaining 40% of the shares in Stewart Browne Group Limited. The final payment of $131,000 was $19,000 below the contingent consideration disclosed in Note 26, Business Combinations in the 2012 Financial Statements. The $19,000 is included in Sundry Income within the Parent Income Statement comparatives for 2013.

Acquisition of the Net Assets and Business of Aquaheat Industries Limited and Hastie New Zealand Limited

On 1 September 2012, Horizon Energy Distribution Limited (through a newly incorporated wholly owned subsidiary company Aquaheat New Zealand Limited) acquired the business assets and certain liabilities of Aquaheat Industries Limited and Hastie New Zealand Limited.

The investment is consistent with Horizon Energy's strategy to develop its non-regulated revenue streams. The new businesses have a strong presence in the Auckland, Wellington and Christchurch markets providing heating, ventilation, cooling construction and servicing. The addition of the Aquaheat businesses to the Horizon Energy Group will provide significant contracting business scale to enable the Group to increase its involvement in large construction opportunities arising throughout the country.

Horizon Energy Distribution Limited - Acquisition of the Net Assets and Business of Aquaheat Industries Limited and Hastie New Zealand Limited.

The Company has determined the fair values of the net assets and discount on acquisition, and the amounts outlined below are final at 31 March 2014 and show no change since the 31 March 2013 disclosed values.

	GROUP	
	Final	Provisional
	2014	2013
	$000	$000
Consideration on Acquisition	**5,039**	**5,039**
	Fair Value	Fair Value
	2014	2013
Consisting of:	$000	$000
Cash and Cash Equivalents	2	2
Receivables and Prepayments	12,666	12,666
Inventories	302	302
Work in Progress	(1,993)	(1,993)
Deferred Tax Asset	237	237
Plant and Equipment	1,542	1,542
Motor Vehicles	719	719
Total Assets Acquired	**13,475**	**13,475**
Trade and Other Payables	(6,750)	(6,750)
Employee Liabilities	(1,280)	(1,280)
Warranty Provisions	(406)	(406)
Total Liabilities Acquired	**(8,436)**	**(8,436)**
Fair Value of Net Assets Acquired	**5,039**	**5,039**
Total Purchase Consideration Settled in Cash	**5,039**	**5,039**

The values assigned to Plant and Equipment and Motor Vehicles are the revalued prices as determined by the independent valuation undertaken by Jones Lang LaSalle effective 30 November 2012.

Other costs of $Nil (2013: $522,000) associated with the acquisition have been expensed during the year.

The Sale and Purchase Agreement with the Hastie Group allowed for the return of up to $500,000 of the purchase price in the event that debtor balances as at 1 September 2012 had not been fully receipted during the 12 months after settlement. On 10 September 2013, Horizon Energy received $513,415.26, being $500,000 in recognition of unreceipted debtors plus net interest of $13,415.26, from the escrow account, which has been recognised in the Statement of Comprehensive Income.

Notes to the Financial Statements

28. BUSINESS COMBINATIONS CONTINUED...

Acquisition of the Net Assets and Business of Airpro Services Limited and Clean Air Management (2005) Limited

On 13 August 2013, Horizon Energy Distribution Limited (through its subsidiary Aquaheat New Zealand Limited) acquired the business assets and certain liabilities of Airpro Services Limited, Airpro Mechanical Limited and Clean Air Management (2005) Limited.

The investment is consistent with Horizon Energy's strategy to develop its non-regulated revenue streams. The new businesses have a strong presence in the Auckland markets servicing heating, ventilation and cooling systems. The addition of the Airpro and Clean Air Management businesses to the Horizon Energy Group will enhance the contracting business enabling the Group to service the total needs of its customers and increase its involvement in large construction opportunities arising within the greater Auckland area.

	GROUP Final 2014 $000
Consideration on Acquisition	1,592

Consisting of:	Fair Value 2014 $000
Receivables	682
Inventories	55
Construction Work in Progress	129
Plant and Equipment	340
Total Assets Acquired	1,206
Employee Liabilities	(91)
General Business Insurance	(5)
Warranty Provisions	(85)
Total Liabilities Acquired	(181)
Fair Value of Net Assets Acquired	1,025
Goodwill on Acquisition	567
Total Purchase Consideration Settled in Cash	1,592

The values assigned to Plant and Equipment and Furniture and Fittings are the revalued prices as determined by the independent valuation undertaken by North Langley & Associates Limited effective 26 September 2013.

Other costs of $59,531 associated with the acquisition have been expensed during the year.

Goodwill is attributable to the presence in the market place and workforce of the acquired businesses and is not a separately identifiable intangible asset. Goodwill related to this business combination is non-deductible for income tax purposes.

Consolidation Treatment

100% of the income, assets and liabilities have been consolidated within the Group results.

Airpro and Clean Air Management are divisions of Aquaheat New Zealand Limited. The amounts included in the Consolidated Statement of Comprehensive Income and in the HVAC operating segment for the eight months post acquisition to 31 March 2014 include:

	2014 $000
Revenue	2,517
Net Loss after Tax	(33)

It is impractical for the Group to obtain reliable revenue and profit/(loss) figures for Airpro and Clean Air Management prior to acquisition, therefore the disclosures as if the acquisition occurred from 1 April 2013 have not been made.

29. CONTINGENT LIABILITIES

Electricity Purchase Commitment

In March 1999, as part of the sale of the Kapuni Generation assets, the Company assigned its rights under a long term contract for the purchase of electricity and remains contingently liable to purchase this electricity until the end of the contract (2017) should the purchasers fail to perform their obligations under the contract. In the event any claim is made against the Company under this long term contract for the purchase of electricity, the Company will have a claim against the purchaser of its Kapuni Generation assets under the relevant sale documentation.

Breach of the 2012 Regulatory Default Price Path

In 2012 Horizon Energy breached section 87(1)(a) of the Commerce Act 1986 ('the Act') by contravening a price-quality path requirement applying to regulated goods or services for the 2012 assessment period ('the Breach'). Horizon Energy accepts the Breach, which occurred due to mitigating circumstances which are explained in its 2012 Compliance Statement.

As at the date of signing the Financial Statements, Horizon Energy is still in negotiations with the Commerce Commission ('the Commission') regarding the final value of the settlement. Based on the Commissions calculations, this could be as high as $827,000. Should the Company reach settlement and agree a final value with the Commission, this will be refunded to retailers operating on the Horizon Energy network through a reduction in the 2015-2016 tariff pricing. Due to the on-going nature of discussions with the Commission and the inherent uncertainty of the outcome, the Company has provided $380,000 for the Breach in the year ended 31 March 2014.

Unclaimed Dividends

As provided for under clause 27.8 of the Company's constitution, unclaimed dividends now total $119,508 (2013: $104,817) relating to the period. Subject to compliance with the solvency test, the Company shall pay the dividend or other monetary distribution to the person or persons producing evidence of entitlement to these dividends.

Construction Contract Performance Bonds and Guarantees

As part of the terms of undertaking construction contracts the Group is required, in some cases, to provide additional security in the form of Bank Performance Bonds or Parent Company Guarantees. The ability of the clients to call upon these securities is governed by the terms of the construction contracts but is generally contingent upon non-performance under the contract. As at 31 March 2014 the total value of performance bonds issued is $1.09 million (2013: $1.0 million) and the total value of Parent Company Guarantees is $12.2 million (2013: $12.2 million).

30. EVENTS AFTER BALANCE DATE

Dividend Declaration

On 29 May 2014 the Directors declared a final fully imputed dividend of 9 cents (2013: 4.0 cents imputed) per ordinary share. As this event occurred after balance date the financial effect has not been recognised in the Financial Statements.

Notes to the Financial Statements

31. RELATED PARTY TRANSACTIONS

The following transactions occurred with related parties:

Transactions between the Parent and Horizon Services Limited

Horizon Services Limited (previously Horizon Energy Investments Limited) is a wholly owned subsidiary of Horizon Energy Distribution Limited the Parent Company. Horizon Services Limited is a New Zealand registered company.

Horizon Services Limited provided distribution network capital and maintenance services to the Parent Company. These services are purchased by the Parent on agreed terms and conditions.

	2014 $000	2013 $000
Purchase of Contracting Services and Network Assets from Subsidiary	10,945	8,777
Interest Income from Subsidiary on Shareholder Advances	(186)	(269)
Management Fee Income from Subsidiary	(451)	-
Rent Expense Paid to Subsidiary	60	60
Balance of Shareholder Loan to Subsidiary	3,079	2,626
Receivables Owing by Subsidiary	12	9
Payables Owing to Subsidiary	(1,093)	(1,428)

The shareholder loan is repayable on demand and incurs interest at the average weighted interest rate that the Group incurs on its bank borrowings. No related party bad debts have been recognised for the current and previous year.

Transactions between the Parent and Aquaheat New Zealand Limited

Interest Income from Subsidiary on Shareholder Advances	(212)	-
Management Fee Income from Subsidiary	(95)	-
Balance of Shareholder Loan to Subsidiary	-	2,951
Balance of Loan to Parent from Subsidiary	348	-

The loans are repayable on demand and incur interest at the average weighted interest rate that the Group incurs on its bank borrowings. No related party bad debts have been recognised for the current and previous year.

Lease Transactions with Padova Properties Limited

During the year Aquaheat New Zealand Limited leased property from Padova Properties Limited a company in which an employee is a director and shareholder. The lease terms are on terms and conditions based on an independent valuation.

Gross Rental Paid (2013: Part Year)	419	252
Sales from Aquaheat New Zealand Limited to Padova Properties Limited	2	18

31. RELATED PARTY TRANSACTIONS CONTINUED...

Transactions between the Parent and Stewart Browne Group Limited

Horizon Services Limited (formerly Horizon Energy Distribution Limited) (60% shareholder until 20 December 2012, then 100% shareholder after this date) and the Browne Family Trust (40% shareholder until the 20 December 2012) advanced funds to Stewart Browne Group Limited since the date of its incorporation until it was amalgamated with Horizon Services Limited on 30 September 2013.

	2013 $000
Loans to Stewart Browne Group Limited from Parent	
Loan - Interest Free (No fixed maturity date)	1,182
Loan - Interest Bearing (No fixed maturity date)	245
	1,427

Major Shareholders

The Group is controlled by the Eastern Bay Energy Trust (EBET) which owns 77.3% of the Company's shares. Marlborough Lines Limited holds 13.9% of the shares in the Company and is not a related party. The remaining 8.8% of shares in the Company are widely held.

	2014 $000	2013 $000
Transactions with Eastern Bay Energy Trust		
Contributions Received towards Undergrounding Works	36	20
Contributions Received towards Staff Training	9	31
Services Supplied by Horizon Energy to EBET	9	2
	54	**53**
Prior Period Tax Losses from EBET to Horizon Energy for No Consideration	**151**	**-**

Remuneration of Key Management Personnel and Directors Short Term Benefits

Salaries and Other Short Term Employee Costs	1,566	1,139
Directors' Fees	240	223
	1,806	**1,362**

Notes to the Financial Statements

32. COMMITMENTS

Capital Commitments

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

	GROUP		PARENT	
	2014	2013	**2014**	2013
	$000	$000	**$000**	$000
Non-Network Assets	112	5	-	-
Network Distribution Assets	398	935	398	935
	510	**940**	**398**	**935**

Operating Lease Commitments

The Group is party to a number of operating leases. The leasing arrangements are for office, warehouse and depot space and radio communication sites.

Operating lease commitments fall due for payment in the following periods:

Within One Year	987	866	79	98
Within One to Five Years	2,063	1,017	49	49
	3,050	**1,883**	**128**	**147**

33. RECONCILIATION OF NET PROFIT TO NET CASH FROM OPERATING ACTIVITIES

		GROUP		PARENT	
		2014	2013	**2014**	2013
	Note	**$000**	$000	**$000**	$000
Profit before Tax for the Year		**9,868**	**2,743**	**7,999**	**7,455**
Adjustments for:					
Capital Contributions Amortised	18	(18)	(17)	(18)	(17)
Dividend Received as Investing Income		-	-	-	(140)
Bad Debts Provided For		24	2,807	-	-
Depreciation and Amortisation	6	5,597	5,088	4,716	4,376
Loss on Disposal of Fixed Assets		82	123	75	59
Loss/(Gain) on Fair Value Movement of Financial Derivatives	19	(1,784)	(11)	(1,784)	(11)
Operating Cash Flows before Movements in Working Capital		**13,769**	**10,733**	**10,988**	**11,722**
Changes in Working Capital					
Increase in Construction Work in Progress	23	(1,141)	(1,047)	-	-
Increase/(Decrease) in Trade and Other Payables		3,489	6,999	(772)	959
(Increase)/Decrease in Trade and Other Receivables		(5,043)	(7,487)	(600)	189
Increase in Provisions	17	260	-	-	-
Increase in Construction Revenue Received in Advance		2,134	2,507	-	-
Increase in Inventories	12	(278)	(658)	-	(162)
Deferred Capital Contributions	18	-	(17)	-	(17)
Increase in Provision for Employee Costs	16	368	976	187	54
Add Items Reclassified as Investing Activities		(289)	-	(123)	-
Airpro and Clean Air Management Acquisition Working Capital	28	685	-	-	-
		185	**1,273**	**(1,308)**	**1,023**
Cash Flow from Operating Activities before Tax		**13,954**	**12,006**	**9,680**	**12,745**

34. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the Parent and the Group:

	GROUP		PARENT	
	2014 $000	2013 $000	2014 $000	2013 $000
Statutory Audit				
Audit of the Financial Statements	112	112	112	112
Total Audit and Assurance Services	**112**	**112**	**112**	**112**
Audit Related Services				
Section 53ZD Schedule B Disclosure Assurance Engagement	5	5	5	5
Regulatory DPP Compliance Statement Audit	24	11	24	11
Regulatory Disclosure Information Assurance Engagement	21	47	21	47
Taxation Compliance Services	29	24	29	24
Total Audit Related Services	**79**	**87**	**79**	**87**
Other Services				
Due Diligence on Proposed Asset Acquisitions	124	313	105	313
Regulatory Advice and Preparation of Submissions	33	14	33	14
Tax Advice and Opinions	9	36	9	36
Treasury Advisory Services	24	18	24	18
Total Other Services	**190**	**381**	**171**	**381**
Total Paid or Payable to PricewaterhouseCoopers	**381**	**580**	**362**	**580**

The fees above exclude travel disbursements.

Other Services

Regulatory advice includes assistance with regulatory submissions to the Commerce Commission in relation to regulatory compliance, standardisation of distribution tariffs, Default Price Path Starting Price Adjustment, Input Methodology draft decisions, Standardisation of Distribution tariffs and Model Use of System Agreements and review of the regulatory compliance impacts of a potential asset purchase.

During the year the following fees were paid or payable for services provided by Deloitte, the auditor of Aquaheat New Zealand Limited, a subsidiary of the Group:

	GROUP 2014	GROUP 2013	PARENT 2014	PARENT 2013
Statutory Audit				
Audit of the Financial Statements	35	40	-	-
Other Services	10	-	-	-
Total Audit and Assurance Services	**45**	**40**	**-**	**-**
Other Services				
Property, Plant and Equipment Valuation	8	33	8	33
Total Other Services	**8**	**33**	**8**	**33**
Total Paid or Payable to Deloitte	**53**	**73**	**8**	**33**
Total Auditors' Remuneration	**434**	**653**	**370**	**613**

Independent Auditors' Report

to the shareholders of Horizon Energy Distribution Limited

Report on the Financial Statements

We have audited the financial statements of Horizon Energy Distribution Limited ("the Company") on pages 32 to 71, which comprise the balance sheets as at 31 March 2014, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 March 2014 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have no relationship with, or interests in, Horizon Energy Distribution Limited or any of its subsidiaries other than in our capacities as auditors, tax advisors and providers of other assurance, due diligence, regulatory and treasury advisory services. These services have not impaired our independence as auditors of the Company and the Group.

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HORIZON ENERGY DISTRIBUTION LIMITED

Auditors' Report

Opinion

In our opinion, the financial statements on pages 32 to 71:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 31 March 2014, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2014:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' 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 Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants — Auckland
29 May 2014

Shareholders' Statistics

At 31 May 2014 there were 24,991,385 voting securities on issue. They were held by 1,773 shareholders.

Twenty Largest Shareholders

The names of the twenty largest Shareholders of Ordinary Shares as at 31 May 2014 are listed below:

77.29% Eastern Bay Energy Trust 19,316,130

13.89% Marlborough Lines Limited 3,472,059

0.29% **RW White** 72,264

0.18% **Key Group Limited** 44,205

0.10% **Bluefield Holdings Limited** 26,050
Custodial Services Limited 24,500 **AB Herdman** 24,171

0.08% **PBR Knyvett** 20,000

0.07% **MO Bailey** 16,500 **AR Twaites** 16,500

0.06% **JP Morgan** 15,000
Investment Custodial Services Limited 14,811
Investment Custodial Services Limited 14,810

0.05% **A O'Brien** 13,600 **ASB Nominees Limited** 13,440
HR Reynolds 13,000 **Ronaki Limited** 12,500
PW Ludbrook 12,120 **RA Ussher** 12,000 **DP Davidson** 11,750

Statement of Directors' Shareholdings

as at 31 March 2014

Fully Paid Ordinary Shares

Name	Beneficially Held		Non-Beneficially Held	
	31 March 2014	31 March 2013	31 March 2014	31 March 2013
R. Tait	-	-	-	-
J. McDonald	-	-	-	-
C. Boyle	-	-	-	-
A. de Farias	-	-	-	-

Substantial Security Holders

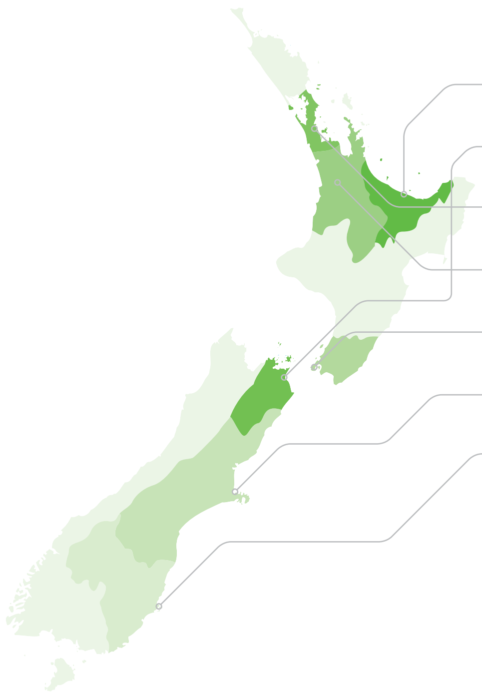
According to notices given to the Company under the Securities Markets Act 1988, as at 31 May 2014 the following were substantial security holders in the Company. In terms of the Act, the number of shares and percentages shown below are as last advised to Horizon Energy by the substantial security holder and may not be their current holding.

Name	Number of Shares	Percentage of Shares
Eastern Bay Energy Trust	19,316,130	77.29
Marlborough Lines Limited	3,472,059	13.89

Shareholders' Statistics

Analysis of Shareholder by Location

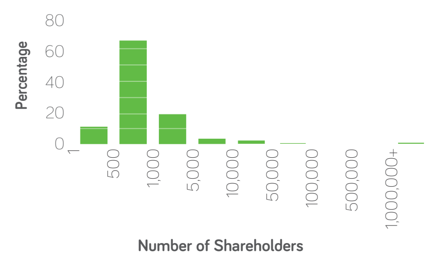
as at 31 May 2014

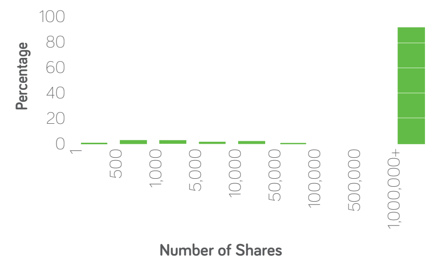


	Shareholders		Shares	
	Number	Percentage	Number	Percentage
Bay of Plenty	1,390	78.40%	20,609,975	82.47%
Blenheim	1	0.06%	3,472,059	13.89%
Auckland	124	6.99%	254,475	1.02%
Waikato	55	3.10%	77,283	0.31%
Wellington	38	2.14%	137,639	0.55%
Christchurch	11	0.62%	42,720	0.17%
Dunedin	14	0.79%	32,752	0.13%
Other	121	6.82%	352,242	1.41%
New Zealand	1,754	98.93%	24,979,145	99.95%
Overseas	19	1.07%	12,240	0.05%
Total Holders by Location	1,773	100%	24,991,385	100%

Spread of Security Holders

as at 31 May 2014





	Shareholders		Shares	
	Number	Percentage	Number	Percentage
1 to 499	199	11.22%	60,626	0.24%
500 to 999	1,142	64.41%	662,208	2.65%
1,000 to 4,999	352	19.86%	674,163	2.71%
5,000 to 9,999	47	2.65%	293,273	1.17%
10,000 to 49,999	30	1.69%	440,662	1.76%
50,000 to 99,999	1	0.06%	72,264	0.29%
100,000 to 499,999	-	-	-	-
500,000 to 999,999	-	-	-	-
1,000,000 and over	2	0.11%	22,788,189	91.18%
Total	1,773	100%	24,991,385	100%

Introduction
Our Connections
Business Information
Financial Information
Directory

Company Directory

Registered Office
52 Commerce Street, Whakatane 3120
Telephone +64 7 306 2900
Facsimile +64 7 306 2907
Email: info@horizonenergy.net.nz
Website: www.horizonenergy.net.nz

Postal Address
PO Box 281, Whakatane 3158,
New Zealand

Directors
R. Tait (Chairman)
J. McDonald
C. Boyle
A. de Farias

Chief Executive
A. Anand

Bankers
Bank of New Zealand
Westpac
ANZ

Solicitors
Bell Gully

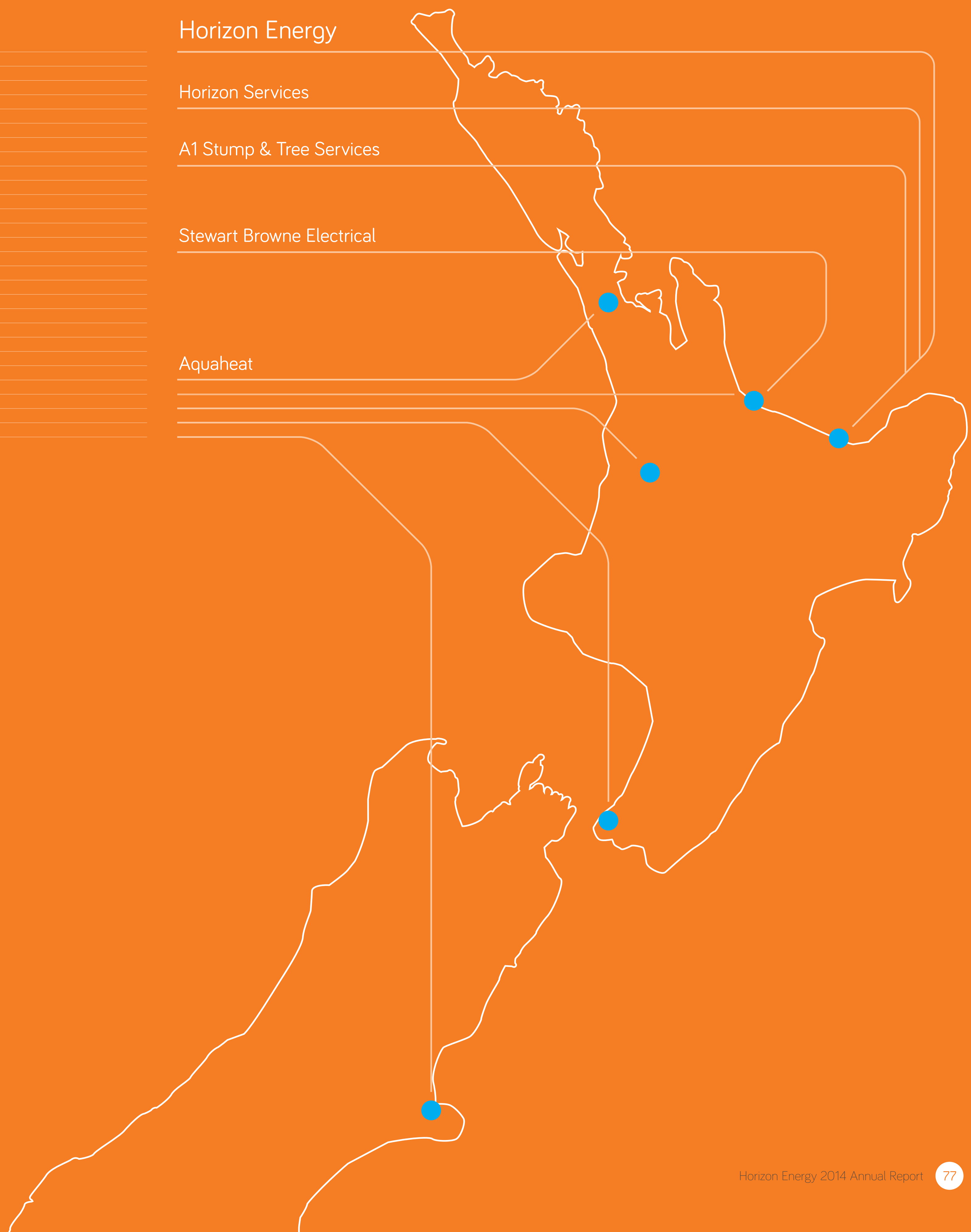
Auditors
PricewaterhouseCoopers
Deloitte

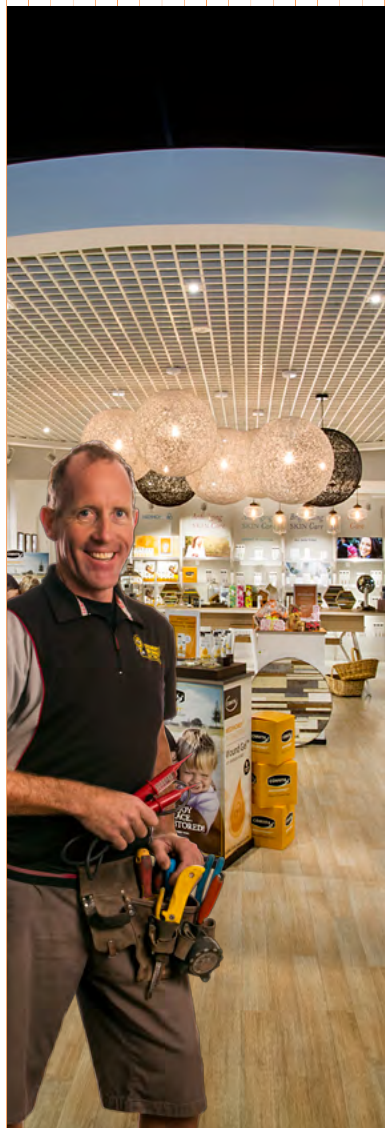
Share Registry
Computershare Investor Services Limited
Private Bag 92119, Auckland 1142
Level 2, 159 Hurstmere Road, Takapuna,
Auckland 0622, New Zealand

Managing Your Shareholding Online
To change your address, update your payment instructions and to view your investment portfolio including transactions, please visit:
www.investorcentre.com/nz

General enquiries can be directed to:
enquiry@computershare.co.nz
Private Bag 92119, Auckland 1142,
New Zealand
Telephone +64 9 488 8777
Facsimile +64 9 488 8787

Please assist our Registrar by quoting your CSN or shareholder number.





Thank you to our growing team.

Together we are connecting the future of our business throughout New Zealand.


HORIZON ENERGY