Waitomo Energy Services Customer Trust

Consolidated Financial Statements

For the Year Ended 31 March 2022

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2022

	Note	Group 2022 $'000	Group 2021 $'000
Revenue from contracts with customers	1	62,000	55,009
Operating expenses	2	(30,672)	(25,419)
Depreciation and amortisation	9&10	(18,959)	(17,041)
Interest costs (net)	3	(2,518)	(2,500)
Impairment of assets	10	-	(128)
Other Expenses		(327)	(389)
Total expenses		(52,476)	(45,477)
Reversal of impairment of loan receivable	13	-	40
Profit before tax		9,524	9,572
Income tax expense	4	(2,682)	(2,759)
Profit for the year from continuing operations		6,842	6,813
(Loss)/profit for the year from discontinuing operations	11	450	(987)
Profit for the year		7,292	5,826
Profit for the year is attributable to:			
Equity holders of the parent		7,266	5,862
- Profit for the year from continuing operations		6,815	6,849
- (Loss)/profit for the year from discontinuing operations		451	(987)
Non-controlling interest from discontinuing operations losses		26	(36)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings/network assets	9&14	18,006	694
Impairment of network assets	9&14	-	-
Income tax relating to revalued assets	14	(5,042)	(194)
Other comprehensive profit/(loss) for the year		12,964	500
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge reserve	14	4,171	1,547
Income tax relating to cash flow hedges	14	(1,168)	(433)
Other comprehensive profit/(loss) for the year, net of tax		3,003	1,114
Total comprehensive profit/(loss) for the year		23,259	7,440
Total comprehensive profit/(loss) is attributable to:			
Equity holders of the company		23,233	7,476
- Total comprehensive profit/(loss) from continuing operations		22,782	8,463
- Total comprehensive (loss)/profit from discontinuing operations		451	(987)
Non-controlling interest from discontinuing operations losses		26	(36)

Signed

William Oliver, Chairperson
31 August 2022

Signed

Janette Osborne, Trustee
31 August 2022

BTSR

Consolidated Statement of Financial Position

as at 31 March 2022

	Note	Group 2022 $'000	Group 2021 $'000
Current assets			
Cash and cash equivalents	6	6,865	1,406
Trade and other receivables	7	3,848	4,500
Contract assets	1	2,975	2,584
Inventories	8	1,119	1,795
		14,806	10,285
Non-current assets			
Property, plant and equipment	9	293,340	269,248
Intangible assets	10	11,016	11,338
Other financial assets	24	2,206	-
		306,562	280,586
Assets of a disposal group classified as held for sale	11	200	15,344
Total assets		**321,568**	**306,215**
Current liabilities			
Trade and other payables	19	6,558	7,427
Contract liabilities	1	325	1,316
Bank borrowings	18	76,077	3,677
Lease liabilities	21	196	87
Current tax liability	16	4,533	1,800
Provision for staff entitlements	20	2,154	2,095
		89,843	16,402
Non-current liabilities			
Bank borrowings	18	3,056	85,335
Lease liabilities	21	1,090	394
Subordinated debentures	18	2,000	2,000
Other financial liabilities	24	-	1,965
Deferred tax liability	17	53,411	50,260
		59,557	139,954
Convertible notes issued by subsidiary of a disposal group classified as held for sale	18 &11	-	950
Total liabilities		**149,400**	**157,306**
Net assets		**172,168**	**148,908**
Equity			
Consolidated Equity	14	171,403	148,169
Non-Controlling Interest	14&15	765	739
Total equity		**172,168**	**148,908**

Consolidated Statement of Changes in Equity

for the year ended 31 March 2022

	Note	Share Capital $'000	Retained Earnings $'000	Cashflow Hedge Reserves $'000	Revaluation Reserves $'000	Total Attributable to Equity Holders $000	Non-controlling Interest $'000	Total Equity $'000
Balance as at 31 March 2020		**13,246**	**60,482**	**(2,395)**	**69,361**	**140,694**	**775**	**141,469**
Profit for the year		-	5,862	-	-	5,862	(36)	5,826
Other comprehensive loss								
Interest rate swaps		-	-	1,114	-	1,114	-	1,114
Revaluation of land and buildings		-	-	-	500	500	-	500
Total other comprehensive profit		-	-	1,114	500	1,614	-	1,614
Transfer from retained earnings		-	649	-	(649)	-	-	-
Transactions with owners								
Distributions Paid	12	-	(1)	-	-	(1)	-	(1)
Total transactions with owners		-	648	-	(649)	(1)	-	(1)
Balance as at 31 March 2021		**13,246**	**66,992**	**(1,281)**	**69,212**	**148,169**	**739**	**148,908**
Profit for the year		-	7,266	-	-	7,266	26	7,292
Other comprehensive profit								
Interest rate swaps		-	-	3,003	-	3,003	-	3,003
Revaluation of network assets		-	-	-	12,964	12,964	-	12,964
Total other comprehensive profit		-	-	3,003	12,964	15,967	-	15,967
Transfer from retained earnings		-	654	-	(654)	-	-	-
Transactions with owners								
Distributions Paid		-	-	-	-	-	-	-
Total transactions with owners		-	-	-	-	-	-	-
Balance as at 31 March 2022		**13,246**	**74,912**	**1,722**	**81,522**	**171,403**	**765**	**172,168**
Attributable to Trust Equity		**13,246**	**74,912**	**1,722**	**81,522**	**171,403**	**-**	**171,403**

Consolidated Statement of Cash Flow

for the year ended 31 March 2022

	Note	Group 2022 $'000	Group 2021 $'000
Operating activities			
Cash generated from operations	22	30,101	33,518
Interest received	3	3	7
Interest paid	3	(2,768)	(2,832)
Income taxes paid	16	(3,183)	(1,794)
Net cash inflow from operating activities		**24,153**	**28,900**
Investing activities			
Purchase of property plant and equipment		(21,169)	(28,841)
Purchase of intangible assets		(2,381)	(464)
Proceeds on disposal of property, plant and equipment		136	410
Net cash outflow in investing activities		**(23,414)**	**(28,895)**
Financing activities			
Capital Distributions to Customers	12	-	(1)
Lease liability paid	21	(221)	(180)
Bank borrowings repaid	18	(10,238)	(5,154)
Bank borrowings advanced	18	359	3,667
Net cash (outflow)/inflow from financing activities		**(10,100)**	**(1,668)**
Net cash inflow from discontinuing operations	11	**14,820**	**1,232**
Net (decrease)/increase in cash and cash equivalents		5,459	(431)
Cash and cash equivalents at the beginning of the year		1,406	1,837
Cash and cash equivalents at the end of the year		**6,865**	**1,406**

Notes to the Consolidated Financial Statements

General Information

The Waitomo Energy Services Customer Trust ("the Trust") is an Energy Power Trust established under the Energy Companies Act 1992. The Trust's principal activity is investment in the electricity industry. It owns 100% of the shares in The Lines Company Ltd. The Group consists of the Trust, The Lines Company ('the Company") and its subsidiaries (being Influx Energy Data Ltd (formerly FCL Metering Ltd), GoodMeasure Ltd and Speedys Road Hydro Ltd "the Group").

The company's principal activities are the conveyance of electricity through its distribution network, supply of electrical meter services, electrical contracting and electricity generation. Those principal activities are substantially carried out in the greater King Country region of New Zealand.

In accordance with the requirements of Generally Accepted Accounting Practice in New Zealand (NZ GAAP), where a reporting entity prepares consolidated financial statements, the parent disclosures are not required.

The consolidated financial statements were authorised for issue by the Trustees on 31 August 2022

Summary of significant accounting policies

Basis of preparation

The consolidated financial statements ("financial statements") of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP).

The Group is a for-profit entity for the purposes of complying with NZ GAAP. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

They are prepared on the historical cost basis except for the revaluation of certain non-current assets, assets of a disposal group classified as held for sale and financial instruments measured at fair value.

The presentation currency is New Zealand Dollar ($). All financial information has been rounded to the nearest thousand, unless otherwise stated.

The financials were prepared on the going concern basis even though current liabilities exceed current assets by $75 million. Bank borrowings are currently in current liabilities as the current facility expires in February 2023. Credit approved offers received from two banks for $100m have been approved by the Board on the 22 June 2022. These are to replace the existing facilities disclosed in note 18 and 24.4. Finalisation of loan documentation is nearing completion. The expiry date of new facilities range between 3 and 7 years. The group forecasts to comply with associated covenants with the new facilities. These covenants are in line with the current facilities. The Group has forecast there to be sufficient headroom for the foreseeable future with the new facilities. As such there are no going concern issues.

Significant accounting policies, estimates and judgements

The Board and management are required to make judgements, estimates and apply assumptions that affect the amounts reported in the financial statements. They are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in the future periods.

Judgements and estimates which are material to the financial statements are found in the following notes:

Note 1	Revenue recognition	Page **8**
Note 9	Valuation of network distribution system	Page **17**
Note 11	Assets of a disposal group classified as held for sale	Page **21**
Note 20	Provisions	Page **31**
Note 24.2	Financial instruments	Page **36**

Notes to the Consolidated Financial Statements
for the year ended 31 March 2022

1. Revenue from contracts with customers

		Group 2022 $'000	Group 2021 $'000
Revenue recognised over time			
Network before discounts		43,746	39,540
Less network discount	12	(4,066)	(3,800)
Network revenue		**39,680**	**35,740**
Electricity meter revenue		**19,685**	**17,721**
Revenue from electrical contracts which were unsatisfied and included in contracts assets and liabilities		215	243
Revenue from completed electrical contracts		2,420	1,305
Electrical contracting revenue		**2,635**	**1,548**
Revenue		**62,000**	**55,009**

Contracting assets and liabilities

The following table reflects the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as at the end of the reporting period.

	Group 2022 $'000	Group 2021 $'000
Electrical contracts assets due to percentage of completion	86	301
Network unbilled network revenue	2,889	2,283
Contract assets	**2,975**	**2,584**
Network customer credit balances	(325)	(1,316)
Contract liabilities	**(325)**	**(1,316)**

Management expects that 100% of the transaction price will be allocated to the unsatisfied contracts to revenue in the next reporting period.

Policies

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and GST. All revenue is incurred within New Zealand.

The Group has three streams of revenue

- Network revenue
- Electricity meter revenue
- Electrical contracting revenue

Network revenue results from the conveyance of electricity through its distribution network. The Company invoiced its customers (predominantly the end user) for electricity delivered across the region's line network until 30 September 2021. Customers do not have extended terms of payment and can terminate on short notice. At 1 October 2021 the Group transitioned over to retailer billing. The Group bills retailers directly for the electricity delivered across the region's line network. Retailers do not have extended terms of payment.

The Group's obligation is to provide a single performance obligation of continuous service to which the customer benefits over time. Revenue is recognised at the price per kilowatt-hour (kWh) delivered to the customer in that period, incorporating variable pricing and reflects demand and deduction for losses and discounts. Payment terms are within 30 days.

A network discount is approved annually and paid in September and May. The network discount was paid in December and May in the prior year. This is accrued on a monthly basis.

Electricity meter revenue relates to the monthly tariffs received from customers (mainly energy retailers and property developers) for the data provided via the electricity meters owned by the Group. Prices are charged on a fixed-tariff rate each month based on the number of days. Revenue is recognised over time as and when the services are provided. Payment terms are within 30 days.

Electrical contracting revenue relates to the installation of street lights, lines and network connection for customers. Revenue is recognised based on the stage of completion of the contract applying the cost-to-cost method, i.e. based on the proportion of contract costs incurred to work performed to date relative to the estimated total contract cost. The Directors consider this input method as an appropriate measure of the progress towards complete satisfaction of the performance obligations under IFRS 15, i.e. recognised over time.

General payment terms are that a 50% deposit is paid before work commences and final payment is made on completion of the contract. This may result in a contract asset or liability on the statement of financial position when comparing the payment received and the percentage of completion revenue. Where a contract liability is recognised it is not considered to be a significant financing component as the period between milestone payments and revenue under the cost-to-cost method is less than a year.

Key judgements

Management must apply judgement where:

• The time of use pricing methodology. Revenue is calculated based on kWh used. Customers/retailers are billed according to the meter data provided to the end of the month. If no data is available, estimates are used. An accrual is raised for unbilled revenue. Unbilled revenue was recognised on an estimate of expected consumption utilised during the unbilled days for 2021. For 2022 unbilled revenue is recognised on actual consumption and there is no longer a significant judgement required. This is applied to the price plan set for that installation control point (ICP).

• Electrical contracting projects percentage of completion is assessed based on cost-to-cost basis. Judgement is used for the estimated final cost. Variations to contracts are assessed in the estimated final cost but these are minimal.

2. Operating expenses

	Group 2022 $'000	Group 2021 $'000
Transmission charges	5,745	5,521
Total staff cost recognised as expense (1)	13,445	11,469
Other Network Related Expenditure	2,431	2,250
Metering Expenditure	2,259	1,727
Cost of inventories recognised as expense	1,247	672
Low value or short term leases not included in leases (Note 21)	23	72
Donations and sponsorships	400	158
Professional Fees	3,400	2,733
Property expenses	601	625
Directors fees and expenses	288	282
Gain on disposal of property, plant and equipment and software intangibles	(37)	(79)
Other expenses	870	(11)
Total	**30,672**	**25,419**

(1) The Lines Company applied for and received a wage subsidy of $9k from the Ministry of Social Development due to staff not being able to work as they had contracted COVID-19. In the prior year The Lines Company applied for and received a wage subsidy of $637k from the Ministry of Social Development due to experiencing a 32% decline in gross revenue when comparing April 2020 to April 2019. The wage subsidy has been netted off against the total staff cost line of expenditure, in line with the Group's Government Grant accounting policy.

The gross revenue decline in FY21 was a result of the Company removing variable charges for all 13,000 of its residential customers during April 2020. The Company expected its customers' energy usage would increase when remaining in their homes during the COVID-19 enforced lockdown and as a result would experience increased financial hardship.

The Company determined that gross revenue, as opposed to net revenue as recorded in the financial statements, was the most appropriate basis for computing the revenue decline for the Company. This is due to net revenue in April 2019 including transition discounts and prompt payment discounts which were not offered in April 2020. In addition, net revenue includes the TLC Discount which is set at the beginning of the year. This discount is determined alongside the Company's Shareholder WESCT and is not reflective of pricing for all customers across the network.

Policies

Government grants relating to costs are deferred and recognised in profit and loss over the period necessary to match them with the costs that they are intended to compensate.

Fees paid to auditors	Group 2022 $'000	Group 2021 $'000
Financial statements audit fee (2)	264	200
Regulatory audit fees	106	102
Regulatory agreed upon procedures	-	15
OAG fees	22	10
Total	**392**	**327**

(2) The FY22 audit fee includes $30k relating to FY21. These were additional fees agreed to after the annual report was approved.

3. Interest costs (net)

	Group 2022 $'000	Group 2021 $'000
Interest on bank borrowings	2,657	2,779
Capitalised interest	(304)	(364)
Interest on lease liabilities	58	38
Interest on subordinated debentures	100	52
Other interest expense, principally IRD Use of Money	11	1
Interest income	(4)	(5)
Total	**2,518**	**2,500**

The weighted average interest rate on bank borrowings, including interest rate swap derivatives, is 3.13% (2021: 3.23%)

Interest paid/(received) per the statement of cash flow

	Group 2022 $'000	Group 2021 $'000
Interest costs (net)	2,518	2,500
Less Accrued Interest	1	(2)
Less lease liability interest	(58)	(38)
Add capitalised interest	304	364
Net Interest paid per the statement of cash flow	**2,765**	**2,825**
Interest received per the statement of cash flow	(3)	(7)
Interest paid per the statement of cash flow	2,768	2,832
Total	**2,765**	**2,825**

Policies

Interest income/expense is recognised as it accrues, using the effective interest rate method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation. Borrowing costs not directly attributable to qualifying assets is recognised as interest expense.

4. Income tax expense

Reconciliation of income tax expense		Group 2022 $'000	Group 2021 $'000
Profit before income tax from continuing operations		9,524	9,572
(Loss)/profit before income tax from discontinuing operations	11.3	626	(1,301)
Profit before tax		10,150	8,271
Expenses that are non-deductible		236	360
Reversal of impairment of associate		-	(40)
Impairment of assets		-	128
Plus Imputation Credits		117	97
Effect of income that is not assessable		(1)	2
Taxable profit		10,501	8,818
Income tax expense at 28%		2,979	2,528
Income tax expense at 33%		53	13
Benefit of imputed dividends		(117)	(97)
Effect of prior period tax adjustment		(59)	1
Income tax expense		**2,857**	**2,445**
Effective tax rate (being total tax expense divided by profit before tax)		28%	30%
Current tax expense		5,916	1,836
Deferred tax expense		(3,059)	609
Income tax expense		2,857	2,445
Attributable to:			
Continuing activities		2,682	2,759
Discontinuing activities		175	(314)

Amounts recognised directly in other comprehensive income

Aggregate current and deferred tax arising in the reporting period is not recognised in the net profit and loss component of the statements of comprehensive income but directly debited and credited to other comprehensive income.

Deferred tax – debited/(credited) directly to other comprehensive income	6210	627
Total tax expense/(income) for the year recognised in other comprehensive income	6210	627

Policies

Income tax expense comprises current and deferred tax and is calculated using tax rates enacted or substantively enacted at balance sheet date.

Current and deferred tax is recognised in profit and loss unless the tax relates to items in other comprehensive income, in which case the tax is recognised as an adjustment in other comprehensive income against the item to which it relates.

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Imputation credits

The parent entity is a Trust and therefore not required to maintain an imputation credit account. Any tax paid by the parent is a final tax on the income received. In respect to the companies within the group, imputation credits are gained through tax paid and are available to attach to future dividends. The value of imputation credits available for subsequent reporting periods as at 31 March 2022 is $17.0m (2021– $7.8m).

5. Operational profit before discontinuing operations

	Group 2022 $'000	Group 2021 $'000
Earnings before interest, tax, depreciation and amortisation (EBITDA)		
Network	22,684	20,421
Meters and relays	14,577	12,986
Network services	613	1,072
Investment	4	5
Corporate services	(6,874)	(5,278)
EBITDA	**31,004**	**29,207**
Depreciation and amortisation	(18,959)	(17,041)
Impairment of associate	-	40
Impairment of assets	-	(128)
Earnings before interest and tax (EBIT)	**12,045**	**12,078**
Interest costs (net)	(2,522)	(2,506)
Profit/(loss) before tax	**9,523**	**9,572**

6. Cash and cash equivalents

	Group 2022 $'000	Group 2021 $'000
Cash at bank on hand	6,865	1,406
Total	**6,865**	**1,406**

Policies

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

7. Trade and other receivables

	Group 2022 $'000	Group 2021 $'000
Trade receivables		
Trade receivables	3,310	3,716
Less loss allowance (note 24.2)	(88)	(193)
Balance at 31 March	3,222	3,523
Other receivables		
Sundry debtors	-	-
Accrued Interest	2	2
Prepayments	624	976
Balance at 31 March	626	978
Total trade and other receivables balance at 31 March	**3,848**	**4,500**
Ageing of trade receivables		
Current to 90 days	3,153	3,469
Greater than 90 days	157	247
Total	**3,310**	**3,716**

Trade receivables are amounts due from customers for services performed in the ordinary course of business. They are generally settled within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional.

A loss allowance is assessed in note 24.2.

Policies

Trade and sundry receivables are non-interest bearing and are generally settled within a 30-day term. Therefore the carrying value of trade receivables approximates their fair value.

The simplified approach to measuring expected credit losses is applied which uses a lifetime expected loss allowance for all trade receivables.

8. Inventories

	Group 2022 $'000	Group 2021 $'000
Network stock	1,119	1,296
Transformers	-	499
Total	**1,119**	**1,795**

Policies

Inventories are stated at average cost.

Cost includes the cost of direct materials and other charges, e.g. freight incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

In the current financial year, $819k of transformers and other inventory critical spares of a capital nature has been reclassified to property, plant and equipment in note 9.

9. Property, plant and equipment

	Land $'000	Buildings $'000	Network Distribution System $'000	Meters & Relays $'000	Plant & Vehicles $'000	Generation $'000	Right of use asset $'000	Total $'000
Gross carrying value								
At 31 March 2020	**1,503**	**2,471**	**286,000**	**46,687**	**11,945**	**22,383**	**753**	**371,742**
Additions	-	173	20,383	8,401	1,403	-	159	30,519
Disposals	-	-	-	(80)	(2,527)	(105)	(119)	(2,831)
Assets reclassified to held for sale	(116)	(139)	-	-	(41)	(22,061)	-	(22,357)
Land and building revaluation	116	578	-	-	-	-	-	694
Capital works in progress movement	-	-	(1,402)	-	-	-	-	(1,402)
At 31 March 2021	**1,503**	**3,083**	**304,981**	**55,008**	**10,780**	**217**	**793**	**376,365**
Additions	-	509	18,173	4,029	1,431	-	944	25,086
Disposals	-	-	-	(9,174)	(399)	-	(244)	(9,817)
Reclassifications	-	-	819	-	217	(217)	-	819
Network revaluation	-	-	18,006	-	-	-	-	18,006
Capital works in progress movement	-	-	(3,488)	-	-	-	-	(3,488)
At 31 March 2022	**1,503**	**3,592**	**338,491**	**49,863**	**12,029**	**-**	**1,493**	**406,971**
Accumulated amortisation and impairment								
At 31 March 2020	**-**	**110**	**65,945**	**20,635**	**8,367**	**5,536**	**187**	**100,780**
Depreciation charge	-	55	8,155	4,789	1,150	399	146	14,694
Assets reclassified to held for sale	-	(20)	-	-	(37)	(5,800)	-	(5,857)
Disposals	-	-	-	-	(2,500)	-	-	(2,500)
At 31 March 2021	**-**	**145**	**74,100**	**25,424**	**6,980**	**135**	**333**	**107,117**
Depreciation charge	-	73	8,581	6,164	1,233	-	205	16,256
Reclassifications	-	-	-	-	135	(135)	-	-
Disposals	-	-	-	(9,123)	(351)	-	(268)	(9,742)
At 31 March 2022	**-**	**218**	**82,681**	**22,465**	**7,997**	**-**	**270**	**113,631**
Carrying amount (Net book value)								
At 31 March 2020	1,503	2,361	220,055	26,052	3,578	16,847	566	270,962
At 31 March 2021	1,503	2,938	230,881	29,584	3,800	82	460	269,248
At 31 March 2022	**1,503**	**3,374**	**255,810**	**27,398**	**4,032**	**-**	**1,223**	**293,340**
Carrying amount (Cost model)								
At 31 March 2021	159	397	168,605	29,584	3,800	82	460	203,087
At 31 March 2022	**159**	**760**	**182,385**	**27,398**	**4,032**	**-**	**1,223**	**215,957**

The carrying amount (cost model) table represents the carrying amounts that would have arisen had all property, plant and equipment been carried under the cost model.

Work in progress at the end of the year was $3.4 million (2021: $6.9 million) included in network distribution assets.

Policies

Property, plant and equipment other than land and buildings and network distribution system are initially measured at cost, and subsequently stated at cost less depreciation and any impairment losses.

Land and buildings and network distribution assets are held at their fair value. Fair values are determined based on valuations adjusted for subsequent purchase costs, disposals, depreciation and impairment. While the group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the group.

Expenditure is capitalised if the asset is technically and commercially feasible, future economic benefits are probable and the Company intends to use or sell the asset.

Capitalisation occurs immediately once an asset is acquired or installed.

Depreciation begins once an asset is ready for use.

Depreciation of property, plant and equipment, other than land, is calculated on a straight line basis and expensed over the life of the asset.

Estimated useful asset lives are as follows:

- Buildings 40 – 100 years
- Network distribution system 5 – 60 years
- Meters & relays 3 – 15 years
- Plant & vehicles 1 – 13 years
- Generation 10 – 75 years
- Right of use assets associated with lease assets are depreciated over the lease term.

Gain or loss on disposal is recognised in profit and loss. When revalued assets are sold the amounts included in the revaluation reserves are transferred to retained earnings.

Judgements

Land and buildings

The land and buildings of the Group, comprising the vacant land at Te Peka Street Taumarunui; Old Station Road Ohakune; depots at Waitete Road Te Kuiti , and Te Peka Street Taumarunui; the residential dwellings at Te Peka Street, Taumarunui and head office at King Street East, Te Kuiti were revalued to $4.2 million at 31 March 2021. Revaluations are performed every three years.

These valuations were prepared by Doyle Valuations Ltd (A.N.Z.I.V, S.N.Z.P.I), an independent valuer with local experience. These valuations were carried out in accordance with API and PINZ Professional Practice and International Valuation Standards. Cost summation, market rate and income approaches were used for the valuation.

The fair value measurements above are considered to be Level 2 as per NZ IFRS 13, as they are derived from valuation techniques that include inputs for the assets that are based on observable market data.

Network distribution system

The Group estimates the fair value of the distribution network through independent valuers using the discounted cash flow method every three years or more frequently if there is evidence of a material change in value.

Network distribution system assets, excluding meters and relays, were revalued to $255.1 million at 31 March 2022.

This value was within the valuation range ($244.4 million – $260.4 million), independently prepared by Deloitte and the key assumptions used are shown in the following table. In all cases an element of professional judgement is required. The valuation is based on revenue and cost assumptions applied against a combination of discount rates and distribution revenues.

Assumptions	Valuation midpoint assumptions adopted	Low	High	Valuation impact $’000’s
				-$13,312
Network revenue	-	-5%	5%	+$13,312
				+$11,576
Discount rate	5.3%	-0.5%	0.5%	-$11,025

Consistent with prior years, the valuer has assumed the terminal value equal to forecast Regulatory Asset Base (RAB) based on information disclosures, as it is believed that the terminal value would approximate the RAB value in a steady state regulatory environment. We have considered the impact of climate change in the preparation of the network valuation. A greater level of capital spend has been forecast in the latest AMP due to the expected load increase arising from decarbonisation and to ensure ongoing reliability of the network. The AMP forms the basis of the capex and opex spend incorporated in the valuation.

The fair valuation measurements above are considered to be Level 3 as per NZ IFRS 13, as they are derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

10. Intangible assets

	Software $'000	Land Easements $'000	Resource Consents & Rights $'000	Intellectual Property $'000	Customer Contracts $'000	Total $'000
Cost						
At 31 March 2020	**8,404**	**525**	**818**	**128**	**10,661**	**20,536**
Assets reclassified to held for sale	-	(258)	(818)	-	-	(1,076)
Disposals	(2,541)	-	-	-	-	(2,541)
Impairment	-	-	-	(128)	-	(128)
Additions	464	-	-	-	-	464
At 31 March 2021	**6,327**	**267**	**-**	**-**	**10,661**	**17,255**
Additions	2,381	-	-	-	-	2,381
At 31 March 2022	**8,708**	**267**	**-**	**-**	**10,661**	**19,636**
Accumulated amortisation and impairment						
At 31 March 2020	**4,625**	**-**	**186**	**-**	**1,072**	**5,883**
Amortisation charge for the year	693	-	-	-	2,068	2,761
Disposals	(2,541)	-	-	-	-	(2,541)
Assets reclassified to held for sale	-	-	(186)	-	-	(186)
At 31 March 2021	**2,777**	**-**	**-**	**-**	**3,140**	**5,917**
Amortisation charge for the year	1,162	-	-	-	1,541	2,703
At 31 March 2022	**3,939**	**-**	**-**	**-**	**4,681**	**8,620**
Carrying amount (net book value)						
At March 2020	**3,779**	**525**	**632**	**128**	**9,589**	**14,653**
At March 2021	**3,550**	**267**	**-**	**-**	**7,521**	**11,338**
At March 2022	**4,769**	**267**	**-**	**-**	**5,980**	**11,016**

Policies

Software is amortised on a straight line basis over its estimated useful life of 1 – 8 years.

Intellectual property has an indefinite life and is assessed annually for impairment.

Customer contract assets are contractual income streams assessed with the legacy metering business acquired in the prior financial year. These are depreciated over seven years in line with the expected rate of decline in revenue.

11. Discontinued operations

11.1 Assets of a disposal group classified as held for sale

	2022 $'000	2021 $'000
Opening balance	15,344	-
Assets transferred from property, plant and equipment (Note 9)	-	16,500
Assets transferred from intangible assets (Note 10)	-	890
Capital works in progress	-	123
Impairment of assets	-	(2,169)
Disposals	(15,144)	-
Assets held for sale relating to the disposal of the generation business	200	15,344

In the prior financial year the Group was given authority to dispose of its three hydro stations. The Group has signed two sale agreements and settlement was 19 July 2021. The sale was finalised on 19 July 2021. Ownership of the three generation assets was transferred on the 19 July 2021. The balance remaining in 2022 represents retentions on the Matawai Hydro Station sale.

The operations regarding these three hydro sites have been disclosed separately from the continuing operations in the statement of comprehensive income and cash flows.

11.2 Convertible notes issued by subsidiary of a disposal group classified as held for sale

	2022 $'000	2021 $'000
Convertible notes issues by a subsidiary	-	950
Convertible notes issued by subsidiary held for sale relating the disposal of the generation business	-	950

Convertible notes issued by a subsidiary are discussed in detail in note 18.

Policies

Assets held for sale have been valued at the lower of fair value less cost to sell and its carrying value. An impairment loss was recognised of $2.2 million at 31 March 2021.

11.3 Profit/(loss) for the year from discontinuing operations

	2022 $'000	2021 $'000
Revenue	1,198	1,849
Operating expenses	(547)	(508)
Depreciation	-	(414)
Interest costs	(25)	(57)
Audit fee	-	(2)
Impairment of assets	-	(2,169)
Profit/(loss) before tax	626	(1,301)
Income tax	(175)	314
Profit/(loss) for the year from discontinuing operations	**451**	**(987)**
Non-controlling interest from discontinuing operations	**26**	**(36)**
Total comprehensive profit/(loss) from discontinuing operations	**477**	**(1,023)**

11.4 Net cash inflow from discontinuing operations

	2022 $'000	2021 $'000
Net cash inflow from operating activities	626	1,282
Net cash inflow from investing activities	15,144	-
Net cash outflow from financing activities	(950)	(50)
Net cash inflow from discontinuing operations	**14,820**	**1,232**

12. Distributions

During the year TLC agreed with the Trust to provide a network discount of $4.1 million (2021: $3.8 million) direct to eligible consumers (refer note 1).

13. Investments

13.1 Investment in subsidiaries

Name	Principal activity	Ownership Interest 2022 %	Ownership Interest 2021 %
Influx Energy Data Limited	Meter and relay assets	100	100
Speedys Road Hydro Limited	Hydro generation scheme	75	75

Policies

Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-Group transactions are eliminated on consolidation.

Balance dates

All subsidiaries have a financial year end of 31 March.

Geography

All subsidiaries are incorporated in New Zealand.

13.2 Investment in associates

	2022 $'000	2021 $'000
Reversal of impairment of loan receivable	-	40

14. Equity and reserves

14.1. Total Equity and minority interest

	Group 2022 $'000	Group 2021 $'000
Trust reserves	171,403	148,169
Minority interest share	765	739
Total Equity	172,168	148,908

Minority Interest

Waitomo Energy Services Customer Trust holds 100% of the shares in The Lines Company Ltd but the Lines Company Ltd has only a 75% interest in Speedys Road Hydro Ltd. The minority interest share relates to the other 25% of Speedys Road Hydro Ltd that is not owned by the group.

14.2. Hedge reserves

Hedge reserves comprise the cash flow hedge reserve associated within interest rate swaps. These derivative instruments are only used for hedging purposes and not as speculative investments.

Policies

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The accounting for the changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group currently hedges a particular risk associated with the cash flows of recognised assets and liabilities that have highly probable transactions (cash flow hedges). At inception of the hedge relationship, the Group documents the economic relationship between the hedging instrument and hedged item including whether changes in cash flows of the hedging instruments are expected to offset changes in cash flows of hedged items. The Group documents its risk management objective and strategy undertaking its hedged transactions.

The fair values of derivative financial instruments designated in hedging relationships are disclosed in note 24.1. The effective portion in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised on the cash flow hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other gains/(losses).

Upon meeting all the relevant criteria, hedge accounting is applied to mitigate the risk that the hedging instrument materially differs from the hedged item. This will effectively result in recognising interest expense at a fixed interest rate for the hedged floating rate loans.

Interest rate swaps

	2022 $'000	2021 $'000
Opening net liability	(1,415)	(2,529)
Changes in fair value of hedging instrument recognised in other comprehensive income (OCI)	4,171	1,547
Deferred tax	(1,168)	(433)
Closing net asset/(liability)	**1,588**	**(1,415)**

14.3. Revaluation reserve

	Network Distribution System $'000	Land & buildings $'000	Total $'000
Total at 31 March 2020	**68,483**	**878**	**69,361**
Transfer from retained earnings	(649)	-	(649)
Revaluation decreases	-	694	694
Deferred tax on revaluation	-	(194)	(194)
Total at 31 March 2021	**67,834**	**1,378**	**69,212**
Transfer from retained earnings	(654)	-	(654)
Revaluation increases	18,006	-	18,006
Deferred tax on revaluation	(5,042)	-	(5,042)
Total at 31 March 2022	**80,144**	**1,378**	**81,522**

15. Non-controlling interest

The following table summarises the financial information of Speedys Road Hydro Limited.

Summarised financial information of subsidiary with non-controlling interest	2022 $'000	2021 $'000
Summarised statement of financial position		
Total current assets	3,953	681
Total non-current assets	-	7,043
Total assets	**3,953**	**7,724**
Total current liabilities	892	3,936
Total non-current liabilities	-	831
Total liabilities	**892**	**4,767**
Net assets	**3,061**	**2,957**
Accumulated non-controlling interest	**765**	**739**
Summarised statement of comprehensive income		
Revenue	385	1,020
Total comprehensive profit/(loss	104	(144)
Profit/(loss) allocated to non-controlling interest	**26**	**(36)**
Dividends paid to non-controlling interest	**-**	**-**
Summarised statement of cash flows		
Cash flows from operating activities	706	196
Cash flows from investing activities	7,043	-
Cash flows from financing activities	(3,800)	(200)
Net increase/(decrease) in cash and cash equivalents	**3,949**	**(4)**

16. Current tax liability

	Group 2022 $'000	Group 2021 $'000
Opening balance	1,800	1,758
Tax payments and tax credits received	(3,183)	(1,794)
Current tax expense for the year	5,916	1,836
Closing balance	**4,533**	**1,800**

Policies

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

17. Deferred tax liability

	PPE and intangible assets $'000	Cash flow hedges $'000	Provisions $'000	Losses carried Forward/Imputation Credits not refundable	Total Group $'000
At 31 March 2020	50,550	(983)	(409)	(133)	49,025
Charged to income	629	-	64	(84)	608
Acquisition due to business combinations	194	433	-		627
At 31 March 2021	**51,373**	**(550)**	**(345)**	**(217)**	**50,260**
Charged to income	(3,289)	-	294	(64)	(3,059)
Charged to other comprehensive income	5,042	1,168	-	-	6,210
At 31 March 2022	**53,126**	**618**	**(51)**	**(281)**	**53,411**

Policies

Deferred tax is:

• Recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

• Determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to be applied when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

• Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

• The non-refundable imputation credits recognised in the parent entity are carried forward with tax losses and calculated at 33 cents.

18. Bank borrowings, convertible notes and subordinated debentures

	Group 2022 $'000	Group 2021 $'000
Bank Borrowings	79,133	89,012
Convertible notes issued by subsidiary	-	950
Subordinated debentures:		
North King Country Development Trust	2,000	2,000
	81,133	91,962
Disclosed in the financial statements as:		
Current borrowings	76,077	3,677
Convertible notes issued by subsidiary of a disposal group classified as held for sale	-	950
Non-current borrowings	5,056	87,335
Total	**81,133**	**91,962**

BTSR

Reconciliation of net debt

	Due within 1 year	Due after 1 year	Total
	$'000	$'000	$'000
Balance at 1 April 2020	**2,204**	**91,295**	**93,499**
Repayment of convertible note	(50)	-	(50)
Movement between current and non-current debt	4,477	(4,477)	-
Facility drawdown	-	3,667	3,667
Repayment of loans	(2,004)	(3,150)	(5,154)
Net debt at 31 March 2021	**4,627**	**87,335**	**91,962**
Repayment of convertible notes	(950)	-	(950)
Movement between current and non-current debt	76,077	(76,077)	-
Facility drawdown	-	359	359
Repayment of loans	(3,677)	(6,561)	(10,238)
Net debt as at 31 March 2022	**76,077**	**5,056**	**81,133**

Policies

Borrowings are initially measured at fair value, less transaction costs and are subsequently measured at amortised cost, using the effective interest rate method.

The subordinated debentures are stated at their fair values.

Bank borrowings

The Trust's subsidiary The Lines Company Ltd has term lending facilities of $77.4 million for three years, expiring 1 February 2023. In addition there is a working capital facility of $8 million and is subject to annual renewal and expires on 31 December 2022. Security held by the bank for these loans is a Composite General Security Agreement over certain assets of the Group.

A replacement facility of $100 million has been approved at the board meeting on 22 June 2022 to replace these facilities. Expiry dates of the new facilities range between 3 and 7 years.

The Directors estimate the fair value of the Group's bank loans approximate their book value, because they are floating rate loans.

Convertible notes

Speedys Road Hydro Limited (SRHL) had issued $3.75 million of convertible notes to TLC and $1.25 million of convertible notes to the minority shareholder. The proceeds were used to repay debt owed to TLC. The convertible notes are interest bearing (2022: 6.29%) (2021: 6.29%). The convertible notes issued to TLC are eliminated on consolidation in the Group financial statements.

On 30 October 2021, $3.75 million of the convertible notes were repaid reducing the balance to nil.

The fair value of the convertible notes are not considered to be materially different from its principal value as the terms of the notes are such that comparable market instruments would not differ materially in value.

The convertible notes form part of the disposal group classified as held for sale in 2021 due to the sale of the generation assets completed in July 2021.

Subordinated debentures

The North King Country Development Trust (NKCDT) loan has a principal value of $2,000,000 and has fixed interest of 5.00% per annum (2021: 5.00%).

The subordinated debenture is unsecured and has no specified maturity date. Repayment of the subordinated debenture is not permitted until full repayment of all other borrowings of the Company, or until the Company is wound up.

The fair value of the NKCDT debenture is not considered to be materially different from its principal value as the terms of the debenture are such that comparable instruments would not differ materially in value.

There are no specified repayment terms in relation to subordinated debentures.

19. Trade and other payables

	Group 2022 $'000	Group 2021 $'000
Trade creditors	3,303	5,001
Interest accruals	266	264
TLC discount accrual	2,340	1,592
Other payables and accruals	649	570
Total	**6,558**	**7,427**

Policies

Trade and other payables are:

• Recognised at fair value when the Group becomes obligated to make future payments resulting from the purchases of goods and services and are subsequently measured at amortised cost using the effective interest rate method.

• Comprise amounts outstanding for trade purchases and ongoing costs.

• Carrying amount approximates to their fair value because the amounts due will be settled within one year's time for their carrying value.

20. Provision for staff entitlements

	2022 $'000	2021 $'000
Opening balance	2,095	1,645
Accrued	1,533	1,952
Utilised	(1,474)	(1,502)
Total	**2,154**	**2,095**

Policies

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, trainee bonds and gratuities when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made that are expected to be settled within 12 months are measured at their amounts expected to be paid using the remuneration rate expected at the time of settlement.

Provisions made that are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to balance date.

The carrying amount of the provision for staff entitlements approximates to their fair value as most of the entitlement is due to be settled within one year.

21. Lease liabilities

	2022 $'000	2021 $'000
Lease liabilities		
Current	196	87
Non-current	1,090	394
Total lease liabilities	**1,286**	**481**
Opening balance	481	588
New lease entered into during the year	944	159
Reassessment of lease terms	24	(124)
Interest on lease liabilities (note 3)	58	38
Cash outflow for leases	(221)	(180)
Total lease liabilities	**1,286**	**481**

The Group leases various offices and warehouses. Rental contracts are typically made for fixed periods of 3 years to 13 years but may have extension options. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

• Fixed payments (including in-substance fixed payments), less any lease incentives receivable

• Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee’s incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Right of use assets are disclosed in note 9.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an operating expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise office equipment. This is disclosed in note 2.

22. Cash generated from operations

	Group 2022 $'000	Group 2021 $'000
Profit before tax	9,524	9,572
Interest costs (net)	2,518	2,500
Net profit before interest	12,042	12,072
Adjustments for non-cash items		
Accrued Interest	1	(2)
Depreciation and amortisation	18,959	17,041
Impairment of assets	-	128
Gain on disposal of property, plant and equipment and intangible assets	(37)	(79)
Movement in provision for doubtful debt	105	147
	31,069	29,307
Changes in net assets and liabilities		
Trade and other receivables	548	18
Contract assets and liabilities	(1,382)	624
Inventories	676	89
Trade and other payables	(869)	3,030
Provision for staff entitlements	59	450
Cash generated from operations	**30,101**	**33,518**

23. Capital Commitments, contingent assets and liabilities

Capital Commitments

The Trust's subsidiary The Lines Company Ltd has capital commitments of $5.9 million (2021: $5.86 million) relating to metering and network assets.

Contingent assets

The Group has no contingent assets (2021: $0 million).

Contingent liabilities

Due to historical breaches of SAIDI quality targets by The Lines Company Ltd, the Commerce Commission are currently conducting an investigation for the reasons for those exceedances. The outcome of that investigation has yet to be decided but there is a possibility of a financial impact on FY23 as a result of the investigation (2021: $0 million). The financial impact cannot be quantified at this time.

24. Financial risk management

Objectives

Objectives

The Group manages financial risks by complying with the policies set by the Board. The risks outlined in the policy include:

- Interest rate risk
- Credit risk
- Capital risk
- Liquidity risk.

Any new risks are referred to the Board for consideration as they become known. Each risk is monitored and reported to the board on a quarterly basis.

24.1 Interest rate risk

The Group's main interest rate risk is through its borrowing activities with variable rates, which expose the Group to cash flow interest rate risk.

The Group's policy with regards to fixing its floating rate is depicted below:

Period	Minimum	Maximum
0-1 year	40%	100%
1-3 years	30%	80%
3-5 years	15%	60%

Generally the Group enters into long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. The Group's borrowings are only in New Zealand dollars.

The Group's borrowings and receivables are carried at amortised cost. The current borrowings are repriced every three months and as such exposed to the risk of future changes in interest rates.

Swaps currently in place cover 58% (2021: 51%) of the variable loan outstanding. The fixed interest rate of the swaps range between 0.75% and 5.12% (2021: 0.75% and 5.12%) and the variable rates of the loans between 1.60% and 1.04% (2021: 1.74% and 1.68%) above the 90-day bank bill rate which at the end of the reporting period was 0.35% (2021: 0.35%).

The swap contracts require settlement of net interest receivable or payable every 90 days. The settlement dates do coincide with the dates on which interest is payable on the underlying debt and are thus effective.

Effect of hedge accounting on the financial position and performance:

	2022 $'000	2021 $'000
Interest rate swaps		
Net non-current other financial asset/(liability)	2,206	(1,965)
Market to market fair value of interest rate swaps at 31 March	**2,206**	**(1,965)**
Notional amount	46,000	46,000
Maturity date	Aug 22 to Aug 27	Jun 21 to Jun 27
Hedge Ratio	1:1	1:1
Net non-current other financial asset/(liability) attributable to:		
Financial assets	2,455	133
Financial liabilities	(249)	(2,098)
	2,206	**(1,965)**
Change in fair value of outstanding hedging instruments	(4,171)	(1,572)
Change in value of hedge item used to determine hedge effectiveness	4,171	1,572
Weighted average hedged rate for the year	2.78%	3.11%

Sensitivity

Sensitivity analysis is determined based on the exposure to interest rates for both derivatives and non-derivative instruments at balance sheet date.

A 100 basis point increase or decrease is used to assess interest rate and this represents management's assessment of the reasonably possible change in interest rates.

	2022 $'000	2021 $'000
Impact on statement of comprehensive income		
- 1% change in interest rates	(239)	(320)
+ 1% change in interest rates	239	320
Impact on statement of financial position		
- 1% change in interest rates	(403)	(367)
+ 1% change in interest rates	403	367

Hedge ineffectiveness is determined at inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedged instrument.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, maturities and notional amount. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was 100% effective.

Hedge ineffectiveness may occur due to:

• Difference in critical terms between the interest rate swaps and loans; and

• The credit value/debit value adjustment on the interest rate swaps which is not matched by the loan.
There was no ineffectiveness during 2022 or 2021 in relation to interest rate swaps.

24.2 Credit risk

The Group's principal financial assets are cash and cash equivalents, trade and other receivables, contract assets and related party loans, which represent the Group's maximum exposure to credit risk in relation to financial assets.

Credit risk is managed on a Group basis. For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted. Thus impact on cash and cash equivalents is deemed immaterial.

Related parties are assessed for impairment with the relevant investment, see Note 13.2.

Impairment of financial assets

The Group applies NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same contract types. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 12 months from 31 March 2022 and 31 March 2021 respectively and the corresponding historical credit losses experienced within this period. The Group's customer base was mainly focused in the King Country and as such macroeconomic factors are considered within this particular environment and the credit loss adjusted accordingly when the group billed its customers directly. This risk has reduced significantly with the transition to retailer billing on 1 October 2021.

On that basis, the loss allowance as at 31 March 2022 and 31 March 2021 was determined as follows for both trade receivables and contracts assets:

31 March 2022	Less than 90 days past due	More than 90 days past due	Total
Expected loss rate	0%	56%	
Gross carrying amount - trade receivables	3,766	158	**3,924**
Gross carrying amount – contract assets	2,975	-	**2,975**
Loss allowance	**-**	**88**	**88**

31 March 2021	Less than 90 days past due	More than 90 days past due	Total
Expected loss rate	0%	78%	
Gross carrying amount - trade receivables	4,436	247	**4,683**
Gross carrying amount – contract assets	2,283	-	**2,283**
Loss allowance	**-**	**193**	**193**

The closing loss allowance for trade receivables as at 31 March 2022 reconciles to the opening loss allowances as follows:

	2022 $'000	2021 $'000
Opening balance	193	340
Increase in loss allowance recognised in profit and loss	128	50
Receivables written off during the year as uncollectible	(233)	(197)
Loss allowance closing balance	**88**	**193**

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 120 days past due.

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

• The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices

• The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments

• The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve derived from quoted interest rates for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are measured at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Group 2022				
Derivative financial liabilities	-	(249)	-	(249)
Derivative financial assets	-	2,455	-	2,455
Group 2021				
Derivative financial liabilities	-	(2,098)	-	(2,098)
Derivative financial assets	-	133	-	133

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

Financial instruments by category

2022	Financial assets at amortised cost $'000	Financial liabilities at amortised cost $'000	Financial liability at fair value through profit and loss $'000	Total $'000
Cash and bank balances	6,865	-	-	6,865
Trade and other receivables	3,224	-	-	3,224
Contract assets	2,975	-	-	2,975
Total financial assets	**13,064**	**-**	**-**	**13,064**
Trade and other payables	-	6,558	-	6,558
Contract liabilities	-	325	-	325
Lease liabilities	-	1,286	-	1,286
Borrowings	-	79,133	-	79,133
Total financial liabilities	**-**	**87,302**	**-**	**87,302**
2021				
Cash and bank balances	1,406	-	-	1,406
Trade and other receivables	3,525	-	-	3,525
Contract assets	2,584	-	-	2,584
Total financial assets	**7,515**	**-**	**-**	**7,515**
Trade and other payables	-	7,427	-	7,427
Contract liabilities	-	1,316	-	1,316
Lease liabilities	-	481	-	481
Borrowings	-	89,012	-	89,012
Other financial liabilities	-	-	1,965	1,965
Total financial liabilities	**-**	**98,236**	**1,965**	**100,201**

Policies

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

The Group's credit risk is primarily attributable to its trade receivables and contract assets.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with AA credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with the largest individual receivable being less than 10% of trade receivables and the remaining exposure being spread over a large number of counterparties and customers.

24.3 Capital risk

During 2022, the Group's strategy, which was unchanged from 2021, was to maintain an equity/assets ratio of not less than 40%.

The ratio at March 2022 and 2021 were as follows:	Group 2022 $'000	Group 2021 $'000
Average equity (including subordinated debentures)	162,537	147,189
Total assets at year end	321,848	306,433
Equity to Assets Ratio	**50.5%**	**48.0%**

Policies

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2021 and is based on risk management strategies and treasury management policies set and monitored by the Board.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, and equity attributable to equity holders of the parent, comprising issued capital, retained earnings and reserves as disclosed in note 14 and statement of changes in equity respectively.

Debt covenants have been complied with during the year.

24.4 Liquidity risk

Financial liability maturity analysis

	Less than 1 month $'000	1 month to 1 year $'000	1 to 5 years $'000	Total $'000
Non-interest bearing	6,558	-	-	6,558
Variable interest rate instruments	-	79,133	-	79,133
At 31 March 2022	**6,558**	**79,133**	**-**	**85,691**
Non-interest bearing	7427	-	-	7,427
Variable interest rate instruments	-	4,627	87,300	91,927
At 31 March 2021	**7,427**	**4,627**	**87,300**	**99,354**

The table includes both interest and principal cash flows.

Variable rate instruments include the impact of derivatives.

There are $3.0 million of subordinated debentures (note 18) with no set maturity date.

Interest payable on these is excluded from this analysis.

The Group had access to the following borrowing facilities at the end of the reporting period:

	Group 2022 $'000	Group 2021 $'000
Total facility	85,400	85,400
Undrawn facility	22,533	14,295

The bank facilities may be drawn at any time and are reviewed every three years. Subject to the continuance of satisfactory credit ratings. The bank facilities are due for review on 31 December 2022 and 1 February 2023.

A replacement facility of $100 million has been approved by the board on 22 June 2022 to replace the facilities expiring on the 1 February 2023. The expiry dates of the new facilities range between 3 and 7 years.

Policies

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

25. Related party transactions

	2022 $'000	2021 $'000
Transactions with Maru Energy Trust		
Donations to Maru Energy Trust	212	100
Transactions with key management personnel		
Trustee Fees Paid	114	110
Outstanding at balance date	-	-
Transactions with Speedy's Road Trust		
Interest paid on convertible notes	25	57
Transactions with North King Country Development Trust		
Interest paid on subordinated debentures	100	52
Balances with related parties		
Maru Energy Trust Receivable	86	27
Convertible note with Speedy's Road Trust	-	950
Subordinated debentures with King Country Development Trust	2,000	2,000

Sean Horgan is the Chief Executive of The Lines Company Limited, and he is also a director of Speedys Road Hydro Limited and a trustee on Maru Energy Trust. Mark Darrow was a director of Speedys Road Hydro Limited until 19 October 2021. Bella Takiari-Brame is a director of Speedys Road Hydro Limited from 7 January 2022.

Bella Takiari-Brame was a trustee of North King Country Development Trust. She retired 2 November 2021.

All Trustees of the Trust are related parties of the Trust by virtue of being Trustees.

26. Subsequent events

Credit approved offers received from two banks for $100m have been approved by the Board on the 22 June 2022. This is to replace the facilities expiring as disclosed in note 18 and 24.5. Finalisation of loan documentation is nearing completion. The expiry date of new facilities range between 3 and 7 years. The group forecasts to comply with associated covenants with the new facilities. These covenants are in line with the current facilities. The Group has forecasted there to be sufficient headroom for the foreseeable future with the new facilities.

There were no other subsequent events requiring recognition or disclosure in the financial statements.

WAITOMO ENERGY SERVICES CUSTOMER TRUST
INCOME AND EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 MARCH 2022

	31 Mar 2022	31 Mar 2021
REVENUE	$	$
Interest Received		
The Lines Company Ltd	74,200	74,200
BNZ	3,807	5,491
Dividends Received (net of ICA credits)		
The Lines Company Ltd	300,000	250,000
Total Income	378,007	329,691
LESS EXPENSES		
Accountancy	12,503	12,489
Recruitment Advertising	39,716	17,462
Audit Fee	7,082	7,082
Bank Fees	53	63
Beneficiary Communications	33,175	25,447
Computer Expenses	516	342
Conference Expenses	5,267	8,810
Consultancy	2,289	2,300
Election Expenses	5,519	83,623
General Office Expenses	289	4,045
Legal Fees	10,740	15,024
Insurance	9,589	9,516
Interest	-	371
Meeting Expenses	1,070	1,556
Postage	330	273
Printing & Stationery	1,044	123
Subscriptions	2,300	5,281
Telephone	360	662
Travelling Expenses	6,794	7,656
Trustee Fees	114,025	109,878
Secretarial Fees	74,799	76,770
Total Expenses	327,459	388,771
Net Operating Surplus/(Deficit) before Depreciation & Taxation	50,548	(59,080)
Tax benefit/(expense)	(52,951)	(13,115)
Plus non-refundable imputation credits	116,667	97,222
Trust Income after Taxation	114,263	25,027
Net Profit/(Loss)	**114,263**	**25,027**

The above information is a summary of the income and expenditure of the Trust. The information above is not consolidated and should be read in conjunction with the consolidated financial statements and the notes to those financial statements.

WAITOMO ENERGY SERVICES CUSTOMER TRUST
BALANCE SHEET
AS AT 31 MARCH 2022

	As at 31 Mar 2022 $	As at 31 Mar 2021 $
Current assets		
Bank of New Zealand Account	207	248
Bank of New Zealand On Call Account	112,433	88,452
Prepayments	9,524	8,723
Accrued Interest	2,081	1,556
Term Deposits	300,000	300,000
Current Tax Asset	46,304	43,974
	470,549	442,954
Non-current assets		
Plant and equipment	-	-
Investments:		
Shares - The Lines Company Ltd (11,846,808)	58,663,880	58,663,880
Debenture to The Lines Company Ltd	1,000,000	1,000,000
Deferred Tax Benefit	281,655	217,940
	59,945,535	59,881,820
Total assets	**60,416,085**	**60,324,774**
Current liabilities		
Accounts Payable	33,459	56,411
	33,459	56,411
Total liabilities	**33,459**	**56,411**
Net assets	**60,382,626**	**60,268,363**
EQUITY		
Trust Equity	60,382,626	60,268,363
Total equity	**60,382,626**	**60,268,363**

The above information is a summary of the balance sheet of the Trust. The information above is not consolidated and should be read in conjunction with the consolidated financial statements and the notes to those financial statements.

WAITOMO ENERGY SERVICES CUSTOMER TRUST
CAPITAL ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2022

	As at 31 Mar 2022 $	As at 31 Mar 2021 $
Income and Credits		
Balance at beginning	60,268,363	60,244,378
Net Profit/(Loss)	114,263	25,027
	60,382,626	60,269,405
Appropriated as follows		
Capital Distribution to owners	-	1,042
	-	1,042
	60,382,626	**60,268,363**

Trust Equity is made up of

Trust Capital	11,929,532	11,929,532
Revaluation Reserves	39,051,691	39,051,691
Retained Earnings	9,401,403	9,287,140
	60,382,626	**60,268,363**

The above information is a summary of the Equity of the Trust. The information above is not consolidated and should be read in conjunction with the consolidated financial statements and the notes to those financial statements.

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INDEPENDENT AUDITOR'S REPORT

To the Trustees of Waitomo Energy Services Customer Trust

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Waitomo Energy Services Customer Trust and its subsidiary ('the Group') on pages 2 to 45, which comprise the consolidated statement of financial position as at 31 March 2022, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended, and notes to the consolidated financial statements, including significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, Waitomo Energy Services Customer Trust or its subsidiary.

Responsibilities of the Trustees for the Consolidated Financial Statements

The Trustees are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Trustees determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Trustees are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board's website at:
https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-7/

Baker Tilly

BAKER TILLY STAPLES RODWAY AUDIT LIMITED

Hamilton, New Zealand

31 August 2022