WEL Networks Limited

NZBN 9429039416926

Interim Report - 30 September 2022

WEL Networks Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 30 September 2022

	Note	Consolidated 30 September 2022 Unaudited $'000	Consolidated 30 September 2021 Unaudited $'000
Revenue	7	75,080	65,715
Expenses			
Expenses, excluding finance costs	11	(46,919)	(41,784)
Other gains/(losses)	12	1,133	(1,013)
Earnings before interest, taxes, depreciation and amortisation expenses (EBITDA)		**29,294**	**22,918**
Depreciation and amortisation expense		(12,595)	(13,842)
Finance expenses	13	(4,150)	(3,556)
Finance income	14	3,086	3,242
Profit before income tax expense		**15,635**	**8,762**
Income tax expense		(4,302)	(1,890)
Profit after income tax expense for the half-year		**11,333**	**6,872**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Change in the fair value of equity investments at fair value through other comprehensive income	8	(5,821)	3,117
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		1,141	-
Other comprehensive income for the half-year, net of tax		(4,680)	3,117
Total comprehensive income for the half-year		**6,653**	**9,989**
		Cents	Cents
Earnings per share for profit attributable to the shareholder of WEL Networks Limited			
Basic earnings per share		139.00	84.29
Diluted earnings per share		139.00	84.29

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

WEL Networks Limited
Balance sheet
As at 30 September 2022

	Note	Consolidated 30 September 2022 Unaudited $'000	Consolidated 31 March 2022 Audited $'000
Assets			
Current assets			
Cash and cash equivalents		40,787	211,495
Trade and other receivables		19,048	14,543
Work in progress		406	147
Financial assets at fair value through other comprehensive income	8	74,749	79,311
Derivative financial instruments	15	2,462	1,720
Income tax receivable		-	1,319
Net investment in lease	9	581	571
Term deposits		140,000	-
Total current assets		**278,033**	**309,106**
Non-current assets			
Derivative financial instruments	15	1,487	1,420
Property, plant and equipment	5	768,929	740,120
Right-of-use assets		3,198	1,873
Intangibles	6	16,097	15,559
Net investment in lease	9	26,595	26,886
Total non-current assets		**816,306**	**785,858**
Total assets		**1,094,339**	**1,094,964**
Liabilities			
Current liabilities			
Trade and other payables		13,389	16,084
Borrowings	10	148,177	-
Lease liabilities		267	273
Derivative financial instruments	15	1,249	229
Income tax		2,078	-
Employee benefit obligations		4,208	3,515
Customer discount payable		6,680	12,000
Contract liabilities		10,394	11,171
Total current liabilities		**186,442**	**43,272**
Non-current liabilities			
Borrowings	10	-	148,856
Lease liabilities		3,023	1,678
Derivative financial instruments	15	-	226
Deferred tax liabilities		111,009	109,660
Employee benefit obligations		273	118
Deferred revenue		812	827
Total non-current liabilities		**115,117**	**261,365**
Total liabilities		**301,559**	**304,637**
Net assets		**792,780**	**790,327**

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

WEL Networks Limited
Balance sheet
As at 30 September 2022

	Note	Consolidated 30 September 2022 Unaudited $'000	31 March 2022 Audited $'000
Equity			
Contributed equity		111,142	111,142
Reserves		199,818	208,328
Retained earnings		481,820	470,857
Equity attributable to the shareholder of WEL Networks Limited		**792,780**	**790,327**
Total equity		**792,780**	**790,327**

Barry Harris
Chairman

Carolyn Steele
Director

24 November 2022

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 2022

Consolidated	Share capital $'000	Convertible note $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 April 2021	111,142	16,000	159,436	467,755	754,333
Profit after income tax expense for the half-year	-	-	-	6,872	6,872
Movement in revaluation from disposal of distribution network assets (net of tax)	-	-	(1,492)	1,492	-
Movement in equity investments at fair value through other comprehensive income	-	-	3,117	-	3,117
Total comprehensive income for the half-year	-	-	1,625	8,364	9,989
Transactions with owners:					
Repayment of convertible notes (note 17)	-	(16,000)	-	-	(16,000)
Interest on convertible notes (note 17)	-	-	-	(44)	(44)
Dividends/discount distributions paid (note 17)	-	-	-	(13,983)	(13,983)
Balance at 30 September 2021	**111,142**	**-**	**161,061**	**462,092**	**734,295**

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	-	(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**

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 2022

	Note	Consolidated 30 September 2022 Unaudited $'000	Consolidated 30 September 2021 Unaudited $'000
Cash flows from operating activities			
Receipts from customers		64,346	74,228
Payments to suppliers and employees		(47,557)	(36,944)
Income taxes paid		-	(1,350)
Net cash from operating activities		**16,789**	**35,934**
Cash flows from investing activities			
Payments for financial assets at fair value through other comprehensive income		-	(80,000)
Payments for property, plant and equipment	5	(40,950)	(25,356)
Payments for intangibles	6	(1,992)	(1,131)
Proceeds from disposal of property, plant and equipment		465	181
Interest received		2,189	48
Interest received on finance leases		833	850
Payments received for finance leases		281	271
Transfers to term deposits		(140,000)	-
Net cash used in investing activities		**(179,174)**	**(105,137)**
Cash flows from financing activities			
Interest paid		(3,908)	(3,116)
Interest on convertible notes	17	-	(44)
Interest paid on lease liabilities		(60)	(37)
Dividends/discount distributions paid	17	(4,200)	(13,983)
Payments for lease liabilities		(155)	(129)
Repayment of convertible notes	17	-	(16,000)
Net cash used in financing activities		**(8,323)**	**(33,309)**
Net decrease in cash and cash equivalents		(170,708)	(102,512)
Cash and cash equivalents at the beginning of the financial half-year		211,495	124,047
Cash and cash equivalents at the end of the financial half-year		**40,787**	**21,535**

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 and retail electricity; and
- Providing project and commercial management in the delivery of innovative energy solutions.

These financial statements have been approved for issue by the Board of Directors on 24 November 2022.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 March 2022 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 the financial statements as were applied in the most recent set of annual financial statements for the year ended 31 March 2022. 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 2022:

- Dividend payment to WEL Energy Trust of $4.2M (refer to note 17)
- OurPower Holdings Limited and OurPower Retail Limited were amalgamated into OurPower Limited on 30 September 2022

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 their 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 in the relevant notes as follows:

- Property, plant and equipment (refer to note 5);
- Intangibles (refer to note 6);
- Revenue (refer to note 7); and
- Equity investments at fair value through other comprehensive income (refer to note 8).

Coronavirus (COVID-19) pandemic
The impact of COVID-19 has been considered for all balances and areas of judgements made in relation to the preparation of the group financial statements and no material impacts have been identified.

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 2022 Unaudited %	Ownership interest 31 March 2022 Audited %
OurPower Holdings Limited	New Zealand	-	100%
OurPower Retail Limited *	New Zealand	-	100%
OurPower Limited *	New Zealand	100%	100%
Smartco Limited (joint venture)	New Zealand	14%	14%
Infratec New Zealand Limited	New Zealand	100%	100%
NewPower Energy Services Limited	New Zealand	100%	100%
New Power Energy Limited **	New Zealand	100%	100%

* Subsidiary of OurPower Holdings Limited

** Subsidiary of New Power Energy Services Limited

On 30 September 2022, OurPower Holdings Limited and OurPower Retail Limited were amalgamated into OurPower Limited.

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

WEL Networks Limited incorporated the company NewPower Energy Services Limited on 16 November 2021, as the holding company for NewPower Energy Limited incorporated on 25 November 2021. There are no transactions or balances for the half-year ended 30 September 2022.

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 the 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. Anything not included in these categories is classified as 'Other' including technology investments (Smart meters), and the generation and retail businesses.

Note 4. Operating segments (continued)

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.

Operating segment information

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**
Assets				
Segment assets	796,415	3,111	37,921	837,447
Unallocated assets:				
Cash and cash equivalents				40,787
Term deposits				140,000
Financial assets at fair value through other comprehensive income				74,749
Derivative financial instruments				1,356
Total assets				**1,094,339**
Liabilities				
Segment liabilities	34,506	2,582	1,958	39,046
Unallocated liabilities:				
Income tax				2,078
Borrowings				148,177
Deferred tax liabilities				111,009
Derivative financial instruments				1,249
Total liabilities				**301,559**

Note 4. Operating segments (continued)

Consolidated - 30 September 2021 Unaudited	Electricity Network $'000	EPC $'000	Other Segments $'000	Total $'000
Revenue				
Segment revenue	60,023	213	6,630	66,866
Intersegment sales	(1,151)	-	-	(1,151)
Total revenue	**58,872**	**213**	**6,630**	**65,715**
EBITDA	22,954	(85)	49	22,918
Depreciation and amortisation				(13,842)
Finance income				3,242
Finance expenses				(3,556)
Profit before income tax expense				**8,762**
Income tax expense				(1,890)
Profit after income tax expense				**6,872**

Consolidated - 31 March 2022 Audited	Electricity Network $'000	EPC $'000	Other Segments $'000	Total $'000
Assets				
Segment assets	774,893	465	27,481	802,839
Unallocated assets:				
Cash and cash equivalents				211,495
Financial assets at fair value through other comprehensive income				79,311
Income tax				1,319
Total assets				**1,094,964**
Liabilities				
Segment liabilities	42,892	1,043	1,731	45,666
Unallocated liabilities:				
Borrowings				148,856
Deferred tax liabilities				109,660
Derivative financial instruments				455
Total liabilities				**304,637**

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	Non-network assets under construction $'000	Total $'000
Opening net book amount as at 1 April 2022	675,702	-	20,672	30,094	4,767	951	7,934	740,120
Transfers to Generation assets *	-	6,366	-	(2,624)	-	-	(3,742)	-
Restated opening net book amount as at 1 April 2022	675,702	6,366	20,672	27,470	4,767	951	4,192	740,120
Additions	28,267	7,512	1,280	2,822	46	123	1,060	41,110
Disposals	(1,254)	-	-	(5)	(70)	-	-	(1,329)
Transfers	89	-	-	257	507	43	(896)	-
Depreciation charge	(8,158)	(56)	(191)	(1,809)	(505)	(253)	-	(10,972)
Closing net book amount as at 30 September 2022	**694,646**	**13,822**	**21,761**	**28,735**	**4,745**	**864**	**4,356**	**768,929**
Cost/valuation	711,163	14,483	23,910	61,366	10,849	4,725	4,356	830,852
Accumulated depreciation	(16,517)	(661)	(2,149)	(32,631)	(6,104)	(3,861)	-	(61,923)
	694,646	**13,822**	**21,761**	**28,735**	**4,745**	**864**	**4,356**	**768,929**

* Generation assets is a new asset category in the current year due to the increase in solar and battery related assets in the Group. Opening balances have been reclassified from Plant and equipment and Non-network assets under construction.

The net book value of the Electricity network includes $41.3M of work in progress at 30 September 2022 (31 March 2022: $31.2M). The net book value of the Generation assets includes $11.3M of work in progress at 30 September 2022 (31 March 2022: $3.7M).

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 31 March 2022 by independent valuers, SGHU Valuations LP Registered Valuers using a market approach being a Level 3 valuation.

A fair value assessment was undertaken (using updated market data) on 30 September 2022. Key inputs of market rent at $920,000 and a capitalisation rate of between 4.59% and 5.09% result in a valuation range of $18.1M to $20.0M. The Directors have determined that the current carrying value of $19.7M is within this valuation range and can be retained as it materially reflects fair value.

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 2022, 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 $646.3M to $707.0M, with a mid-point of $675.9M (based on sensitivity to WACC low/high estimates). The Directors consider that the current carrying value of the network fixed assets of $694.6M can be retained, as the carrying value remains within the valuation range (31 March 2022 carrying value: $675.7M).

Note 5. Property, plant and equipment (continued)

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.

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 2022

Electricity Network:	Mid-point for valuation	Sensitivity Range	Valuation Impact of Sensitivity Range from Mid-point
WACC (Weighted Average Cost of Capital)	5.9%	5.4% - 6.4%	+ $31M / - $30M
Regulatory Asset Base (RAB) Multiple for Terminal Value (TV)	1.00x	0.98x - 1.02x	+/- $12.5M

31 March 2022

Electricity Network:	Mid-point for valuation	Sensitivity Range	Valuation impact of Sensitivity Range from Mid-point
WACC (Weighted Average Cost of Capital)	5.3%	4.8% - 5.8%	+ $33M / - $32M
Regulatory Asset Base (RAB) Multiple for Terminal Value (TV)	1.00x	0.98x - 1.02x	+/- $12.7M

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 2022	1,543	4,315	3,121	2,416	107	3,800	257	15,559
Additions	-	7	-	32	-	1,953	-	1,992
Transfers	-	110	-	71	-	(181)	-	-
Amortisation charge	(235)	(1,005)	-	(22)	-	-	(192)	(1,454)
Closing net book amount as at 30 September 2022	**1,308**	**3,427**	**3,121**	**2,497**	**107**	**5,572**	**65**	**16,097**
Cost	4,106	20,462	3,121	5,086	107	5,572	770	39,224
Accumulated amortisation and impairment	(2,798)	(17,035)	-	(2,589)	-	-	(705)	(23,127)
	1,308	**3,427**	**3,121**	**2,497**	**107**	**5,572**	**65**	**16,097**

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 2022: $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 15.9% pre-tax (11.9% post-tax) (31 March 2022: 17.4% pre-tax and 11.4% post-tax) and a negative terminal growth rate of -2% (31 March 2022: -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 five-year management forecast (FY23 to FY27) followed by a terminal value. The most sensitive components of the cash flows driving the valuation are the assumptions in year five (FY27) which also drive the terminal value. These include annual revenue of $67.0M, gross margin at 11.26%, and fixed costs of $5.1M p.a. This results in approximately $1.5M (31 March 2022: $1.7M) of pre-tax annual cash flows (before discounting) in the terminal value calculation.

The carrying amount of the CGU is $6.7M (31 March 2022: $4.6M), and the midpoint of the recoverable amount is $9.0M (31 March 2022: $6.7M).

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

30 September 2022	From	To
Gross Revenue FY27 (basis for terminal value)	$67.0M	$61.5M
Gross Margin FY27 (basis for terminal value)	11.26%	10.3%
Fixed Costs FY27 (basis for terminal value)	$5.1M	$5.7M
WACC (pre-tax)	15.9%	21.4%

Note 6. Intangibles (continued)

31 March 2022	From	To
Gross Revenue FY25 (basis for terminal value)	$81.0M	$77.0M
Gross Margin FY24 (basis for terminal value)	10%	5.2%
Fixed Costs (basis for terminal value)	$5.1M	$5.5M
WACC (pre-tax)	17.4%	22.3%

The Directors have completed an impairment assessment as at 30 September 2022 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 2022 Unaudited $'000	30 September 2021 Unaudited $'000
Electricity lines revenue	61,144	61,726
Discount	(6,643)	(6,629)
Net lines revenue	54,501	55,097
Electricity third party contributions	8,946	3,775
Other income	3,022	2,896
OurPower electricity retail revenue	3,017	2,895
Infratec EPC revenue	1,594	213
Smartco metering revenue	862	839
Contracting sales revenue	3,138	-
Revenue	**75,080**	**65,715**

Note 7. Revenue (continued)

Disaggregation of revenue

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

	Consolidated	
	30 September 2022 Unaudited $'000	30 September 2021 Unaudited $'000
Electricity Network		
Electricity line revenue	54,501	55,097
Third party contributions	8,946	3,775
	63,447	**58,872**
Other Income		
Other income	3,022	2,896
OurPower electricity retail revenue	3,017	2,895
Infratec EPC revenue	1,594	213
Smartco metering revenue	862	839
Contracting sales revenue	3,138	-
	11,633	**6,843**
Timing of revenue recognition		
Goods transferred at a point in time	9,727	5,308
Services transferred over time	65,353	60,407
Revenue from contracts with customers from continuing operations	**75,080**	**65,715**

Accounting policy for revenue recognition

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 with a single performance obligation 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. The inputs method is used for measuring progress towards completion of the performance obligation, which is a percentage of completion based on costs incurred to date and total expected costs. Revenue is recognised over time in accordance with the percentage of completion.

Contracting sales revenue

WEL completes contracting projects where the assets are owned by external customers. These contracts are individually reviewed to determine the revenue recognition treatment. The revenue from the construction and connection of an embedded network with a single performance obligation 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. The inputs method is used for measuring progress towards completion of the performance obligation, which is a percentage of completion based on costs incurred to date and total expected costs. Revenue is recognised over time in accordance with the percentage of completion.

Note 7. Revenue (continued)

Critical accounting judgements, estimates and assumptions

The contract forming the contracting sales revenue includes an option for the customer to require WEL to buy back the assets up to 12 months from the commencement date provided all conditions are met. This has been assessed by management and is considered unlikely to occur and therefore no refund liabilities have been recognised.

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

	Consolidated	
	30 September 2022 Unaudited $'000	31 March 2022 Audited $'000
Current assets		
Paua Wealth Management Fund	37,764	39,504
Harbour Asset Management Fund	36,985	39,807
	74,749	**79,311**

A loss of $5.8M has been recognised in other comprehensive income due to the movements in the fair value of the equity investments to 30 September 2022.

Financial assets at fair value through other comprehensive income are classified as current assets as there are no restrictions on the investments being realised and converted to cash and cash equivalents at any time.

Critical accounting judgements, estimates and assumptions

The Group has made an irrevocable election to classify these equity investments at fair value through other comprehensive income (FVOCI) under NZ IFRS 9 Financial Instruments as the Group considers this measurement to be the most representative of the business model for these assets that are intended to be held long term for strategic purposes.

Equity investments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income, and accumulated in the financial assets revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred directly to retained earnings. Qualifying dividends on these investments are recognised in profit or loss. Refer to note 16 for further information on financial instruments.

Note 9. Net investment in lease

	Consolidated	
	30 September 2022 Unaudited $'000	31 March 2022 Audited $'000
Net investment in lease - current	581	571
Net investment in lease - non-current	26,595	26,886
	27,176	**27,457**

Note 9. Net investment in lease (continued)

	Consolidated 30 September 2022 Unaudited $'000	31 March 2022 Audited $'000
Undiscounted lease receivable:		
Current net investment in lease	2,221	2,229
Maturing between 1 and 2 years	2,203	2,213
Maturing between 2 and 3 years	2,183	2,194
Maturing between 3 and 4 years	2,160	2,172
Maturing between 4 and 5 years	2,135	2,148
Beyond 5 years	48,955	50,016
Less effect of discounting	(32,681)	(33,515)
	27,176	**27,457**

Note 10. Borrowings

	Consolidated 30 September 2022 Unaudited $'000	31 March 2022 Audited $'000
Current liabilities		
Maturing within 1 year	148,177	-
Non-current liabilities		
Maturing between 1 and 2 years	-	148,856
	148,177	**148,856**

The Group is satisfied that it is able to meet its repayment obligations in regards to the bond (maturing on 2 August 2023) as it has sufficient liquid assets available, including $140M currently held on term deposit.

Refer to note 16 for further information on financial instruments.

Bank facilities totalling $45M remain available to the Group to be drawn as at 30 September 2022. The facilities expire as follows:

Facility expiry date	**Facility available $'000**	**Total facility $'000**
30 November 2022	15,000	15,000
30 November 2023	15,000	15,000
30 June 2024	15,000	15,000
	45,000	**45,000**

Bank and debt security interest rate risk, carrying and contractual values

The carrying value of interest-bearing debt is $148.2M (31 March 2022: $148.9M). The fair value of contractual cash flow is $157.4M (31 March 2022: $159.8M).

Note 11. Expenses, excluding finance costs

	Consolidated	
	30 September 2022 Unaudited $'000	30 September 2021 Unaudited $'000
Transmission costs	14,256	13,360
Employee benefits	22,176	19,986
Capitalised labour	(8,194)	(7,227)
Materials and services	2,693	2,184
Contracting services	6,071	2,778
Consultancy	2,317	2,012
Electricity costs	2,096	3,211
Net loss on disposal of assets	787	1,438
Vehicle expenditure	797	674
Operating leases	90	76
Directors' fees	251	246
Bad debts written off	10	9
Change in provision for impaired receivables	(53)	(5)
Other expenses	3,622	3,042
	46,919	**41,784**

Note 12. Other gains/(losses)

	Consolidated	
	30 September 2022 Unaudited $'000	30 September 2021 Unaudited $'000
Loss on electricity price derivatives	(126)	(1,623)
Investment income	1,259	610
	1,133	**(1,013)**

Note 13. Finance expenses

	Consolidated	
	30 September 2022 Unaudited $'000	30 September 2021 Unaudited $'000
Interest and finance charges paid/payable	4,090	3,519
Finance expense on leases	60	37
	4,150	**3,556**

Note 14. Finance income

	Consolidated	
	30 September 2022 Unaudited $'000	30 September 2021 Unaudited $'000
Short-term bank deposits	2,189	48
Finance income on lease	833	850
Fair value of Redeemable Convertible Preference shares	-	2,302
Fair value of vendor tax losses receivable	64	42
	3,086	**3,242**

Note 15. Derivative financial instruments

	Consolidated	
	30 September 2022 Unaudited $'000	31 March 2022 Audited $'000
Current assets		
Forward foreign exchange contracts - cash flow hedges	1,356	-
Electricity price derivatives	1,106	1,720
	2,462	1,720
Non-current assets		
Electricity price derivatives	1,487	1,420
Current liabilities		
Forward foreign exchange contracts - cash flow hedges	-	(229)
Interest rate swaps - fair value hedges	(1,249)	-
	(1,249)	(229)
Non-current liabilities		
Interest rate swaps - fair value hedges	-	(226)
	2,700	**2,685**

Refer to note 16 for further information on financial instruments.

The Group has entered into a number of contracts to hedge wholesale electricity price risk. These electricity contracts are not designated as hedges for accounting purposes. The hedges are valued based on the volume traded and the difference between the contract price and the last trade price on the ASX Futures market for the relevant contract period.

The Group has entered in several USD/NZD FX contracts to hedge the foreign currency risk related to highly probably purchase of battery equipment from overseas. The notional principal amounts of the outstanding forward foreign exchange contracts at 30 September 2022 are $7.4M (31 March 2022: $10.0M).

Note 16. Financial instruments

Market risk

Price risk
The Group enters into energy contracts that establish a fixed price at which future specified quantities of electricity are purchased. The energy contracts are periodically settled with any difference between the contract price and the spot market price settled between the parties.

The Group also has exposure to equity securities price risk from investment funds classified in the balance sheet as fair value through other comprehensive income (FVOCI). To manage the price risk arising on the investment funds, the Group diversifies the portfolio through managed funds.

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.

The swaps are for the duration of the borrowing term.

September 2022 Consolidated	Maturity Date	Face value $'000	Unamortised costs $'000	Adjustment on hedged risk $'000	Carrying value $'000
Bond (4.90%)	Aug 23	150,000	(574)	(1,249)	148,177
Fair value interest rate swaps (5.55%)	Aug 23	(75,000)	-	-	-
		75,000	**(574)**	**(1,249)**	**148,177**

March 2022 Consolidated	Maturity Date	Face value $'000	Unamortised costs $'000	Adjustment on hedged risk $'000	Carrying value $'000
Bond (4.90%)	Aug 23	150,000	(918)	(226)	148,856
Fair value interest rate swaps (3.53%)	Aug 23	(75,000)	-	-	-
		75,000	**(918)**	**(226)**	**148,856**

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.

Note 16. Financial instruments (continued)

30 September 2022	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	157,350	-	-	-	-	157,350	148,177
Trade and other payables	13,262	-	-	-	-	13,262	13,262
Customer discount payable	6,680	-	-	-	-	6,680	6,680
Lease liabilities	338	261	203	327	2,912	4,041	3,290
Total non-derivatives	**177,630**	**261**	**203**	**327**	**2,912**	**181,333**	**171,409**
Derivatives							
Interest rate swaps							
- inflow	3,675	-	-	-	-	-	-
- outflow	(4,924)	-	-	-	-	-	(1,249)
	(1,249)	**-**	**-**	**-**	**-**	**-**	**(1,249)**

31 March 2022	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 - non current	7,350	152,497	-	-	-	159,847	148,856
Trade and other payables	16,084	-	-	-	-	16,084	16,084
Customer discount payable	12,000	-	-	-	-	12,000	12,000
Lease liabilities	342	193	190	315	2,011	3,051	1,951
Total non-derivatives	**35,776**	**152,690**	**190**	**315**	**2,011**	**190,982**	**178,891**
Derivatives							
Interest rate swaps							
- inflow	3,675	1,837	-	-	-	-	-
- outflow	(3,514)	(2,224)	-	-	-	-	(226)
	161	**(387)**	**-**	**-**	**-**	**-**	**(226)**

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).

The equity investments (refer to note 8) are revalued based on readily available market prices provided by the fund managers. The equity investments were revalued to market value as at 30 September 2022. This is a Level 1 valuation.

Note 16. Financial instruments (continued)

30 September 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
Assets				
Electricity price contracts	2,593	-	-	2,593
Foreign forward exchange contracts	-	1,356	-	1,356
Investments	-	-	74,749	74,749
	2,593	**1,356**	**74,749**	**78,698**
Liabilities				
Interest rate contracts	-	(1,249)	-	(1,249)
	2,593	**107**	**74,749**	**77,449**

31 March 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
Assets				
Electricity price derivatives	3,141	-	-	3,141
Investments	-	-	79,311	79,311
	3,141	-	**79,311**	**82,452**
Liabilities				
Interest rate contracts	-	(226)	-	(226)
Foreign forward exchange contracts	-	(229)	-	(229)
	-	**(455)**	**-**	**(455)**
	3,141	**(455)**	**79,311**	**81,997**

Note 17. Related party transactions

Other transactions with key management personnel or entities related to them

Changes to key management personnel during the 6 months to 30 September 2022 include Robert Campbell ceasing as Chairman/director in June 2022; Barry Harris, a current director, being appointed as Chairman in June 2022; and Sally Rosenberg resigning as GM Works Programme in June 2022.

Significant transactions with other related parties

Related party transactions with WEL Energy Trust

	Consolidated 30 September 2022 Unaudited $'000	30 September 2021 Unaudited $'000
Interest on convertible notes	-	(44)
Repayment of convertible notes	-	(16,000)
	-	**(16,044)**

Total dividends paid during the period ended 30 September 2022 were $4.2M net (30 September 2021: $14.0M net comprised of $5.0M dividend paid to WEL Energy Trust and $9.0M discretionary discount paid to consumers on instruction from WEL Energy Trust).

Note 18. Commitments

Capital commitments

There is $9.7M committed capital expenditure relating to a battery acquisition as at 30 September 2022 (31 March 2022: $11.4M).

Note 19. Events after the reporting period

There were no events occurring subsequent to 30 September 2022 which require adjustments to or disclosure in the financial statements.

Independent auditor's review report

To the shareholder of WEL Networks Limited

Report on the consolidated interim financial statements

Our conclusion

We have reviewed the consolidated interim financial statements of WEL Networks Limited (the Company) and its controlled entities (the Group), which comprise the balance sheet as at 30 September 2022, and the statement of profit or loss and other 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 consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 September 2022, 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 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, regulatory advice on market rules and training. The provision of these other services has not impaired our independence.

Directors' responsibility for the consolidated interim financial statements

The Directors of the Company are responsible on behalf of the Company for the preparation and fair presentation of these consolidated 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 consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to express a conclusion on the consolidated 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 consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34.

A review of consolidated 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 consolidated interim financial statements

Who we report to

This report is made solely to the Company's Shareholder. Our review work has been undertaken so that we might state to the Company's Shareholder 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 Shareholder, 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 2022