

Independent Auditor's Report

To the readers of Sludge Finance LP Group's financial statements for the year ended 30 June 2024

The Auditor-General is the auditor of Sludge Finance LP Group (the Limited Partnership Group). The Auditor-General has appointed me, Wikus Jansen van Rensburg, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Limited Partnership Group on his behalf.

Opinion

We have audited the financial statements of the Limited Partnership Group on pages 2 to 17, that comprise the consolidated statement of financial position as at 30 June 2024, the consolidated statement of comprehensive revenue and expense, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion the financial statements of the Limited Partnership Group:

- present fairly, in all material respects:
 - its consolidated financial position as at 30 June 2024; and
 - its consolidated financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.

Our audit was completed on 21 October 2024. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the General Partner and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the General Partner for the financial statements

The General Partner is responsible, on behalf of the Limited Partnership Group, for preparing financial statements that are fairly presented and comply with generally accepted accounting practice in New Zealand. The General Partner is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the General Partner is responsible, on behalf of the Limited Partnership Group, for assessing the Limited Partnership Group's ability to continue as a going concern. The General Partner is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Limited Partnership Group, or there is no realistic alternative but to do so.

The General Partner's responsibilities arise from the Limited Partnership Act 2008 and the Infrastructure Funding and Financing Act 2020.

Responsibilities of the auditor for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Limited Partnership Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the General Partner.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the General Partner and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Limited Partnership Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Limited Partnership Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the General Partner regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The General Partner is responsible for the other information. The other information comprises the information included on pages 18 to 19, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Limited Partnership Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of the Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners including International Independent Standards* (New Zealand) (PES 1) issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor of the Limited Partnership Group and the Crown Infrastructure Partners Limited Group we have no relationship with, or interests, in the Limited Partnership Group or Crown Infrastructure Partners Limited Group.



Wikus Jansen van Rensburg
Audit New Zealand
On behalf of the Auditor-General
Auckland, New Zealand

SLUDGE FINANCE LP
CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2024

SLUDGE FINANCE LP

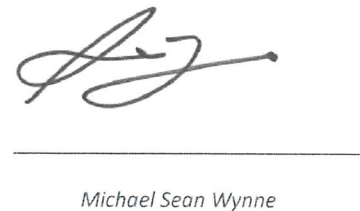
| Consolidated Statement of Comprehensive Revenue and Expense | | 2024 | 2023 |
|--------------------------------------------------------------------|-------|--------------------|------------------|
| For the Year Ended 30 June 2024 | | \$ | (8 months) \$ |
| | Notes | | |
| Income | | | |
| Revenue – receipt of right to levy statutory receivable | 6 | 107,051,926 | - |
| Interest income - bank accounts | | 2,396,122 | - |
| Interest income - statutory asset | 6 | 2,522,474 | - |
| Fair value gains/losses on statutory receivable | 6 | 474,637 | - |
| <i>Total income</i> | | 112,445,159 | - |
| Expenses | | | |
| Grant expense | 2 | 83,500,000 | - |
| Interest expense | 4 | 6,523,075 | - |
| Other finance costs | | 1,079,358 | - |
| Fair value gains/losses on interest rate swap | 5 | 10,240,717 | - |
| Fair value gains/losses on borrowings | 4 | 19,821,468 | - |
| Management services fees | 2 | 348,647 | - |
| <i>Total expenses</i> | | 121,513,265 | - |
| Surplus/(deficit) before tax | | (9,068,106) | - |
| Tax expense/(credit) | | - | - |
| Net surplus/(deficit) | | (9,068,106) | - |
| Total comprehensive revenue and expense | | (9,068,106) | - |

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

These financial statements are approved by the Directors of the General Partner on: 21 October 2024



Graham Ronald Mitchell



Michael Sean Wynne

SLUDGE FINANCE LP

**Consolidated Statement of
Financial Position
as at 30 June 2024**

| | Notes | 2024 \$ | 2023 \$ |
|--------------------------------------|-------|--------------------|------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 3 | 29,339,455 | - |
| Short term investments | 10 | 33,500,000 | - |
| Statutory receivable | 6 | 4,226,637 | - |
| Deferred loan transaction costs | 4 | 3,305,679 | - |
| GST receivables | | 3,689,813 | - |
| Other receivables | | 88,131 | - |
| Prepayments | | 45,000 | - |
| <i>Total current assets</i> | | 74,194,715 | - |
| Non-current assets | | | |
| Statutory receivable | 6 | 105,822,400 | - |
| <i>Total non-current assets</i> | | 105,822,400 | - |
| Total assets | | 180,017,115 | - |
| Liabilities | | | |
| Non-current liabilities | | | |
| Borrowings | 4 | 170,217,521 | - |
| Derivative financial liability | 5 | 10,256,592 | - |
| <i>Total non-current liabilities</i> | | 180,474,113 | - |
| Total liabilities | | 180,474,113 | - |
| Net assets | | (456,998) | - |
| Contributed capital | 9 | 8,611,108 | - |
| Retained earnings | | (9,068,106) | - |
| Total equity | | (456,998) | - |

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

SLUDGE FINANCE LP

| Consolidated Statement of Changes in Equity For the Year Ended 30 June 2024 | Capital \$ | Retained Earnings \$ | Total \$ |
|----------------------------------------------------------------------------------------|-----------------------|-------------------------------------|---------------------|
| Opening balance 25 November 2022 | - | - | - |
| Comprehensive income | | | |
| Net surplus/(deficit) for the 8-month period | - | - | - |
| <i>Total comprehensive revenue and expense</i> | - | - | - |
| Owners' transactions | | | |
| Capital contribution – CIP (IFF Holdings) Limited | - | - | - |
| Closing balance 30 June 2023 | - | - | - |
| Comprehensive income | | | |
| Net surplus/(deficit) for the year | - | (9,068,106) | (9,068,106) |
| <i>Total comprehensive revenue and expense</i> | - | (9,068,106) | (9,068,106) |
| Owners' transactions | | | |
| Capital contribution – CIP (IFF Holdings) Limited (note 9) | 8,611,108 | - | 8,611,108 |
| Closing balance 30 June 2024 | 8,611,108 | (9,068,106) | (456,998) |

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

| Consolidated Statement of Cash Flows | | 2024 | 2023 |
|-------------------------------------------------------------|-------------|---------------------|-------------|
| For the Year Ended 30 June 2024 | | | |
| | Note | \$ | \$ |
| Cash flows from operating activities | | | |
| Interest received | | 2,307,991 | - |
| Grant payments | 2 | (83,500,000) | - |
| Payments to suppliers | | (5,843,584) | - |
| Goods and services tax (net) | | (3,689,813) | - |
| Net cash outflow from operating activities | 10 | (90,725,406) | - |
| Cash flows from investing activities | | | |
| Short term investments | | (33,500,000) | - |
| Net cash outflow from investing activities | | (33,500,000) | - |
| Cash flows from financing activities | | | |
| Capital contribution | 2 | 8,611,108 | - |
| Proceeds from borrowings | 4 | 150,400,000 | - |
| Interest paid | 4 | (5,462,122) | - |
| Net settlements on interest rate swap | | 15,875 | - |
| Net cash inflow from financing activities | | 153,564,861 | - |
| Net increase/(decrease) in cash and cash equivalents | | 29,339,455 | - |
| Cash and cash equivalents at the beginning of the period | | - | - |
| Cash and cash equivalents at the end of the period | 3 | 29,339,455 | - |
| Made up of: | | | |
| Cash and cash equivalents | | 29,339,455 | - |
| Total | | 29,339,455 | - |

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

Notes to the consolidated financial statements

For the year ended 30 June 2024

1. STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

The reporting entity is Sludge Finance LP and its controlled entities Sludge Finance 1 and Sludge Finance 2 (the 'Group'). Sludge Finance LP was established on 25 November 2022 to facilitate Infrastructure Funding and Financing ('IFF') projects being undertaken by Wellington City Council ('WCC') under the Infrastructure Funding and Financing Act 2020. Sludge Finance LP is a limited partnership registered under the Limited Partnerships Act 2008 and is domiciled in New Zealand.

The General Partner of Sludge Finance LP is Sludge Finance GP Limited. Crown Infrastructure Partners Limited ('CIP') owns 100% of the shares in Sludge Finance GP Limited and 100% of the limited partnership interests in Sludge Finance LP through its subsidiary CIP (IFF Holdings) Limited.

Sludge Finance LP was created to implement the Government's policy of assisting local councils to undertake housing and urban development projects. Sludge Finance LP is considered to be a Public Benefit Entity (PBE) for the purposes of financial reporting under Public Sector PBE Standards (PBE Standards).

The consolidated financial statements of Sludge Finance LP are for the year ended 30 June 2024 and were approved by the Board of Directors of the General Partner on 21 October 2024.

STATEMENT OF COMPLIANCE

The consolidated financial statements of Sludge Finance LP have been prepared in accordance with the Tier 1 PBE Standards.

BASIS OF PREPARATION

The consolidated financial statements have been prepared on a going concern basis. The Directors of the General Partner have determined that the application of the going concern assumption is appropriate. In arriving at this conclusion, the Directors considered the availability of debt financing and the collectability of future levies. The Directors are confident that Sludge Finance LP will have sufficient cash to pay its debts as they fall due for the foreseeable future, which is not less than 12 months from the date these financial statements are approved.

The consolidated financial statements are presented in New Zealand dollars, and all values are rounded to the nearest dollar (\$). The functional currency of Sludge Finance LP is New Zealand dollars.

CONSOLIDATION OF SUBSIDIARIES IN THE GROUP

Determining the nature of the interest in the subsidiaries

Sludge Finance LP owns 100% of the two subsidiary entities, Sludge Finance 1 Limited and Sludge Finance 2 Limited. These companies are treated as subsidiaries in the consolidated financial statements of the Group.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation.

A subsidiary is consolidated from the date on which control is obtained to the date on which control is lost.

GENERAL ACCOUNTING POLICIES

Significant accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

Significant accounting policies in respect of items that do not have specific notes are set out below:

Classification of financial assets and liabilities

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at Fair Value Through Other Comprehensive Income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are measured subsequently at Fair Value Through Surplus or Deficit (FVTSD).

Revenue recognition

Sludge Finance LP recognises revenue for receipt of the right to levy statutory receivable from the Crown as it incurs expense for providing funding to WCC. This is considered to be an exchange transaction. The revenue is recorded at the fair value of the consideration received, being the fair value of the future cash flows to be received through the levies.

Interest income from cash and cash equivalents is recognised using the effective interest method.

Grant expense

Sludge Finance LP has entered into a funding agreement with WCC to provide WCC with funding for specified infrastructure projects. Sludge Finance LP records grant expense as WCC incurs eligible expenditure that will be reimbursed to WCC under the funding agreement.

Key estimates and judgements

In the application of Sludge Finance LP's accounting policies, the General Partner is required to make judgements that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements that have the most significant effect on the amounts recognised in financial statements.

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- Classification of right to levy beneficiaries under the Infrastructure Funding and Financing (Wellington Sludge Minimisation Facility Levy) Order 2023 as a statutory receivable measured at fair value through surplus or deficit – Note 6
- Classification of fixed rate loans as borrowings measured at fair value through surplus or deficit – Note 4

The following are the critical estimates that have the most significant effect on the amounts recognised in financial statements.

- Calculation of the fair value of the statutory receivable – Note 6.
- Calculation of the fair value of the fixed rate loans measured at fair value through surplus or deficit – Note 4

Fair value measurements

For the purposes of disclosing information on the fair value of financial instruments, Sludge Finance LP has classified its financial instruments into three categories based on the degree to which the inputs to the fair value measurements are observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The statutory receivable is considered to be in level three of the fair value hierarchy. The interest rate swap is considered to be in level two of the fair value hierarchy. Fixed rate loans measured at FVTSD are considered to be in level two of the fair value hierarchy. There were no transfers between levels in the current period.

The fair value of the fixed rate borrowings measured at FVTSD at 30 June 2024 is \$169.9 million (2023: nil) the carrying amount of the floating rate borrowings of \$169.9 million at 30 June 2024 represents drawdowns of \$150.1 million and fair value movement of \$19.8 million (2023: nil).

The carrying amounts of all other financial assets and liabilities approximate their fair values.

Adoption of new and amended financial reporting standards

The Group has adopted all mandatory new and amended standards and interpretations, which have not had any material impacts on the financial statements of the Group. In the current period, Sludge Finance LP adopted 2022 Omnibus Amendments to PBE Standards and Public Sector Specific Financial Instruments (Non-Authoritative Amendments to PBE IPSAS 41).

Standards and amendments issued but not yet effective, that have not been early adopted and relevant to Sludge Finance LP are:

Disclosure of Fees for Audit Firms' Services (Amendments to PBE IPSAS 1) updates the required disclosures for fees relating to services provided by the entity's audit or review firm. The amendments are effective for annual periods beginning on or after 1 January 2024. Sludge Finance LP will adopt the amendments in the year ending 30 June 2025.

Insurance Contracts in the Public Sector (Amendments to PBE IFRS 17) modifies PBE IFRS 17 to be suitable for public sector PBEs. The amendments are effective for annual periods beginning on or after 1 January 2026. Sludge Finance LP will adopt the amendments in the year ending 30 June 2027.

SLUDGE FINANCE LP

The above new standards and interpretations have not been early adopted as they are not expected to have material impacts on the recognition or measurement of items in the financial statements when adopted in the periods in which they become mandatory.

2. RELATED PARTY TRANSACTIONS

Significant transactions with government-related entities

CIP (IFF Holdings) Limited, a subsidiary of CIP, owns 100% of the shares in Sludge Finance GP Limited.

Sludge Finance LP was charged \$348,647 in management service fees during the year by CIP Services Limited, a subsidiary of CIP (2023: nil). There are no amounts owing to CIP Services Limited at 30 June 2024 (2023: nil).

Sludge Finance LP received \$8,611,108 capital contributions from CIP (IFF Holdings) Limited during the year (2023: nil).

Sludge Finance LP paid \$83,500,000 in grants to Wellington City Council during the period to fund infrastructure projects (2023: nil). The Crown issued the Infrastructure Funding and Financing (Wellington Sludge Minimisation Facility Levy) Order 2023, which permits Sludge Finance LP to collect levies from the ratepayers in the designated levy area over a 33-year period. Sludge Finance LP recognised revenue of \$107,051,926 during the period in relation to the right to levy statutory receivable (2023: nil) (note 6).

The audit fee for the year ended 30 June 2024 was paid by CIP as part of the Management Services Agreement. The audit fee is \$83,975 (2023: \$5,249).

Other transactions with government-related entities

In conducting its activities, Sludge Finance LP is required to pay various taxes and levies (such as GST) to the Crown and entities related to the Crown. The payment of these taxes and levies is based on the standard terms and conditions that apply to all tax and levy payers. Sludge Finance LP is exempt from paying income tax.

Sludge Finance LP enters into transactions with government departments, Crown entities and state-owned enterprises (e.g. Accident Compensation Corporation) and other government-related bodies (e.g. Wellington City Council). These transactions generally occur within normal supplier or client relationships on terms and conditions no more or less favourable than those that it is reasonable to expect Sludge Finance LP would have adopted if dealing with those entities at arm's length in the same circumstances. The transactions on normal arm's length terms have not been disclosed as related party transactions and are not individually or collectively significant. As disclosed above, Sludge Finance LP has provided funding to Wellington City Council for infrastructure projects.

Key Management Personnel

The General Partner of Sludge Finance LP is Sludge Finance GP Limited. The Directors of the General Partner are Graham Mitchell and Michael Sean Wynne, who are key management personnel of Crown Infrastructure Partners Limited. The Group did not pay any compensation to these directors in the current period.

3. CASH AND CASH EQUIVALENTS

| | 2024 \$ | 2023 \$ |
|----------------------------------------|-------------------|------------|
| Proceed account | 3,839,455 | - |
| Term deposit < 3 months | 25,500,000 | - |
| Total cash and cash equivalents | 29,339,455 | - |

SLUDGE FINANCE LP

4. BORROWINGS

| | 2024 \$ | 2023 \$ |
|-----------------------------------|-------------|------------|
| Principal | 150,400,000 | - |
| Unamortised transaction costs | (3,947) | - |
| Fair value movement | 19,821,468 | - |
| Net carrying amount of borrowings | 170,217,521 | - |

| | 2024 \$ | 2023 \$ |
|--------------------------|-------------|------------|
| Fixed rate loan | 169,921,468 | - |
| Floating rate borrowings | 296,053 | - |
| Total | 170,217,521 | - |

| Reconciliation of the carrying amount of borrowings | 2024 \$ | 2023 \$ |
|-----------------------------------------------------|-------------|------------|
| Opening balance | - | - |
| Drawdowns | 150,400,000 | - |
| Payment of upfront cost and commitment fees | (1,064,900) | - |
| Interest expense | 6,523,075 | - |
| Payment of interest | (5,462,122) | - |
| Fair value movement | 19,821,468 | - |
| Closing balance | 170,217,521 | - |

Sludge Finance LP has entered into a senior facilities agreement with Accident Compensation Corporation (ACC) and China Construction Bank Corporation (CCB) for fixed rate loans and ANZ Bank New Zealand Limited (ANZ), Commonwealth Bank of Australia (CBA) and Industrial and Commercial Bank of China Limited (ICBC) for floating rate loans to borrow up to \$440 million. The funds obtained from the borrowings are provided to WCC to fund infrastructure projects. The lenders have a security interest in the partnership interests in Sludge Finance LP. There is no recourse or guarantee provided by CIP for these borrowings.

Levies, which will be used to fund the interest cost, principal repayments and other operating expenses for Sludge Finance LP will be collected starting 1 July 2024. For fixed rate loans, the repayment of the principal will start based on an amortisation schedule in the loan agreement from 30 September 2032 with the maturity date on 31 December 2053 for ACC loan while 30 June 2043 for CCB loan.

For floating rate loans, repayment of the principal will start based on an amortisation schedule in the loan agreement from 30 June 2027. Sludge Finance LP intends to refinance the facility prior to the maturity date on 30 September 2028.

Sludge Finance LP is required to comply with a debt service cover ratio covenant outlined in the senior facilities agreements starting after the date the facilities are drawn down in full or 31 March 2027, whichever is earlier.

Initial up-front commitment fees paid amounting to \$3.3 million are deferred and presented under deferred loan transaction costs in the statement of financial position prior to any borrowings being drawn.

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Accounting policies

Floating rate borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings, using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs and included in the effective interest rate. Periodic commitment fees on the undrawn portion of the facility are also included in the effective interest rate of the loan if the loan is expected to be drawn down.

The fixed rate loans are classified at FVTSD. The fixed rate loans are recognised at fair value on initial recognition and subsequently, all gains and losses recognised in surplus or deficit except for changes in fair value that are attributable to changes in Group's own credit risk which are recognised in other comprehensive revenue and expense. Any transaction costs attributable to the issue of the debt are expensed immediately.

Significant judgements

The fair value movements relating to the base interest rate risk on the fixed rate loans plus the fair value movements on the derivative would be expected to largely offset the fair value movements in the statutory receivable and would significantly reduce fluctuations in the equity balance due to the changes in base interest rates. PBE IPSAS 41 permits an entity to irrevocably designate a financial liability as measured at fair value through surplus or deficit if doing so results in more relevant information because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (commonly referred to as an 'accounting mismatch'). As a result, the Group elected to account its fixed rate loans at fair value through surplus or deficit.

Fair value measurement

Fair value is determined using a discounted cashflow methodology based on the expected cash outflow from the principal and interest repayment. The key assumption is the discount rate set out below, along with information about a reasonably possible change and the potential impacts of such a change on the carrying value of the fixed rate loans. Management has determined that 100 basis points is a reasonably possible change in the discount rate at 30 June 2024 based on current market volatility and the increasing interest rate environment (2023: nil).

| Key assumptions/inputs | 2024 Assumption | Possible change | 2024 Impact \$ |
|------------------------|-----------------|-----------------|----------------------------|
| Discount rate – ACC | 6.13% | +/- 100bps | 18,232,781/ -21,915,779 |
| Discount rate - CCB | 5.99% | +/- 100bps | 9,389 / -10,732 |

5. INTEREST RATE SWAP

Key terms

Sludge Finance LP entered into two 30-year interest rate swap contracts (2023: nil) to receive fixed payments in exchange for floating (NZD-BKBM Bid) payments quarterly based on specified notional amounts outlined in the swap agreement. The notional amounts are based on the expected principal amounts outstanding under the floating rate senior facilities agreement. The total notional principal amounts were \$27.7 million (2023: nil).

SLUDGE FINANCE LP

Accounting policy

The interest rate swap is measured at FVTSD. Changes in fair value are recognised in the 'fair value gains/losses on interest rate swap' line in the statement of comprehensive revenue and expense.

Fair value measurement

Fair value is determined using a discounted cashflow methodology based on the expected cash inflows and outflows over the 30-year contract period. The key assumptions are the forward interest rate price curves and the discount rate, which reflects the counterparty credit risk. These key inputs are set out below, along with information about a reasonably possible change and the potential impacts of such a change on the carrying value of the interest rate swap. Management has determined that 100 basis points is a reasonably possible change in the swap rate at 30 June 2024 based on current market volatility and the increasing interest rate environment.

| Key assumptions/inputs | 2024 Assumption | Possible change | 2024 Impact \$ |
|------------------------|-----------------|-----------------|----------------------------|
| Swap rate | avg 4.79% | +/- 100bps | 30,435,759/ -29,732,903 |

6. STATUTORY RECEIVABLE

| Reconciliation of the carrying amount of the statutory receivable | 2024 \$ | 2023 \$ |
|-------------------------------------------------------------------|-------------|---------|
| Opening balance | - | - |
| Revenue for receipt of right to levy | 107,051,926 | - |
| Interest revenue | 2,522,474 | - |
| Other fair value gains and losses | 474,637 | - |
| Levies received | - | - |
| Closing balance | 110,049,037 | - |

| Statutory receivables are shown in the Statement of Financial Position as: | 2024 \$ | 2023 \$ |
|----------------------------------------------------------------------------|-------------|---------|
| Current | 4,226,637 | - |
| Non-current | 105,822,400 | - |
| Total | 110,049,037 | - |

All gains/losses attributable to the statutory receivable relate to the asset that continues to be held at balance date.

Key terms

Under the Infrastructure Funding and Financing (Wellington Sludge Minimisation Facility Levy) Order 2023 ('Levy Order'), Sludge Finance LP will be entitled to collect levies from ratepayers in the levy area for periods from 1 July 2024 to 30 June 2057. The current portion of the statutory receivables represents the levy expected to be collected within the next 12 months.

Significant judgements

The right to impose a levy on ratepayers arising from the Levy Order is a transaction that is not explicitly covered by PBE accounting standards. In the absence of specific guidance, management is required to use its judgement to develop an appropriate accounting policy, including consideration of the requirements in PBE standards for similar items. Sludge Finance LP has determined that the right to levy is a statutory receivable that arises from a binding arrangement with the Crown. Since the receivable is statutory rather than contractual, it is not a financial asset under PBE IPSAS 41 *Financial Instruments* ('PBE IPSAS 41'). However,

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Sludge Finance LP has determined that it would be appropriate to apply the guidance in PBE IPSAS 41 by analogy to account for the statutory receivable. Applying the guidance in PBE IPSAS 41, Sludge Finance LP has determined that the statutory receivable should be classified as Fair Value Through Surplus or Deficit (FVTSD) as outlined below.

Accounting policies

The statutory receivable is classified as Fair Value Through Surplus or Deficit (FVTSD). The statutory receivable does not qualify to be measured at amortised cost because the cash flows do not represent solely payment of principal and interest. The statutory receivable is recognised at fair value on initial recognition and subsequently, with all gains and losses recognised in surplus or deficit.

The fair value movements relating to the statutory receivable are presented in the following line items in the Statement of Comprehensive Revenue and Expense:

- *Interest income* – imputed interest is calculated using the effective interest method.
- *Fair value gains/losses on the statutory receivable* – all other fair value movements, including impairment are included in the fair value gains/losses on the statutory receivable line item.

The imputed interest income is recognised using the effective interest method. The effective interest rate is a rate that discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument at the time of initial recognition.

Fair value measurement

Fair value is determined using a discounted cashflow methodology based on the expected cash inflows from the levy payments. The key assumption is the discount rate set out below, along with information about a reasonably possible change and the potential impacts of such a change on the carrying value of the statutory receivable. Management has determined that 100 basis points is a reasonably possible change in the discount rate at 30 June 2024 based on current market volatility and the increasing interest rate environment (2023: nil).

| Key assumptions/inputs | 2024 Assumption | Possible change | 2024 Impact \$ |
|------------------------|-----------------|-----------------|----------------------------|
| Discount rate | 5.91% | +/- 100bps | -12,367,305/ 14,829,322 |

7. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts of financial assets and liabilities in each of the PBE IPSAS 41 categories are as follows:

| | 2024 \$ | 2023 \$ |
|-------------------------------------------------------------|--------------------|---------|
| Financial assets measured at amortised cost | | |
| Cash and cash equivalents | 29,339,455 | - |
| Short term investments | 33,500,000 | - |
| Other receivables | 88,131 | - |
| <i>Total financial assets carried at amortised cost</i> | 62,927,586 | - |
| Financial assets mandatorily measured at FVTSD | | |
| Statutory receivable | 110,049,037 | - |
| <i>Total financial assets mandatorily measured at FVTSD</i> | 110,049,037 | - |
| Total financial assets | 172,976,623 | - |

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| | | |
|---------------------------------------------------------------|--------------------|----------|
| Financial liabilities measured at amortised cost | | |
| Borrowings | 296,053 | - |
| <i>Total financial liabilities measured at amortised cost</i> | 296,053 | - |
| Financial liabilities mandatorily measured at FVTSD | | |
| Derivative financial liability | 10,256,592 | - |
| Financial liabilities elected to be measured at FVTSD | | |
| Borrowings | 169,921,468 | - |
| <i>Total financial liabilities measured at FVTSD</i> | 180,178,060 | - |
| Total financial liabilities | 180,474,113 | - |

8. FINANCIAL RISK

Sludge Finance LP's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. Information about these risks and how they are managed is disclosed below.

MARKET RISK

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. Sludge Finance LP is exposed to fair value interest rate risk on the statutory receivable and interest rate swap, which are accounted for at fair value.

Sludge Finance LP is also exposed to fair value interest rate risk in relation to its fixed-interest-rate bank deposits. However, because the bank deposits are not accounted for at fair value, fluctuations in interest rates do not have an impact on the surplus/(deficit) or the carrying amount recognised in the Statement of Financial Position. The average interest rate on Sludge Finance LP's bank term deposit at 30 June 2024 is 5.94% (2023: nil).

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings issued at variable interest rates expose Sludge Finance LP to cash flow interest rate risk. Sludge Finance LP entered into the interest rate swap to manage this risk.

Sludge Finance LP also holds term deposits, which are re-priced at maturity.

Sensitivity analysis

In relation to term deposits held on 30 June 2024, if the deposit rate had been 100 basis points higher or lower, with all other variables held constant, the surplus/(deficit) for the period would have been approximately \$0.6 million higher/lower (2023: nil).

The sensitivities of the statutory receivable are set out in note 6 and the sensitivities of the interest rate swap are set out in note 5.

CREDIT RISK

Credit risk is the risk that a third party will default on its obligation, causing the Sludge Finance LP to incur a loss. Credit risk arises from exposures to the banks where Sludge Finance LP deposits its surplus cash and the ratepayers who will be required to pay levies over the levy period.

Sludge Finance LP maintains cash accounts with registered New Zealand banks. Sludge Finance LP currently has its cash deposits with ANZ and Westpac.

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Welling City Council will collect and enforce the levies on behalf of Sludge Finance LP as an agent, however Sludge Finance LP may step in and enforce payment in some circumstances. The Council, as agent, will impose penalties on late payments for levies in the same manner as for late payment of rates. Credit risk is reflected in the fair value measurement of the statutory receivable.

Sludge Finance LP's maximum exposure to credit risk at 30 June 2024 is the carrying amount of its cash and cash equivalents and the statutory receivable (2023: nil). Sludge Finance LP does not consider that there is any significant concentration of credit risk in relation to the statutory receivable because the receivable will be recovered through collections from a large number of ratepayers in the levy area.

The gross carrying amount of financial assets, excluding receivables, by credit rating is provided below by reference to Standard and Poor's credit ratings.

| Credit ratings | 2024 | 2023 |
|---------------------------------------------|-------------------|----------|
| | \$ | \$ |
| Cash at bank and term deposits | | |
| AA- | 62,839,455 | - |
| Total cash at bank and term deposits | 62,839,455 | - |

LIQUIDITY RISK

Liquidity risk is the risk that Sludge Finance LP will encounter difficulty raising liquid funds to meet commitments as they fall due. Sludge Finance LP manages the liquidity risk relating to its borrowings by matching the expected payments with expected cash receipts from the levies. Sludge Finance LP holds cash at bank, either in an interest-bearing transactional account or in term deposits. Given the highly liquid nature of these accounts, they are represented as cash and cash equivalents in the Statement of Financial Position. All cash and short-term deposits are held in New Zealand.

Contractual maturity analysis of financial liabilities

The following table details Sludge Finance LP's remaining contractual maturity for its financial liabilities. As loan facility is due to be repaid in September 2028 for ANZ, CBA and ICBC loan, June 2043 for CCB loan, and December 2053 for ACC loan, however Sludge Finance LP is likely to refinance under the facility and therefore the borrowings are expected to be repaid over a longer period, to fiscal year 2054. The interest rate swap, which was taken out to manage the floating rate debt, is in place for 30 years to fiscal year 2054. The tables below have been drawn up based on the undiscounted cash flows of financial liabilities on the earliest date on which Sludge Finance LP can be required to pay (and shows the expected cash outflows if the borrowings are fully repaid in its maturity dates). The table includes both interest and principal cash flows in relation to borrowings that have been drawn down at balance date. Sludge Finance LP expects to make additional drawdowns on the facility over the next few fiscal years.

| 2024 Financial liability | Less than 12 months | Between 1 and 5 years | Between 5 and 10 years | Greater than 10 years |
|----------------------------------|---------------------|--------------------------|---------------------------|--------------------------|
| | \$ | \$ | \$ | \$ |
| Borrowings | 10,627,555 | 42,467,204 | 52,708,386 | 311,982,226 |
| Interest rate swap cash outflows | 4,246,800 | 49,214,174 | 63,493,293 | 171,811,984 |
| Interest rate swap cash inflows | (4,475,428) | (41,417,006) | (57,930,766) | (169,698,051) |
| Total cash flows | 10,398,927 | 50,264,372 | 58,270,913 | 314,096,159 |

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Since the Sludge Finance LP expects to refinance the loan facility, the following additional table presents the expected cashflows based on those borrowings being repaid over the period to fiscal year 2054. The table includes both interest and principal cash flows in relation to borrowings that have been drawn down at balance date. As noted above, Sludge Finance LP expects to make additional drawdowns on the facility over the next few fiscal years. The terms of the interest rate swap reflect those additional expected drawdowns.

| 2024 | Less than 12 months | Between 1 and 5 years | Between 5 and 10 years | Greater than 10 years |
|----------------------------------|---------------------|--------------------------|---------------------------|--------------------------|
| Financial liability | \$ | \$ | \$ | \$ |
| Borrowings | 10,627,555 | 42,182,270 | 52,800,570 | 312,523,204 |
| Interest rate swap cash outflows | 4,246,800 | 49,214,174 | 63,493,293 | 171,811,984 |
| Interest rate swap cash inflows | (4,475,428) | (41,417,006) | (57,930,766) | (169,698,051) |
| Total cash flows | 10,398,927 | 49,979,438 | 58,363,097 | 314,637,137 |

Information about Sludge Finance LP's commitment to provide further funding to Wellington City Council is disclosed in note 11.

9. CAPITAL AND CAPITAL MANAGEMENT

| | 2024 | 2023 |
|---------------------------|------------------|------|
| | \$ | \$ |
| Opening balance | - | - |
| Capital contribution | 8,611,108 | - |
| Balance at 30 June | 8,611,108 | - |

Contributed capital represents contributions made from CIP (IFF Holdings) Limited, Sludge Finance LP's limited partner.

Sludge Finance LP's capital is its equity, which comprises retained earnings and share capital. Sludge Finance LP manages its capital to ensure that it achieves its objectives and purposes effectively and meets its debt service while remaining a going concern. Sludge Finance LP has entered into an interest rate swap (note 5) to reduce risk relating to movements in the base interest rate that could impact Sludge Finance LP's ability to pay interest and principal on the debt in accordance with the amortisation schedule.

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10. RECONCILIATION OF NET DEFICIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | 2024 | 2023 |
|---------------------------------------------------------------------------------|---------------------|------|
| | \$ | \$ |
| Net surplus / deficit after tax | (9,068,106) | - |
| Add/(less) non-cash items | | |
| Fair value gains/losses on the statutory receivable | (474,637) | - |
| Interest income on the statutory receivable | (2,522,474) | - |
| Revenue recognised for receipt of statutory receivable | (107,051,926) | - |
| Fair value gains/losses on derivative | 10,240,717 | - |
| Fair value movement on borrowings | 19,821,468 | - |
| Total non-cash items | (79,986,852) | - |
| Add/(less) movements in working capital items | | |
| Other receivables | (88,131) | - |
| Prepayments | (45,000) | - |
| GST Receivables | (3,689,813) | - |
| <i>Net movements in working capital items</i> | <i>(3,822,944)</i> | - |
| Add/(less) items classified as investing or financing | | |
| Transaction costs recorded as part of the initial carrying amount of borrowings | (3,947) | - |
| Deferred loan transaction costs | (3,305,679) | - |
| Interest paid | 5,462,122 | - |
| Net cash from operating activities | (90,725,406) | - |

Short-term investments:

| | 2024 | 2023 |
|---------------------------------------------------------------------|-------------------|------|
| | \$ | \$ |
| Term investments with financial institutions > 3 months < 12 months | 33,500,000 | - |
| Total short-term investments | 33,500,000 | - |

11. COMMITMENTS

Sludge Finance LP has entered into a funding agreement with WCC to provide WCC with funding for specified infrastructure projects up to a remaining maximum amount of \$316.5 million. The payments to WCC are funded by drawdowns on the senior facilities agreement with ACC, CCB, ANZ, CBA and ICBC (see note 4).

12. EVENTS AFTER BALANCE DATE

There have been no significant events after balance date.

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UNAUDITED INFORMATION REQUIRED TO BE DISCLOSED IN THE ANNUAL REPORT UNDER THE INFRASTRUCTURE FUNDING AND FINANCING ACT 2020

OPERATIONS AND LEVY COLLECTION

Sludge Finance LP will be entitled to collect a levy from ratepayers under the Order in Council (Wellington Sludge Minimisation Facility Levy Order 2023) that is intended to cover the financing and operating costs of Sludge Finance LP. Wellington City Council will act as an agent for Sludge Finance LP to collect the levy.

There was no levy collection in the 2024 as the first levy starts on 1st July 2024.

Eligible infrastructure itemised as in the levy order

| | | 2024 | 2023 | Total |
|----|-----------------------------------------------------|-------------------|-------------|-------------------|
| | | \$ | \$ | \$ |
| 1. | Sludge Minimisation Facility, Moa Point, Wellington | 83,500,000 | - | 83,500,000 |
| | Total eligible infrastructure incurred | 83,500,000 | - | 83,500,000 |

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Forecast excess levy and Reduction in Maximum Levy Revenue

The Forecast Excess Levy is \$30,278,426 and the maximum levy revenue has been reduced from \$1,271,444,793 to \$1,241,166,367 at last forecast date 1 October 2023.

| Levy year ending 30 June | Intended annual levy (\$) (plus GST, if any) | Forecast Excess Levy | Revised Intended annual Levy |
|--------------------------|----------------------------------------------|----------------------|------------------------------|
| 2025 | 7,820,543 | (186,240) | 7,634,303 |
| 2026 | 15,781,172 | (375,816) | 15,405,356 |
| 2027 | 24,261,464 | (577,767) | 23,683,697 |
| 2028 | 32,522,045 | (774,486) | 31,747,559 |
| 2029 | 32,663,066 | (777,844) | 31,885,222 |
| 2030 | 33,392,310 | (795,211) | 32,597,099 |
| 2031 | 33,535,884 | (798,630) | 32,737,254 |
| 2032 | 33,891,961 | (807,110) | 33,084,851 |
| 2033 | 35,808,068 | (852,740) | 34,955,328 |
| 2034 | 36,112,721 | (859,995) | 35,252,726 |
| 2035 | 36,404,664 | (866,948) | 35,537,716 |
| 2036 | 38,972,088 | (928,089) | 38,043,999 |
| 2037 | 39,326,725 | (936,534) | 38,390,191 |
| 2038 | 39,651,612 | (944,271) | 38,707,341 |
| 2039 | 42,481,894 | (1,011,672) | 41,470,222 |
| 2040 | 42,923,489 | (1,022,188) | 41,901,301 |
| 2041 | 43,312,462 | (1,031,451) | 42,281,011 |
| 2042 | 46,414,286 | (1,105,319) | 45,308,967 |
| 2043 | 46,796,243 | (1,114,415) | 45,681,828 |
| 2044 | 47,148,269 | (1,122,798) | 46,025,471 |
| 2045 | 50,394,419 | (1,200,102) | 49,194,317 |
| 2046 | 50,797,859 | (1,209,710) | 49,588,149 |
| 2047 | 51,167,165 | (1,218,505) | 49,948,660 |
| 2048 | 54,712,549 | (1,302,935) | 53,409,614 |
| 2049 | 55,181,433 | (1,314,101) | 53,867,332 |
| 2050 | 55,667,926 | (1,325,687) | 54,342,240 |
| 2051 | 59,500,223 | (1,416,950) | 58,083,273 |
| 2052 | 59,928,255 | (1,427,143) | 58,501,112 |
| 2053 | 60,359,366 | (1,437,409) | 58,921,957 |
| 2054 | 64,514,632 | (1,536,364) | 62,978,268 |
| 2055 | - | - | - |
| 2056 | - | - | - |
| 2057 | - | - | - |
| Total | 1,271,444,793 | (30,278,426) | 1,241,166,367 |

