Moving Forward

TOMORROW & BEYOND

HORIZON ENERGY

INTERIM REPORT 2012

Our mission...

TO GROW A DIVERSE INFRASTRUCTURE BUSINESS THAT THINKS BEYOND THE HORIZON

Highlights

Aquaheat New Zealand Limited

September 2012

Acquisition

A word from the top...

CHAIRMAN'S REPORT

The Directors of Horizon Energy Distribution Limited ('Horizon Energy' or 'the Company') report that the unaudited net profit after tax for the six months ending 30 September 2012 is $2.5 million. This result compares with a net profit after tax of $3.03 million for the six months to 30 September 2011.

The core network and electrical contracting businesses returned a sound operating profit for the first half year however; Group profitability (post tax) has been impacted by:

- One-off cost of $0.7 million attributable to due diligence expenses incurred with the consideration of business opportunities. The most significant of these are costs associated with the acquisition of the contracting Heating, Ventilation and Air-conditioning businesses of Aquaheat Industries Limited and Hastie New Zealand Limited. Under the current accounting standards, costs associated with an acquisition must be expensed in the year incurred and not capitalised as part of the assets purchased.
- Losses sustained from accounting for the mark to market value of the Company's interest rate derivatives of $0.35 million (compared to $0.47 million post-tax losses incurred for the same period last year).

The 2012/13 full year after tax result is now forecast to be around $4.3 million (down from the previous full year result of $6.4 million) based on the following assumptions:

- One-off investigation and business acquisition costs for the full year of $0.76 million. Further opportunities are being investigated in line with the Company's strategic growth initiatives.
- Forecast year-end losses from new subsidiary, Aquaheat New Zealand Limited of $0.86 million. These losses include cost of integration, rationalisation and operating losses for the period.
- Losses sustained from accounting for the mark to market value of the Company's interest rate derivatives remaining unchanged to year-end at $0.35 million. The continued uncertainty within the international financial markets make it difficult to predict future value movements within the Company's derivative portfolio. The Directors have taken the view of retaining the current value of derivatives with no further losses or subsequent gains accounted for in the year-end profit forecast.

The financial position of the Company remains strong with total assets of approximately $132 million and term debt of $33 million.

The Directors have resolved to pay a fully imputed interim dividend of 6.0 cents per ordinary share to all shareholders recorded on the register at 5.00pm on 3 December 2012. This compares with the previous interim dividend of 8.0 cents per share and reflects the Directors view that a conservative dividend is prudent at this time.

There remains uncertainty around the Commerce Commission revised draft decision to reset the 2010-15 default price-quality path which indicates a potential price reduction for Horizon Energy of up to negative 4% to apply from 1 April 2012. The financial impact of the price reset will apply from the 2013/14 financial year. The Company continues to contest the proposed price reset and actively engages with the Commerce Commission to advocate for an approach that better promotes the Part 4 Purpose of the Commerce Act 1986.

This reduction in earnings will inevitably impact on returns to shareholders. The Directors remain challenged to balance the demands of the distribution network for ongoing capital expenditure, necessary to maintain quality and

A word from the top...

CHAIRMAN'S REPORT continued...


Stewart Browne Group Limited: Pillans Point Project


Aquaheat New Zealand Limited: Ventilation and Air-conditioning


A1 Stump and Tree Services


Horizon Energy Health and Safety

reliability, funded by retained earnings and a prudent level of debt with the need to reward shareholders for their capital invested. The Board is confident of offsetting to a large degree the full financial impact of the price reset with earnings from non-regulated sources however, a cautious approach to dividends is warranted at this time.

The Company's strategy to grow revenue from non-regulated businesses will reduce over time the proportion of its earning from revenue subject to regulation. We are now well into executing that strategy and recent acquisitions of the Stewart Browne Group and Aquaheat New Zealand Limited are examples of execution of this strategy. The Company will continue to look for commercially viable non-regulated business acquisitions and opportunities that meet the investment criteria set by the Board.

The network continues to perform well, with the number of outages being similar to last year. The average duration of the outages is, however, higher due to both the complexity and remote location of the significant events. The Company continually strives to improve the quality and reliability of its service to consumers, and barring any significant climatic events, expects to remain within the thresholds set by the Commission.

During the six months to 30 September 2012, the Company's electrical contracting business has performed well despite uncertain economic times. The Company acquired the local arborist business of A1 Stump and Tree Services on 1 March 2012 to expand the external operations and to secure additional capability to manage the vegetation risks to the network. The delivery of the expanded capital works plan for the network is on track and the business continues to focus to meet the demands of its external customers.

The Company's associated business, Stewart Browne Group Limited, has managed well the impact of reduced construction activity in the Bay of Plenty, and is on track to meet forecast results and make a positive contribution to Group financial results for the year.

On 1 September 2012 the Company acquired the business operations of Aquaheat Industries Limited and Hastie New Zealand Limited and combined these into the newly formed subsidiary Aquaheat New Zealand Limited. This is a significant purchase for the Company, expanding our external contracting heating, ventilation and air-conditioning capability providing national coverage with operations based in the main growth centres of Auckland, Wellington and Christchurch.

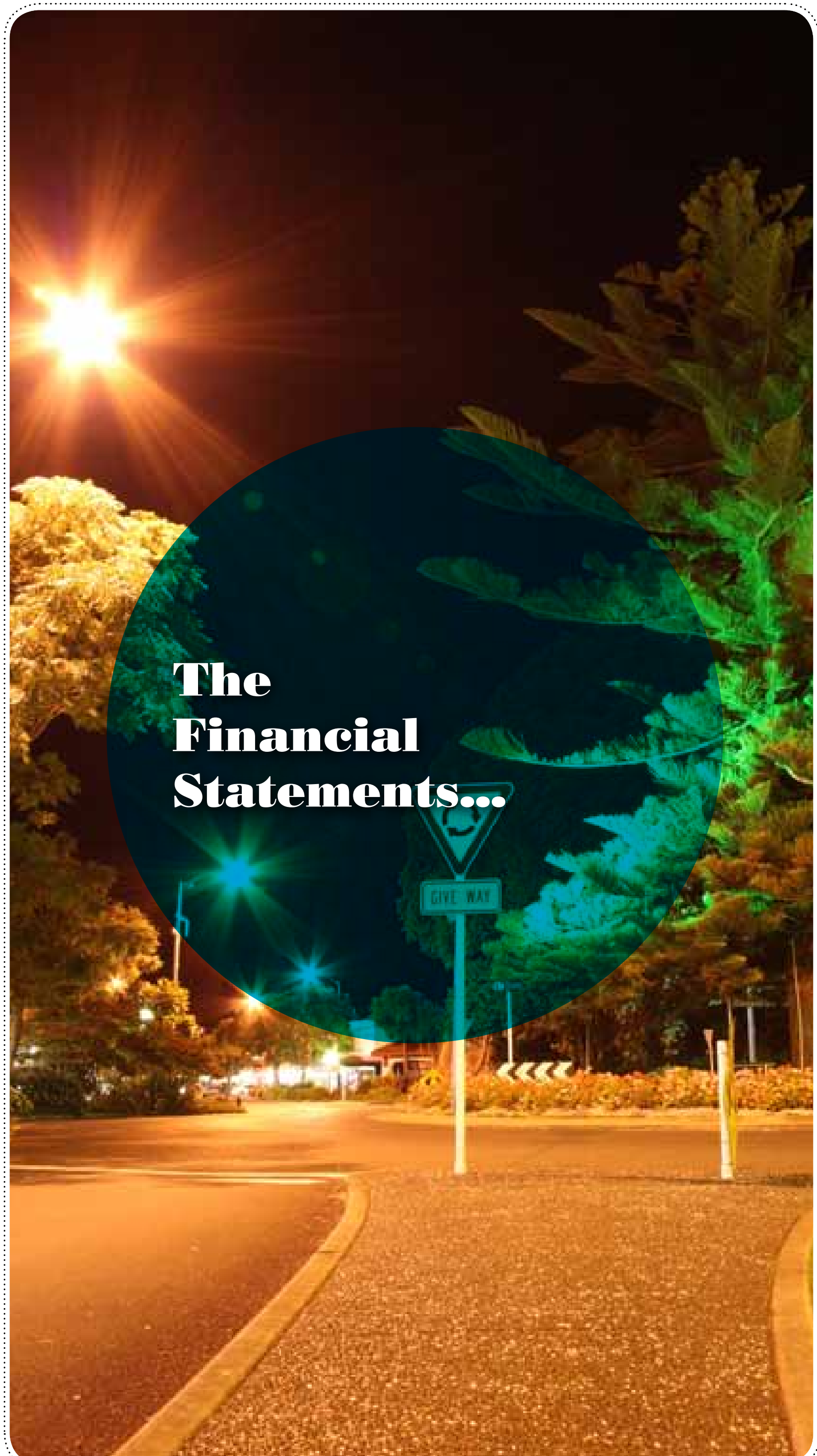
These businesses are long established with strong commercial relationships with large construction companies. As mentioned previously, the businesses have in recent times been impacted by the slowed construction activity due to the current economic climate and Management have initiated steps to realign the cost base to reduce surplus capacity, while retaining the capability to expand operations when construction activity increases.

The business units of the former owners have been consolidated in a single entity, Aquaheat New Zealand Limited, and Management is confident the restructured businesses will add value to the Horizon Energy Group during subsequent years.

Health and safety of all employees, contractors and the public is paramount to ensure all intrinsic safety risks are either eliminated, minimised or isolated. In this reporting period, we are pleased to advise that we have successfully gained full certification for NZS 7901: Public Management Systems.

The capital development program of $9.5 million for the year is progressing well as we continue to enhance the reliability and service delivery of the core electricity network.

Rob Tait
Chairman



HORIZON ENERGY DISTRIBUTION LIMITED

Statement of Comprehensive Income

For the six months ended 30 September 2012

	Notes	Group **Six months to 30-Sep-12 (Unaudited)** **$000**	Group Six months to 30-Sep-11 (Unaudited) $000	Group **Year ended 31-Mar-12 (Audited)** **$000**
Trading Operations				
Operating Revenue		25,824	18,977	36,527
Operating Expenses		(20,905)	(13,239)	(25,445)
Operating Profit		**4,919**	**5,738**	**11,082**
Other Income				
Other Income		62	41	141
		62	**41**	**141**
Financing Income and Expenses				
Interest Income		1	-	2
Less Finance Expenses				
Interest on Loans		(954)	(875)	(1,676)
Fair Value Movement of Financial Derivatives	3	(480)	(651)	(610)
		(1,433)	**(1,526)**	**(2,284)**
Profit before Tax		**3,548**	**4,253**	**8,939**
Income Tax Expense		(995)	(1,198)	(2,507)
Net Profit after Tax		**2,553**	**3,055**	**6,432**
Total Comprehensive Income		**2,553**	**3,055**	**6,432**
Profit Attributable to:				
Equity Holders of Horizon Energy Distribution Limited		2,503	3,029	6,387
Non-Controlling Interest		50	26	45
		2,553	**3,055**	**6,432**
Total Comprehensive Income Attributable to:				
Equity Holders of Horizon Energy Distribution Limited		2,503	3,029	6,387
Non-Controlling Interest		50	26	45
		2,553	**3,055**	**6,432**

Earnings per share for profit attributable to the equity holders of the Company during the year

	Group **30-Sep-12** **cents**	Group 30-Sep-11 cents	Group **31-Mar-12** **cents**
Basic and Diluted Earnings per Share (Cents per Share)	10.02	12.22	25.56

Balance Sheet

As at 30 September 2012

	Notes	Group As at 30-Sep-12 (Unaudited) $000	Group As at 30-Sep-11 (Unaudited) $000	Group As at 31-Mar-12 (Audited) $000
Current Assets				
Cash and Cash Equivalents		726	289	98
Trade and Other Receivables		20,570	5,102	5,147
Construction Work in Progress		858	681	426
Inventories		1,760	1,182	1,167
Total Current Assets		**23,914**	**7,254**	**6,838**
Non-Current Assets				
Property, Plant and Equipment		103,522	100,692	101,798
Intangible Assets		4,223	2,813	3,703
Total Non-Current Assets		**107,745**	**103,505**	**105,501**
Total Assets		**131,659**	**110,759**	**112,339**
Current Liabilities				
Trade and Other Payables		12,883	3,840	4,072
Warranty Provisions		413	-	-
Current Tax Liabilities		611	362	1,172
Employee Benefit Accruals		1,645	615	696
Income Received in Advance		2,080	-	-
Deferred Capital Contributions		18	6	18
Loan from Minority Shareholder	9	488	-	483
Current Portion of Bank Loans		-	8,000	-
Derivative Financial Instruments		-	53	15
Total Current Liabilities		**18,138**	**12,876**	**6,456**
Non-Current Liabilities				
Employee Benefit Accruals		445	108	153
Deferred Capital Contributions		602	638	611
Non-Current Portion of Bank Loans		32,620	18,420	25,825
Derivative Financial Instruments		2,468	2,006	1,974
Loan from Minority Shareholder	9	-	475	-
Deferred Tax Liabilities		19,347	19,876	19,585
Total Non-Current Liabilities		**55,482**	**41,523**	**48,148**
Total Liabilities		**73,620**	**54,399**	**54,604**
Net Assets		**58,039**	**56,360**	**57,735**
Equity				
Share Capital		8,433	8,433	8,433
Retained Earnings		23,744	22,134	23,490
Revaluation Reserves		25,767	25,767	25,767
Attributable to Equity Holders of the Company		**57,944**	**56,334**	**57,690**
Non-Controlling Interest	6	95	26	45
Total Equity		**58,039**	**56,360**	**57,735**
Total Equity and Liabilities		**131,659**	**110,759**	**112,339**

Robert Tait
Director

John McDonald
Director

9 November 2012

Statement of Changes in Equity

For the six months ended 30 September 2012

	Notes	Share Capital $000	Retained Earnings $000	Revaluation Reserves $000	Non - Controlling Interest $000	Total Equity $000
GROUP						
Balance as at 31 March 2011 (Audited)		**8,433**	**21,604**	**25,767**	**-**	**55,804**
Net Profit after Tax		-	3,029	-	26	3,055
Total Comprehensive Income for the Period		**-**	**3,029**	**-**	**26**	**3,055**
Dividends Paid		-	(2,499)	-	-	(2,499)
Balance as at 30 September 2011 (Unaudited)		**8,433**	**22,134**	**25,767**	**26**	**56,360**
Net Profit after Tax		-	3,358	-	19	3,377
Total Comprehensive Income for the Period		**-**	**3,358**	**-**	**19**	**3,377**
Unclaimed Dividends Now Presented		-	(3)	-	-	(3)
Dividends Paid		-	(1,999)	-	-	(1,999)
Balance as at 31 March 2012 (Audited)		**8,433**	**23,490**	**25,767**	**45**	**57,735**
Net Profit after Tax	6	-	2,503	-	50	2,553
Total Comprehensive Income for the Period		**-**	**2,503**	**-**	**50**	**2,553**
Dividends Paid		-	(2,249)	-	-	(2,249)
Balance as at 30 September 2012 (Unaudited)		**8,433**	**23,744**	**25,767**	**95**	**58,039**

Cash Flow Statement

For the six months ended 30 September 2012

	Notes	Group Six months to 30-Sep-12 (Unaudited) $000	Group Six months to 30-Sep-11 (Unaudited) $000	Group Year ended 31-Mar-12 (Audited) $000
Operating Activities				
Cash Receipts from Customers		24,044	18,269	35,856
Cash Paid to Suppliers		(12,776)	(8,448)	(15,609)
Salaries and Wages Paid to Employees		(4,839)	(3,438)	(5,648)
Total Operating Receipts and Payments		**6,429**	**6,383**	**14,599**
Interest Received		1	-	2
Interest Paid		(950)	(844)	(1,678)
Cash Flow from Operating Activities before Tax		**5,480**	**5,539**	**12,923**
Income Tax Paid		(1,793)	(1,755)	(2,544)
Net Cash from Operating Activities		**3,687**	**3,784**	**10,379**
Investing Activities				
Purchases of Property, Plant & Equipment		(2,445)	(2,084)	(5,671)
Purchases of Intangible Assets		(139)	(1,116)	(1,679)
Purchase of Aquaheat NZ		(5,025)	-	-
Net Cash Used in Investing Activities		**(7,609)**	**(3,200)**	**(7,350)**
Financing Activities				
Dividends Paid		(2,249)	(2,499)	(4,498)
Loan from Minority Shareholder		4	-	483
Repayment of Term Debt		(8,900)	(8,420)	(32,070)
Term Debt Drawn Down		15,695	10,365	32,895
Net Cash Used in Financing Activities		**4,550**	**(554)**	**(3,190)**
Net Increase/(Decrease) in Cash and Cash Equivalents		**628**	**30**	**(161)**
Cash and Cash Equivalents at the Beginning of the Period		98	259	259
Cash and Cash Equivalents at the End of the Period		**726**	**289**	**98**
Reconciliation of Net Profit to Net Cash from Operating Activities				
Profit before Tax for the Period		3,548	4,253	8,939
Adjustments for:				
Capital Contributions Amortised		(8)	(9)	(17)
Depreciation and Amortisation		2,439	2,295	4,604
Loss on Disposal of Fixed Assets		51	(9)	31
Loss on Fair Value of Interest Rate Swaps		480	651	610
Operating Cash Flows before Movements in Working Capital		**6,510**	**7,181**	**14,167**
Changes in Working Capital				
Construction Work in Progress		(432)	(431)	(176)
Trade and Other Payables		1,127	(340)	95
Trade and Other Payables Related to Fixed Assets		52	239	(134)
Trade and Other Receivables		(2,210)	(827)	(872)
Warranty Provisions		413	-	-
Inventories		3	(356)	(340)
Deferred Capital Contributions		(9)	(2)	(17)
Provision for Employee Costs		26	75	200
Net Changes in Working Capital		**(1,030)**	**(1,642)**	**(1,244)**
Cash Flow from Operating Activities before Tax		**5,480**	**5,539**	**12,923**

Notes to the Financial Statements

For the six months ended 30 September 2012

1. General Information

Reporting Entity

The principal activities of Horizon Energy Distribution Limited ('the Company') are the development, ownership and operation of electricity distribution, the provision of electrical contracting activities and the provision of heating ventilation and air-conditioning activities. The Group consists of the Company and its subsidiaries Horizon Energy Investments Limited, Stewart Browne Group Limited and Aquaheat New Zealand Limited. The consolidated group is designated as a profit-oriented entity for financial reporting purposes. All operations take place within New Zealand.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 52 Commerce Street, Whakatane.

The Company is listed on the New Zealand Stock Exchange.

These interim financial statements relate to the six months ended 30 September 2012 and have been approved for issue by the Board of Directors on 9 November 2012.

2. Accounting Policies

Horizon Energy Distribution Limited is registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

These unaudited interim financial statements have been prepared in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting as well as International Accounting Standard 34 Interim Financial Reporting and should be read in conjunction with the previous annual report. Except as described below, the accounting policies and methods of computation are consistent with those used in the most recent annual report which can be obtained from either the registered office of the Company or www.horizonenergy.net.nz.

There are no new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 April 2012 which have a material impact on the Company.

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. 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 2015.

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. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules. The Group intends to adopt NZ IFRS 10 no later than 1 April 2013.

NZ IFRS 12 Disclosure 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 will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments. The Group intends to adopt NZ IFRS 12 no later than 1 April 2013.

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 yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 March 2014.

Notes to the Financial Statements

For the six months ended 30 September 2012

3. Financial Instruments

The Group uses interest rate swaps to manage interest rate risk on its term bank loans. Under New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") the Company is required to flow gains and losses on interest rate swaps through the profit component of the Statement of Comprehensive Income. These gains and losses are non-cash and are a by-product of the Company's Treasury Risk Management Policy. The Board of Directors review the Treasury Risk Management Policy at least annually and monitor compliance on a monthly basis. The Directors believe the policy reflects prudent risk management.

4. 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:

- *Regulated Electricity Distribution*
- *Unregulated Contracting Activities*

The chief operating decision maker assesses the performance of the operating segments based on operating profit/(loss) after tax. Intersegment pricing is determined on an arms length basis.

	Regulated $000	Unregulated $000	Elimination $000	Group $000
Six months ended 30 September 2012				
Revenue				
External Revenue	15,941	9,883	-	25,824
Internal Revenue	-	3,705	(3,705)	-
Total Segment Revenue	**15,941**	**13,588**	**(3,705)**	**25,824**
Depreciation	(2,075)	(306)	-	(2,381)
Amortisation	(55)	(3)	-	(58)
Fair Value Movement of Financial Derivatives	(480)	-	-	(480)
Net Finance Costs	(947)	(7)	-	(954)
Income Tax Expense	(1,094)	(23)	122	(995)
Operating Profit/(Loss) after Income Tax	**2,805**	**60**	**(312)**	**2,553**
Assets and Liabilities				
Segment Assets	116,528	21,490	(6,359)	131,659
Total Assets	**116,528**	**21,490**	**(6,359)**	**131,659**
Segment Liabilities	58,963	19,845	(5,188)	73,620
Total Liabilities	**58,963**	**19,845**	**(5,188)**	**73,620**
Capital Additions	2,833	344	(434)	2,743
Goodwill Additions	-	659	-	659

One customer (Bay of Plenty Energy) comprised 55.3% of the Group's revenue in 2012 (2011: 65.1%).

Notes to the Financial Statements

For the six months ended 30 September 2012

4. Operating Segments continued...

	Regulated $000	Unregulated $000	Elimination $000	Group $000
Six months ended 30 September 2011				
Revenue				
External Revenue	15,540	3,478	-	19,018
Internal Revenue	-	2,841	(2,841)	-
Total Segment Revenue	**15,540**	**6,319**	**(2,841)**	**19,018**
Depreciation	(2,037)	(244)	-	(2,281)
Amortisation	(13)	(2)	-	(15)
Fair Value Movement of Financial Derivatives	(867)	-	-	(867)
Net Finance Costs	(759)	(116)	-	(875)
Income Tax Expense	(1,204)	(114)	120	(1,198)
Operating Profit after Income Tax	**3,073**	**291**	**(309)**	**3,055**
Assets and Liabilities				
Segment Assets	109,994	7,855	(7,090)	110,759
Total Assets	**109,994**	**7,855**	**(7,090)**	**110,759**
Segment Liabilities	54,131	5,520	(5,252)	54,399
Total Liabilities	**54,131**	**5,520**	**(5,252)**	**54,399**
Capital Additions	2,289	995	(122)	3,162
Year ended 31 March 2012				
Revenue				
External Revenue	29,819	6,708	-	36,527
Internal Revenue	24	6,774	(6,798)	-
Total Segment Revenue	**29,843**	**13,482**	**(6,798)**	**36,527**
Depreciation	(4,088)	(500)	35	(4,553)
Amortisation	(49)	(2)	-	(51)
Fair Value Movement of Financial Derivatives	(610)	-	-	(610)
Net Finance Costs	(1,667)	-	-	(1,667)
Income Tax Expense	(2,390)	(257)	140	(2,507)
Operating Profit after Income Tax	**6,223**	**569**	**(360)**	**6,432**
Assets and Liabilities				
Segment Assets	109,736	7,706	(5,103)	112,339
Total Assets	**109,736**	**7,706**	**(5,103)**	**112,339**
Segment Liabilities	52,721	6,126	(4,243)	54,604
Total Liabilities	**52,721**	**6,126**	**(4,243)**	**54,604**
Capital Additions	6,435	1,089	(553)	6,971
Goodwill Additions	-	839	-	839

Notes to the Financial Statements

For the six months ended 30 September 2012

5. Dividends (Cents per Share)

Amounts recognised as distributions to Equity Holders in the period:

	Group	Group
	30-Sep-12 Cents	30-Sep-11 Cents
Dividend for the period	9.0	10.0

The final dividend for the year ended 31 March 2012 of 9.0 cents per share was paid in June 2012. All dividends had full imputation credits attached.

6. Non-Controlling Interest

On 1 April 2011 the Company purchased 60% of shares in Stewart Browne Group Limited. The results for Stewart Browne Group Limited are consolidated into the Group result for the period ended 30 September 2012 and the non-controlling interest in Stewart Browne Group Limited is recognised within Equity as follows:

	Group	Group	Group
	30-Sep-12 $000	30-Sep-11 $000	31-Mar-12 $000
Balance at 31 March 2012	45	-	-
Share of Net Profit after Tax	50	26	45
Balance at 30 September 2012	**95**	**26**	**45**

7. Contingent Liabilities

There were no significant contingent liabilities known by the Company at 30 September 2012 (September 2011: Nil; March 2012: Nil).

8. Events Subsequent to Balance Date

Dividend Declaration

On 9 November 2012 the Directors declared an interim dividend of 6.0 cents for the 2013 year (2012: 8.0 cents) per ordinary share. As this event occurred after the reporting period the financial effect has not been recognised in the financial statements.

Notes to the Financial Statements

For the six months ended 30 September 2012

9. Related Party Transactions

a) Transactions with Horizon Energy Investments Limited

Horizon Energy Investments Limited is a 100% owned subsidiary of Horizon Energy Distribution Limited the Parent Company. Horizon Energy Investments Limited is a New Zealand registered company.

Horizon Energy Investments Limited, (trading as Horizon), provides distribution network capital and maintenance services to the Parent Company. These services are purchased by the Parent on an arms length basis at commercial terms and conditions that are available to third parties. The value and effect of intercompany transactions are shown in Note 4 Operating and Geographical Segments as eliminations.

b) Transactions with Eastern Bay Energy Trust

The Eastern Bay Energy Trust, which owns 77.29% of the Company's shares, makes contributions to certain capital projects for conversion of overhead lines to underground cables undertaken by the Company. From time to time the Company provides information technology support to the Eastern Bay Energy Trust.

	Group	Group	Group
	30-Sep-12 $000	30-Sep-11 $000	31-Mar-12 $000
Contributions received towards Undergrounding Works	-	127	330
Goods and Services supplied by Horizon	-	4	9
Contributions towards Staff Training	-	-	1
Eastern Bay Energy Trust	**-**	**131**	**340**
c) Period End Balances with Eastern Bay Energy Trust			
Capital Contributions towards Undergrounding	-	127	132
	-	**127**	**132**

d) Transactions with Stewart Browne Group Limited

Horizon Energy Distribution Limited (60% Shareholder) and Browne Family Trust (40% Shareholder) have advanced funds to Stewart Browne Group Limited since the date of its incorporation.

Loans to Stewart Browne Group Limited from Parent			
Loan - Interest Free	562	562	562
Loan - Interest Bearing (@ 8% per annum)	251	150	241
	813	**712**	**803**
Loans to Stewart Browne Group Limited from Browne Family Trust			
Loan - Interest Free	375	375	375
Loan - Interest Bearing (@ 8% per annum)	113	100	108
	488	**475**	**483**

These loans are repayable to the Browne Family Trust on 1 April 2013.

e) Transactions with Aquaheat New Zealand Limited

Horizon Energy Distribution Limited has advanced funds to its 100% owned subsidiary Aquaheat New Zealand Limited since the date of its incorporation.

	Group	Group	Group
	30-Sep-12 $000	30-Sep-11 $000	31-Mar-12 $000
Advance to Aquaheat New Zealand Limited			
Advance - Interest Bearing (@ 6.5% per annum)	5,539	-	-

Notes to the Financial Statements

For the six months ended 30 September 2012

10. Commitments

Capital commitments contracted at balance date but not yet incurred are:

	Group	Group	Group
	30-Sep-12	30-Sep-11	**31-Mar-12**
	$000	$000	**$000**
Capital commitments contracted to external parties	**211**	**699**	**317**
Capital commitments contracted to subsidiaries	**2,998**	**3,162**	**1,092**

Operating Lease Commitments

The Group is party to a number of operating leases. The leasing arrangements are for office, warehouse and depot space, motor vehicles and office equipment.

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

	Group	Group	Group
	30-Sep-12	30-Sep-11	**31-Mar-12**
	$000	$000	**$000**
Within one year	985	206	206
Within one to five years	1,119	722	535
Over five years	-	-	-

11. Business Combinations

Acquisition 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 and air-conditioning, manufacturing and installation services. 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.

Details of Net Assets and Goodwill Acquired

The Company is currently determining the fair values of the net assets and goodwill acquired, and the amounts outlined below are provisional at 30 September 2012. In particular, the resolution of the following matters may materially affect the provisional values assessed by the Company:

- The consideration paid is subject to adjustment due to changes in working capital items up to the date of acquisition. The Company is working with the Vendor to finalise the consideration amount in accordance with the terms of the Sale and Purchase Agreement.
- The Company is assessing what identifiable intangible assets were acquired and determining their fair value. As at 30 September 2012, no intangible assets have been separately identified and valued.
- An assessment of the fair value of the plant and equipment acquired.
- Deferred tax may be recognised arising from the resolution of the matters above.

Notes to the Financial Statements

For the six months ended 30 September 2012

11. Business Combinations continued...

	Group
	30-Sep-12
	$000
Consideration on Acquisition	5,025
	5,025

Consisting of:

	Fair Value Adjustment	Acquiree's Carrying Amount
	$000	**$000**
Cash and Cash Equivalents	2	2
Gross Receivables	13,069	13,069
Less Provision for Doubtful Debts	(447)	(447)
Prepayments	43	43
Inventories	302	302
Work in Progress	(1,852)	(1,852)
Plant and Equipment	1,362	1,362
Motor Vehicles	279	279
Total Assets Acquired	**12,758**	**12,758**
Trade and Other Payables	(6,771)	(6,771)
Employee Liabilities	(1,215)	(1,215)
Warranty Provisions	(406)	(406)
Total Liabilities Acquired	**(8,392)**	**(8,392)**
Fair Value of Net Assets Acquired	**4,366**	**4,366**
Goodwill	659	659
Total Purchase Consideration	**5,025**	**5,025**

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.

Other costs of $510,010 associated with the acquisition have been expensed during the year and are recorded in Operating Expenses in the Statement of Comprehensive Income.

Consolidation Treatment

100% of the income, assets and liabilities have been consolidated within the Group results from 1 September 2012. Aquaheat New Zealand Limited amounts included in the consolidated Statement of Comprehensive Income for the six months to 30 September 2012 include:

	$000
Revenue	5,556
Net Loss after Tax	184

It is impractical for the Group to obtain reliable revenue and profit/(loss) figures for Aquaheat New Zealand Limited prior to acquisition, therefore the disclosures as if the acquisition occurred from 1 April 2012 have not been made.

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Managing Your Shareholding Online
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HORIZON ENERGY