# WEL Networks Limited

**NZBN 9429039416926**

## Interim Financial Statements - 30 September 2023

**WEL Networks Limited**
**Contents**
**30 September 2023**

**WEL Networks Limited**
**Statement of comprehensive income**
**For the half-year ended 30 September 2023**

| | | Consolidated | |
|---|---|---|---|
| | Note | 30 September 2023 Unaudited $'000 | 30 September 2022 Unaudited $'000 |
| **Revenue** | 7 | 91,200 | 75,080 |
| **Expenses** | | | |
| Expenses, excluding finance costs | 11 | (57,420) | (46,919) |
| Other gains/(losses) | 12 | (400) | 1,133 |
| **Earnings before interest, taxes, depreciation and amortisation expenses (EBITDA)** | | **33,380** | **29,294** |
| Depreciation and amortisation expense | | (13,065) | (12,595) |
| Finance expenses | 13 | (3,618) | (4,150) |
| Finance income | 14 | 4,163 | 3,086 |
| **Profit before income tax expense** | | **20,860** | **15,635** |
| Income tax expense | | (6,035) | (4,302) |
| **Profit after income tax expense for the half-year** | | **14,825** | **11,333** |
| **Other comprehensive income** | | | |
| *Items that will not be reclassified subsequently to profit or loss* | | | |
| Loss on the revaluation of land and buildings, net of tax | 5 | (950) | - |
| Change in the fair value of equity investments at fair value through other comprehensive income | 8 | 800 | (5,821) |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Net change in the fair value of cash flow hedges taken to equity, net of tax | | 46 | 1,141 |
| Other comprehensive income for the half-year, net of tax | | (104) | (4,680) |
| **Total comprehensive income for the half-year** | | **14,721** | **6,653** |

| | Cents | Cents |
|---|---|---|
| **Earnings per share for profit attributable to the shareholder of WEL Networks Limited** | | |
| Basic earnings per share | 181.83 | 139.00 |
| Diluted earnings per share | 181.83 | 139.00 |

*The above statement of comprehensive income should be read in conjunction with the accompanying notes*

**WEL Networks Limited**
**Balance sheet**
**As at 30 September 2023**

| | Note | Consolidated 30 September 2023 Unaudited $'000 | Consolidated 31 March 2023 Audited $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 28,508 | 59,362 |
| Trade and other receivables | | 19,414 | 18,748 |
| Contract assets | | 390 | 657 |
| Financial assets at fair value through other comprehensive income | 8 | - | 76,945 |
| Net investment in lease | 9 | 599 | 591 |
| Derivative financial instruments | 15 | 160 | 662 |
| Income tax receivable | | - | 936 |
| Term deposits | | 5,800 | 83,405 |
| **Total current assets** | | **54,871** | **241,306** |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 845,639 | 810,090 |
| Intangibles | 6 | 25,764 | 20,211 |
| Net investment in lease | 9 | 25,996 | 26,295 |
| Right-of-use assets | | 3,785 | 3,445 |
| Derivative financial instruments | 15 | - | 745 |
| **Total non-current assets** | | **901,184** | **860,786** |
| **Total assets** | | **956,055** | **1,102,092** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Customer discount payable | | 6,771 | 12,275 |
| Borrowings | 10 | - | 148,838 |
| Lease liabilities | | 561 | 380 |
| Trade and other payables | | 16,914 | 21,277 |
| Employee benefit obligations | | 4,726 | 4,074 |
| Contract liabilities | | 11,292 | 9,757 |
| Income tax payable | | 669 | - |
| **Total current liabilities** | | **40,933** | **196,601** |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | 112,204 | 110,540 |
| Lease liabilities | | 3,373 | 3,180 |
| Deferred revenue | | 783 | 798 |
| Derivative financial instruments | 15 | - | 932 |
| **Total non-current liabilities** | | **116,360** | **115,450** |
| **Total liabilities** | | **157,293** | **312,051** |
| **Net assets** | | **798,762** | **790,041** |

*The above balance sheet should be read in conjunction with the accompanying notes*

**WEL Networks Limited**
**Balance sheet**
**As at 30 September 2023**

| | Note | Consolidated 30 September 2023 Unaudited $'000 | 31 March 2023 Audited $'000 |
|---|---|---|---|
| **Equity** | | | |
| Contributed equity | | 111,142 | 111,142 |
| Reserves | | 202,055 | 197,375 |
| Retained earnings | | 485,565 | 481,524 |
| **Equity attributable to the shareholder of WEL Networks Limited** | | **798,762** | **790,041** |
| **Total equity** | | **798,762** | **790,041** |

Barry Harris
Chairman

Carolyn Steele
Director

23 November 2023

*The above balance sheet should be read in conjunction with the accompanying notes*

**WEL Networks Limited**
**Statement of changes in equity**
**For the half-year ended 30 September 2023**

| Consolidated | Share capital $'000 | Reserves $'000 | Retained earnings $'000 | Total equity $'000 |
|---|---|---|---|---|
| Balance at 1 April 2022 | 111,142 | 208,328 | 470,857 | 790,327 |
| Profit after income tax expense for the half-year | - | - | 11,333 | 11,333 |
| Movement in equity investments at fair value through other comprehensive income | - | (5,821) | - | (5,821) |
| Movement in revaluation from disposal of distribution network assets (net of tax) | - | (3,830) | 3,830 | - |
| Cashflow hedges (net of tax) | - | 1,141 | - | 1,141 |
| Total comprehensive income for the half-year (net of tax) | - | (8,510) | 15,163 | 6,653 |
| Transactions with owners: | | | | |
| *Dividends paid (note 17)* | - | - | (4,200) | (4,200) |
| **Balance at 30 September 2022** | **111,142** | **199,818** | **481,820** | **792,780** |

| Consolidated | Share capital $'000 | Reserves $'000 | Retained earnings $'000 | Total equity $'000 |
|---|---|---|---|---|
| Balance at 1 April 2023 | 111,142 | 197,375 | 481,524 | 790,041 |
| Profit after income tax expense for the half-year | - | - | 14,825 | 14,825 |
| Movement in equity investments at fair value through other comprehensive income | - | 800 | - | 800 |
| Movement in revaluation from disposal of distribution network assets (net of tax) | - | (668) | 668 | - |
| Movement in revaluation from disposal of equity investments | - | 5,452 | (5,452) | - |
| Cashflow hedges (net of tax) | - | 46 | - | 46 |
| Asset revaluation (net of tax) | - | (950) | - | (950) |
| Total comprehensive income for the half-year | - | 4,680 | 10,041 | 14,721 |
| *Transactions with owners:* | | | | |
| Dividends paid (note 17) | - | - | (6,000) | (6,000) |
| **Balance at 30 September 2023** | **111,142** | **202,055** | **485,565** | **798,762** |

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**WEL Networks Limited**
**Statement of cash flows**
**For the half-year ended 30 September 2023**

| | Note | Consolidated 30 September 2023 Unaudited $'000 | 30 September 2022 Unaudited $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 86,503 | 64,346 |
| Payments to suppliers and employees | | (58,286) | (47,557) |
| Income taxes paid | | (2,428) | - |
| **Net cash from operating activities** | | **25,789** | **16,789** |
| **Cash flows from investing activities** | | | |
| Proceeds from financial assets at fair value through other comprehensive income | 8 | 77,935 | - |
| Payments for property, plant and equipment | 5 | (49,481) | (40,950) |
| Payments for intangibles | 6 | (6,776) | (1,992) |
| Proceeds from disposal of property, plant and equipment | | 84 | 465 |
| Interest received | | 3,347 | 2,189 |
| Interest received on finance leases | | 816 | 833 |
| Payments received for finance leases | | 291 | 281 |
| Proceeds from/(transfers to) term deposits | | 77,605 | (140,000) |
| **Net cash from/(used in) investing activities** | | **103,821** | **(179,174)** |
| **Cash flows from financing activities** | | | |
| Interest paid | | (4,116) | (3,908) |
| Interest paid on lease liabilities | | (80) | (60) |
| Dividends paid | 17 | (6,000) | (4,200) |
| Repayment of borrowings | 10 | (150,000) | - |
| Payments for lease liabilities | | (268) | (155) |
| **Net cash used in financing activities** | | **(160,464)** | **(8,323)** |
| Net decrease in cash and cash equivalents | | (30,854) | (170,708) |
| Cash and cash equivalents at the beginning of the financial half-year | | 59,362 | 211,495 |
| **Cash and cash equivalents at the end of the financial half-year** | | **28,508** | **40,787** |

*The above statement of cash flows should be read in conjunction with the accompanying notes*

## Note 1. Summary of significant accounting policies

These financial statements are for WEL Networks Limited ('the Company') and its subsidiaries (together, 'the Group').

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 114 Maui Street, Hamilton.

The principal continuing activities of the Group consist of:
- The electricity networks business delivering energy to customers in the Waikato Region;
- The generation and sale of wholesale electricity; and
- Providing project and commercial management in the delivery of innovative energy solutions.

For the period to 1 June 2023, the Group also operated an electricity retail business in the Waikato region.

These financial statements have been approved for issue by the Board of Directors on 23 November 2023.

The interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 March 2023 and any public announcements made by WEL Networks Limited during the interim reporting period. The same accounting policies and methods of computation have been applied in preparation of these financial statements as were applied in the most recent set of annual financial statements for the year ended 31 March 2023. Where relevant, further information has been either set out below or in the relevant note. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

### Basis of preparation of financial statements
The interim financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Financial Markets Conduct Act 2013 and the Main Board/Debt Market Listing Rules of NZX Limited. The interim financial statements comply with New Zealand Equivalents to International Accounting Standards NZ IAS 34 Interim Financial Reporting.

WEL Networks Limited is designated as a profit-oriented entity for financial reporting purposes.

These interim financial statements include non-GAAP financial measures that are not prepared in accordance with NZ IFRS. The Group presents the statement of comprehensive income to include the non-GAAP measure of Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA). The Group believes that this non-GAAP measure provides useful information to readers, as this is a key measure used by the banks, with the Group’s debt covenants based on this figure and also reflects how the Board evaluates and manages the performance of the business, but it should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with NZ IFRS. Non-GAAP measures as reported by the Group may not be comparable to similarly titled amounts reported by other companies.

The revenue for the electricity network segment is subject to seasonality due to the seasonal differences in the demand for electricity.

These consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value and certain classes of property, plant and equipment.

### Significant changes and disclosures in the current reporting period
The financial position and performance of the Group was particularly affected by the following events and transactions during the six months to 30 September 2023:

- Dividend payment to WEL Energy Trust of $6M (refer to note 17).
- OurPower Limited exited the electricity retail business with customers transferred to another retailer on 1 June 2023.
- Repayment of $150M subordinated bond on 2 August 2023. This was funded through the realisation of investment funds and matured term deposits.
- Entered into $85M of new bank facilities following the repayment of the subordinated bond (refer to note 10).
- Increase of $19M in Infratec EPC revenue compared to 30 September 2022 due to several new external EPC contracts commencing in the six months to 30 September 2023 (refer to note 7).

## Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are set out below or in the relevant notes as follows:

- Property, plant and equipment (refer to note 5); and
- Intangibles (refer to note 6).

## Note 3. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

| Name | Principal place of business / Country of incorporation | Ownership interest 30 September 2023 Unaudited % | 31 March 2023 Audited % |
|---|---|---|---|
| OurPower Limited | New Zealand | 100% | 100% |
| Smartco Limited (joint venture) | New Zealand | 14% | 14% |
| NewPower Energy Services Limited | New Zealand | 100% | 100% |
| NewPower Energy Limited * | New Zealand | 100% | 100% |
| Infratec New Zealand Limited | New Zealand | 100% | 100% |

* Subsidiary of NewPower Energy Services Limited

Smartco Limited is accounted for using the equity method, however there is no material impact to the Group.

## Note 4. Operating segments

*Identification of reportable operating segments*
The Board of Directors (the 'Board') is the Group's chief operating decision maker. Management has determined the operating segments based on the information reviewed by the Board for the purposes of allocating resources and assessing performance.

The Board reviews WEL Networks Limited from a network perspective and management considers the performance from an electricity network perspective. Infratec NZ Limited engages in EPC (Engineering, Procurement and Construction) projects which are reviewed by the Board and management from a project perspective. Anything not included in these categories is classified as 'Other' including technology investments (Smart meters, and We.EV), and the generation and retail businesses.

The Board assesses the performance of the operating segments based on a measure of EBITDA as defined in note 1. Depreciation and amortisation, finance income and finance expenses are not allocated to segments, as these types of activities are driven by the central treasury function of the Group.

Assets and liabilities, including financial assets, tax and borrowings, that are managed by the central treasury function of the Group are also not allocated to segments.

Sales and purchases are recognised within each individual segment to which they relate and are eliminated on consolidation. The revenue from external parties is measured in a manner consistent with that in the statement of comprehensive income.

## Note 4. Operating segments (continued)

*Operating segment information*

| Consolidated - 30 September 2023 Unaudited | Electricity Network $'000 | EPC $'000 | Other Segments $'000 | Total $'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Segment revenue | 65,824 | 22,891 | 6,341 | 95,056 |
| Intersegment sales | (347) | (1,983) | (1,526) | (3,856) |
| **Total revenue** | **65,477** | **20,908** | **4,815** | **91,200** |
| | | | | |
| **EBITDA** | **31,476** | **2,077** | **(173)** | **33,380** |
| Depreciation and amortisation | | | | (13,065) |
| Finance income | | | | 4,163 |
| Finance expenses | | | | (3,618) |
| **Profit before income tax expense** | | | | **20,860** |
| Income tax expense | | | | (6,035) |
| **Profit after income tax expense** | | | | **14,825** |
| | | | | |
| **Assets** | | | | |
| Segment assets | 866,255 | 5,481 | 49,851 | 921,587 |
| *Unallocated assets:* | | | | |
| Cash and cash equivalents | | | | 28,508 |
| Term deposits | | | | 5,800 |
| Derivative financial instruments | | | | 160 |
| **Total assets** | | | | **956,055** |
| | | | | |
| **Liabilities** | | | | |
| Segment liabilities | 36,076 | 4,257 | 4,087 | 44,420 |
| *Unallocated liabilities:* | | | | |
| Income tax | | | | 669 |
| Deferred tax liabilities | | | | 112,204 |
| **Total liabilities** | | | | **157,293** |

## Note 4. Operating segments (continued)

| Consolidated - 30 September 2022 Unaudited | Electricity Network $'000 | EPC $'000 | Other Segments $'000 | Total $'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Segment revenue | 64,616 | 8,670 | 10,270 | 83,556 |
| Intersegment sales | (1,214) | (7,076) | (186) | (8,476) |
| **Total revenue** | **63,402** | **1,594** | **10,084** | **75,080** |
| | | | | |
| **EBITDA** | **27,911** | **(281)** | **1,664** | **29,294** |
| Depreciation and amortisation | | | | (12,595) |
| Finance income | | | | 3,086 |
| Finance expenses | | | | (4,150) |
| **Profit before income tax expense** | | | | **15,635** |
| Income tax expense | | | | (4,302) |
| **Profit after income tax expense** | | | | **11,333** |

| Consolidated - 31 March 2023 Audited | Electricity Network $'000 | EPC $'000 | Other Segments $'000 | Total $'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Segment assets | 830,056 | 5,876 | 45,428 | 881,360 |
| *Unallocated assets:* | | | | |
| Cash and cash equivalents | | | | 59,362 |
| Term deposits | | | | 83,405 |
| Derivative financial instruments | | | | 84 |
| Financial assets at fair value through other comprehensive income | | | | 76,945 |
| Income tax | | | | 936 |
| **Total assets** | | | | **1,102,092** |
| | | | | |
| **Liabilities** | | | | |
| Segment liabilities | 42,575 | 2,227 | 6,939 | 51,741 |
| *Unallocated liabilities:* | | | | |
| Borrowings | | | | 148,838 |
| Deferred tax liabilities | | | | 110,540 |
| Derivative financial instruments | | | | 932 |
| **Total liabilities** | | | | **312,051** |

## Note 5. Property, plant and equipment

| Consolidated | Electricity network $'000 | Generation assets $'000 | Land and buildings $'000 | Plant and equipment $'000 | Motor vehicles $'000 | Computer hardware $'000 | Assets under construction $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| Opening net book amount as at 1 April 2023 | 723,181 | 22,515 | 20,088 | 31,181 | 6,279 | 1,761 | 5,085 | 810,090 |
| Additions | 41,675 | 4,904 | - | 194 | 453 | 49 | 3,594 | 50,869 |
| Revaluations | - | - | (1,319) | - | - | - | - | (1,319) |
| Transfers | - | - | - | 1,238 | 739 | 64 | (2,041) | - |
| Disposals | (1,033) | - | - | (1,281) | (147) | (1) | - | (2,462) |
| Depreciation charge | (8,461) | (44) | (181) | (1,909) | (580) | (364) | - | (11,539) |
| Closing net book amount as at 30 September 2023 | **755,362** | **27,375** | **18,588** | **29,423** | **6,744** | **1,509** | **6,638** | **845,639** |
| Cost/valuation | 788,673 | 28,015 | 21,115 | 65,889 | 13,510 | 6,082 | 6,638 | 929,922 |
| Accumulated depreciation | (33,311) | (640) | (2,527) | (36,466) | (6,766) | (4,573) | - | (84,283) |
| | **755,362** | **27,375** | **18,588** | **29,423** | **6,744** | **1,509** | **6,638** | **845,639** |

The Assets under construction category above excludes work in progress relating to the Electricity network and Generation assets. The net book value of the Electricity network includes $73.0M of work in progress at 30 September 2023 (31 March 2023: $45.1M). The net book value of Generation assets includes $25.3M of work in progress at 30 September 2023 (31 March 2023: $20.4M).

*Critical accounting judgements, estimates and assumptions*

Maui St land and buildings, included in the land and buildings asset category, were revalued to fair value for highest and best use on 30 September 2023 by independent valuers, SGHU Valuations LP Registered Valuers using a market approach being a Level 3 valuation. Key inputs include market rent at $990,000 (31 March 2023: $990,000) and a capitalisation rate of between 5.75% and 6.25% (31 March 2023: 5.25% and 5.75%), resulting in a valuation range of $15.8M to $17.2M (31 March 2023: $17.2M to $18.9M). The mid-point of $16.5M has been used to revalue the Maui St land and buildings as at 30 September 2023 (31 March 2023: $18.0M).

It is the Group's policy to revalue the Electricity Network at least every three years, or more frequently if there is evidence to suggest a significant change in fair value. As such the Group engaged Deloitte, an independent third party valuer, to perform the network valuation for the year ended 31 March 2022. For the purposes of assessing the fair value of the electricity network as at 30 September 2023, management have updated the key inputs to develop an estimated valuation range and consider the carrying value relative to the respective valuation range. This is a Level 3 valuation.

The updated key inputs have resulted in a valuation range for the Electricity Network of 723.6M to $785.4M, with a mid-point of $753.8M (based on sensitivity to WACC low/high estimates). The Directors consider that the current carrying value of the network fixed assets of $755.4M can be retained, as the carrying value materially reflects estimated fair value (31 March 2023 carrying value: $723.2M).

The primary valuation method is the discounted cash flow (DCF) methodology, over a 10 year period, with a terminal value based on the estimated regulatory asset base (RAB) using a multiple of 1.0x. While isolated changes to revenue and expenditure assumptions used in the discounted cash flow model can have a significant impact on the valuation range, as the valuation is prepared under a regulatory framework to earn a regulated return on investment, these assumptions are inter-related and therefore any reasonable changes to these assumptions would not result in a significant change to the valuation range. The valuation is however sensitive to the Weighted Average Cost of Capital (WACC) and the Regulated Asset Base (RAB) multiple used in the valuation as outlined in the table below.

## Note 5. Property, plant and equipment (continued)

We have considered the potential impact of climate change in the preparation of the electricity network valuation. We are forecasting a greater capital spend to enable the network to cope with future increased load expected from electrification, growth, and decarbonisation. The impact of this has been included in the latest Asset Management Plan which forms the basis of the assumptions used in the DCF for the network valuation.

The table below shows the sensitivities to the inputs of the valuation, which are represented by the valuation ranges.

### 30 September 2023

| Electricity Network: | Mid-point for valuation | Sensitivity Range | Valuation Impact of Sensitivity Range from Mid-point |
|---|---|---|---|
| WACC (Weighted Average Cost of Capital) | 6.9% | 6.4% - 7.4% | + $32M / - $30M |
| Regulatory Asset Base (RAB) Multiple for Terminal Value (TV) | 1.00x | 0.98x - 1.02x | +/- $11.3M |

### 31 March 2023

| Electricity Network: | Mid-point for valuation | Sensitivity Range | Valuation impact of Sensitivity Range from Mid-point |
|---|---|---|---|
| WACC (Weighted Average Cost of Capital) | 6.4% | 5.9% - 6.9% | + $33M / - $31M |
| Regulatory Asset Base (RAB) Multiple for Terminal Value (TV) | 1.00x | 0.98x - 1.02x | +/- $11.3M |

## Note 6. Intangibles

| | Internally generated software $'000 | Computer software $'000 | Goodwill $'000 | Easements and consents $'000 | Leasehold interests $'000 | Assets under construction $'000 | Customer contracts $'000 | Total |
|---|---|---|---|---|---|---|---|---|
| Opening net book amount as at 1 April 2023 | 91 | 4,038 | 3,121 | 2,666 | 107 | 10,188 | - | 20,211 |
| Additions | 987 | - | - | - | - | 5,789 | - | 6,776 |
| Transfers | 3,510 | 361 | - | 202 | - | (4,073) | - | - |
| Amortisation charge | (226) | (996) | - | (1) | - | - | - | (1,223) |
| **Closing net book amount as at 30 September 2023** | **4,362** | **3,403** | **3,121** | **2,867** | **107** | **11,904** | **-** | **25,764** |
| Cost | 5,371 | 22,447 | 3,121 | 5,465 | 107 | 11,904 | 770 | 49,185 |
| Accumulated amortisation and impairment | (1,009) | (19,044) | - | (2,598) | - | - | (770) | (23,421) |
| | **4,362** | **3,403** | **3,121** | **2,867** | **107** | **11,904** | **-** | **25,764** |

*Critical accounting judgements, estimates and assumptions for intangibles*

The Group is required to test goodwill and other non-amortising intangible assets at least annually for impairment. Determining the recoverable amount for impairment testing purposes requires the use of judgement and estimation in relation to future forecast performance of the underlying cash generating unit (CGU).

The carrying value of goodwill of $3.1M relates to Infratec New Zealand Limited as a single cash generating unit (31 March 2023: $3.1M).

The recoverable amount was determined using a 5 year discounted cashflow value in use model with key inputs including a discount rate of 19.6% pre-tax (13.1% post-tax) (31 March 2023: 19.9% pre-tax and 12.7% post-tax) and a terminal growth rate of -2% (31 March 2023: -2%) (accounting for potential competition and the eventual decline in demand for new solar and battery installations). The cash flows are based on the current three-year management forecast (FY24 to FY26), with the following two years increasing at 2%, followed by a terminal value. The most sensitive components of the cash flows driving the valuation are the assumptions in the terminal value. These include annual revenue of $67.9M (31 March 2023: $67.8M), gross margin at 11.4% (31 March 2023: 11.4%), and fixed costs of $5.1M p.a (31 March 2023: $5.1M p.a). This results in approximately $1.7M (31 March 2023: $1.6M) of pre-tax annual cash flows (before discounting) in the terminal value calculation.

The carrying amount of the CGU is $4.7M (31 March 2023: $3.8M), and the midpoint of the recoverable amount is $7.0M (31 March 2023: $6.4M).

The recoverable amount of this CGU would equal its carrying amount if the key assumptions were to change as follows:

| 30 September 2023 | From | To |
|---|---|---|
| Gross Revenue Terminal Value | $67.9M | $60.9M |
| Gross Margin Terminal Value | 11.4% | 10.3% |
| Fixed Costs Terminal Value | $5.1M | $5.9M |
| WACC (pre-tax) | 19.6% | 27.9% |

## Note 6. Intangibles (continued)

| 31 March 2023 | From | To |
|---|---|---|
| Gross Revenue Terminal Value | $67.8M | $59.7M |
| Gross Margin Terminal Value | 11.4% | 10.0% |
| Fixed Costs Terminal Value | $5.1M | $6.0M |
| WACC (pre-tax) | 19.9% | 31.8% |

The Directors have completed an impairment assessment as at 30 September 2023 and noted that the recoverable amount for Infratec is greater than the carrying amount by $2.3M at the midpoint. Based on this the Directors consider that there are no indicators of impairment and the current carrying value of goodwill can be retained.

## Note 7. Revenue

| | Consolidated | |
|---|---|---|
| | 30 September 2023 Unaudited $'000 | 30 September 2022 Unaudited $'000 |
| Electricity lines revenue | 66,723 | 61,144 |
| Discount | (6,749) | (6,643) |
| Net lines revenue | 59,974 | 54,501 |
| Electricity third party contributions | 5,503 | 8,946 |
| Other income | 2,998 | 3,022 |
| OurPower electricity retail revenue | 919 | 3,017 |
| Infratec EPC revenue | 20,908 | 1,594 |
| Smartco metering revenue | 898 | 862 |
| Contracting sales revenue | - | 3,138 |
| **Revenue** | **91,200** | **75,080** |

## Note 7. Revenue (continued)

*Disaggregation of revenue*

The disaggregation of revenue from contracts with customers is as follows:

| | Consolidated | |
|---|---|---|
| | 30 September 2023 Unaudited $'000 | 30 September 2022 Unaudited $'000 |
| *Electricity Network* | | |
| Electricity line revenue | 59,974 | 54,501 |
| Third party contributions | 5,503 | 8,946 |
| | **65,477** | **63,447** |
| *Other Income* | | |
| Other income | 2,998 | 3,022 |
| OurPower electricity retail revenue | 919 | 3,017 |
| Infratec EPC revenue | 20,908 | 1,594 |
| Smartco metering revenue | 898 | 862 |
| Contracting sales revenue | - | 3,138 |
| | **25,723** | **11,633** |
| *Timing of revenue recognition* | | |
| Goods transferred at a point in time | 5,882 | 9,727 |
| Services transferred over time | 85,318 | 65,353 |
| **Revenue from contracts with customers** | **91,200** | **75,080** |

*Infratec EPC (Engineering, Procurement and Construction) revenue*

Infratec New Zealand Limited designs and project manages the installation of solar panels as well as carrying out development and consultancy work related to solar projects. These EPC contracts are individually reviewed to determine the revenue recognition treatment. The revenue from the design and construction of a solar project is recognised over time as the asset does not have an alternative use to the entity and there is an enforceable right to payment for work completed to date. Based on the individual contract terms, either the inputs method or the outputs method is used for measuring progress towards completion of the performance obligation. For the inputs method, the revenue is recognised over time on a percentage of completion basis, which is based on costs incurred to date and total expected costs. For the outputs method, the revenue is recognised over time based on the contractual performance completed to date.

Infratec EPC revenue is subject to year on year variations as it is dependent on approved contracts. Several new external EPC contracts have commenced in the six months to 30 September 2023 resulting in an increase of $19M compared to the six months to 30 September 2022.

## Note 8. Financial assets at fair value through other comprehensive income

| | Consolidated 30 September 2023 Unaudited $'000 | Consolidated 31 March 2023 Audited $'000 |
|---|---|---|
| Paua Wealth Management Fund | - | 38,859 |
| Harbour Asset Management Fund | - | 38,086 |
| | **-** | **76,945** |

A gain of $0.8M has been recognised in other comprehensive income due to the movements in the fair value of the equity investments for the period to 30 September 2023.

The investments were realised and converted to cash prior to 2 August 2023 to fund the $150M subordinated bond repayment (refer to note 10).

## Note 9. Net investment in lease

| | Consolidated 30 September 2023 Unaudited $'000 | Consolidated 31 March 2023 Audited $'000 |
|---|---|---|
| Net investment in lease - current | 599 | 591 |
| Net investment in lease - non-current | 25,996 | 26,295 |
| | **26,595** | **26,886** |

| | Consolidated 30 September 2023 Unaudited $'000 | Consolidated 31 March 2023 Audited $'000 |
|---|---|---|
| **Undiscounted lease receivable:** | | |
| Current net investment in lease | 2,203 | 2,213 |
| Maturing between 1 and 2 years | 2,183 | 2,194 |
| Maturing between 2 and 3 years | 2,160 | 2,172 |
| Maturing between 3 and 4 years | 2,135 | 2,148 |
| Maturing between 4 and 5 years | 2,107 | 2,122 |
| Beyond 5 years | 46,848 | 47,895 |
| Less effect of discounting | (31,041) | (31,858) |
| **Net investment in lease (discounted)** | **26,595** | **26,886** |

## Note 10. Borrowings

| | Consolidated 30 September 2023 Unaudited $'000 | 31 March 2023 Audited $'000 |
|---|---|---|
| Maturing within 1 year | - | 148,838 |

The $150M subordinated bond was repaid on 2 August 2023. This was funded through the realisation of investment funds and matured term deposits.

Refer to note 16 for further information on financial instruments.

Following the repayment of the subordinated bond in August 2023, the Group entered into new bank facilities totalling $85M, and terminated the existing $30M bank facilities (original expiries of November 2023 and June 2024). Bank facilities totalling $85M remain available to the Group to be drawn as at 30 September 2023. The facilities expire as follows:

| Facility expiry date | Facility available $'000 | Total facility $'000 |
|---|---|---|
| 31 August 2024 | 15,000 | 15,000 |
| 31 August 2024 | 20,000 | 20,000 |
| 31 August 2025 | 20,000 | 20,000 |
| 31 August 2025 | 20,000 | 20,000 |
| 31 August 2026 | 10,000 | 10,000 |
| | **85,000** | **85,000** |

*Bank and debt security interest rate risk, carrying and contractual values*
The carrying value of interest-bearing debt is nil (31 March 2023: $148.8M). The fair value of contractual cash flow is nil (31 March 2023: $152.5M).

## Note 11. Expenses, excluding finance costs

| | Consolidated | |
|---|---|---|
| | 30 September 2023 Unaudited $'000 | 30 September 2022 Unaudited $'000 |
| Transmission costs | 11,739 | 14,256 |
| Employee benefits | 25,686 | 22,176 |
| Capitalised labour | (11,050) | (8,194) |
| Materials and services | 18,768 | 2,693 |
| Contracting services | 4,221 | 6,071 |
| Consultancy | 1,203 | 2,317 |
| Electricity costs | 671 | 2,096 |
| Net loss on disposal of assets | 990 | 787 |
| Vehicle expenditure | 998 | 797 |
| Operating leases | 53 | 90 |
| Directors' fees | 322 | 251 |
| Bad debts written off | 162 | 10 |
| Change in provision for impaired receivables | 40 | (53) |
| Other expenses | 3,617 | 3,622 |
| | **57,420** | **46,919** |

## Note 12. Other gains/(losses)

| | Consolidated | |
|---|---|---|
| | 30 September 2023 Unaudited $'000 | 30 September 2022 Unaudited $'000 |
| Loss on electricity price derivatives | (590) | (126) |
| Investment income | 190 | 1,259 |
| | **(400)** | **1,133** |

## Note 13. Finance expenses

| | Consolidated | |
|---|---|---|
| | 30 September 2023 Unaudited $'000 | 30 September 2022 Unaudited $'000 |
| Interest and finance charges paid/payable | 3,538 | 4,090 |
| Finance expense on leases | 80 | 60 |
| | **3,618** | **4,150** |

## Note 14. Finance income

| | Consolidated | |
|---|---|---|
| | 30 September 2023 Unaudited $'000 | 30 September 2022 Unaudited $'000 |
| Short-term bank deposits | 3,347 | 2,189 |
| Finance income on lease | 816 | 833 |
| Fair value of vendor tax losses receivable | - | 64 |
| | **4,163** | **3,086** |

## Note 15. Derivative financial instruments

| | Consolidated | |
|---|---|---|
| | 30 September 2023 Unaudited $'000 | 31 March 2023 Audited $'000 |
| *Current assets* | | |
| Forward foreign exchange contracts - cash flow hedges | 160 | 84 |
| Electricity price derivatives | - | 578 |
| | 160 | 662 |
| *Non-current assets* | | |
| Electricity price derivatives | - | 745 |
| *Non-current liabilities* | | |
| Interest rate swaps - fair value hedges | - | (932) |
| | **160** | **475** |

Refer to note 16 for further information on financial instruments.

The Group enters USD/NZD FX contracts to hedge the foreign currency risk related to highly probably purchases of battery equipment from overseas. The notional principal amounts of the outstanding forward foreign exchange contracts at 30 September 2023 are $1.6M (31 March 2023: $3.6M).

## Note 16. Financial instruments

### *Market risk*

*Cash flow and fair value interest rate risk*

The Group's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain within minimum and maximum fixed interest rate cover of its borrowings with fixed rate instruments.

Based on the various scenarios, the Group manages its cash flow interest rate risk by using fixed-to-floating interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from fixed rates to floating rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and the prevailing market floating reference rate based on the agreed notional amounts.

## Note 16. Financial instruments (continued)

| March 2023<br>Consolidated | Maturity Date | Face value<br>$'000 | Unamortised costs<br>$'000 | Adjustment on hedged risk<br>$'000 | Carrying value<br>$'000 |
|---|---|---|---|---|---|
| Bond (4.90%) | Aug 23 | 150,000 | (230) | (932) | 148,838 |
| Fair value interest rate swaps (7.27%) | Aug 23 | (75,000) | - | - | - |
| | | **75,000** | **(230)** | **(932)** | **148,838** |

The fair value interest rate swaps and subordinated bond matured on 2 August 2023.

***Liquidity risk***

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group was in compliance with covenants during the year.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at financial year end to the contractual maturity date. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| 30 September 2023 | Less than one year<br>$'000 | Between 1 and 2 years<br>$'000 | Between 2 and 3 years<br>$'000 | Between 3 and 5 years<br>$'000 | 5 + years<br>$'000 | Total fair value contractual cash flows<br>$'000 | Carrying amount liabilities<br>$'000 |
|---|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | | |
| Trade and other payables | 16,499 | - | - | - | - | 16,499 | 16,499 |
| Customer discount payable | 6,771 | - | - | - | - | 6,771 | 6,771 |
| Lease liabilities | 742 | 643 | 386 | 355 | 2,825 | 4,951 | 3,934 |
| Total non-derivatives | **24,012** | **643** | **386** | **355** | **2,825** | **28,221** | **27,204** |
| **Derivatives** | | | | | | | |
| **Interest rate swaps** | | | | | | | |
| - inflow | - | - | - | - | - | - | - |
| - outflow | - | - | - | - | - | - | - |
| | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

## Note 16. Financial instruments (continued)

| 31 March 2023 | Less than one year $'000 | Between 1 and 2 years $'000 | Between 2 and 3 years $'000 | Between 3 and 5 years $'000 | 5 + years $'000 | Total fair value contractual cash flows $'000 | Carrying amount liabilities $'000 |
|---|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | | |
| Borrowings - current | 152,497 | - | - | - | - | 152,497 | 148,838 |
| Trade and other payables | 21,277 | - | - | - | - | 21,277 | 21,277 |
| Customer discount payable | 12,275 | - | - | - | - | 12,275 | 12,275 |
| Lease liabilities | 538 | 505 | 352 | 227 | 4,612 | 6,234 | 3,560 |
| Total non-derivatives | **186,587** | **505** | **352** | **227** | **4,612** | **192,283** | **185,950** |
| **Derivatives** | | | | | | | |
| **Interest rate swaps** | | | | | | | |
| - inflow | 1,838 | - | - | - | - | - | - |
| - outflow | (2,770) | - | - | - | - | - | (932) |
| | **(932)** | **-** | **-** | **-** | **-** | **-** | **(932)** |

### *Fair value of financial instruments*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

| 30 September 2023 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total balance $'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Foreign forward exchange contracts | - | 160 | - | 160 |
| | **-** | **160** | **-** | **160** |

| 31 March 2023 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total balance $'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Electricity price derivatives | 1,323 | - | - | 1,323 |
| Foreign forward exchange contracts | - | 84 | - | 84 |
| Investments | - | - | 76,945 | 76,945 |
| | **1,323** | **84** | **76,945** | **78,352** |
| **Liabilities** | | | | |
| Interest rate contracts | - | (932) | - | (932) |
| | **1,323** | **(848)** | **76,945** | **77,420** |

### Note 17. Related party transactions

*Significant transactions with other related parties*
*Related party transactions with WEL Energy Trust*

Total dividends paid during the period ended 30 September 2023 were $6.0M net (30 September 2022: $4.2M net).

### Note 18. Commitments

*Capital commitments*

There is $2.5M committed capital expenditure relating to a battery acquisition and IT hardware acquisitions as at 30 September 2023 (31 March 2023: $8.0M relating to battery, solar farm equipment and IT hardware acquisitions).

### Note 19. Events after the reporting period

There were no events occurring subsequent to 30 September 2023 which require adjustments to or disclosure in the financial statements.

# Independent auditor's review report

To the Directors of WEL Networks Limited

## Report on the Interim financial statements

### Our conclusion

We have reviewed the interim financial statements of WEL Networks Limited (the Company) and its controlled entities (the Group), which comprise the balance sheet as at 30 September 2023, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 September 2023, and its financial performance and cash flows for the six months then ended, in accordance with the New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34).

### Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibility is further described in the *Auditor's responsibility for the review of the interim financial statements* section of our report.

We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. In addition to our role as auditor, our firm carries out other services for the Group in the areas of assurance on regulatory disclosure information and training. The provision of these other services has not impaired our independence.

### Directors' responsibility for the interim financial statements

The Directors of the Company are responsible on behalf of the Company for the preparation and fair presentation of these interim financial statements in accordance with NZ IAS 34 and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of interim financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility for the review of the interim financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34.

A review of  interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on these interim financial statements

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## Who we report to

This report is made solely to the Company's Directors, as a body. Our review work has been undertaken so that we might state those matters which we are required to state to them in our review 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 Directors, as a body, for our review procedures, for this report, or for the conclusion we have formed.

The engagement partner on the review resulting in this independent auditor's review report is John (Jolly) Morgan.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants　　Auckland
24 November 2023