2020 Annual Report

WELGroup.

This is the Annual Report of WEL Group Limited

Signed for and on behalf of the Board of Directors

Rob Campbell
Chairman

Carolyn Steele
Chair, Audit and Risk Committee

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About WEL Group

Across the Waikato, we deliver innovative energy solutions and fibre services which enable our communities to thrive.

With over 93,000 households and businesses connecting to our electricity services and 237,000 properties able to access ultrafast broadband, we're playing an essential role in the economic and social development of our communities.

Key to this growth are strong partnerships and innovation which see us explore new ways of providing critical infrastructure and services to ensure our customers receive affordable, reliable, fairly priced and environmentally sustainable energy while revolutionising the way New Zealanders communicate, work, play and learn.

A Snapshot – WEL Group

WEL Networks and its subsidiaries (WEL Group)

builds, owns and operates over

$1.2b

of electricity and fibre network infrastructure.

WEL Group is

100%

owned by the community through our sole shareholder the WEL Energy Trust.

Over 420 people

with a range of skills work across the Group to deliver electricity and fibre services to our communities.

1,590

residential customers are currently registered with online retailer,

OurPower,

saving an average of $484 each annually as at March 31, 2020.

WEL Networks connects
93,000
residential properties, small businesses and
840
commercial/ industrial sites...
to a power supply within our network area.

WEL Networks maintains
6,841
kilometres of lines.
50% are overhead,
50% underground.
This excludes street lighting pilots, fibre and communications lines.

Over
63,000
homes and businesses in our area currently have one of our smart meters installed which gives us valuable insights into power consumption patterns and low voltage activity.

In the past 12 months we completed
1,598
new connections to our electricity network.

UFF is owned by UFF Holdings Ltd* – a partnership between
WEL Networks
(85%) and
Waipa Networks
(15%)

**As of 28th of August 2019, Waikato Networks Limited changed its company name to UFF Holdings Limited.*

UFF built, owns and operates a
3,800km fibre network
spanning the central North Island including the urban areas of Hamilton, Tauranga, Whanganui, New Plymouth, Tokoroa, Hawera, Cambridge and Te Awamutu.

Fibre has been provided for
27 additional North Island
towns and urban fringe areas.

The UFF network represents about 17% of the entire national UFB build.

This network is available to more than
237,000 homes
schools and businesses. In the past 12 months 26,000 new customers have connected to our fibre network, taking the uptake to over 61%.

During March the average data usage per customer was
334Gb

Group Chair Report

Rob Campbell

In a changing market 2019-20 has been another positive year for the WEL Group. We continued to build an innovative, sustainable and robust platform to ensure our businesses are well positioned to deliver electricity and ultra-fast broadband services to communities across our region.

Customers

As we prepared for increased growth across our region, we continued to set an innovative, sustainable and robust platform for the Group to deliver services across a growing customer base. COVID-19 shifted the landscape at the end of the financial year for all New Zealand businesses and we are closely monitoring the impacts on our region to guide future strategic direction.

The focus on reducing energy hardship remains. Following the successful 2018 trial of our electricity retailer, OurPower, we extended the low cost electricity offering to over 1,500 energy customers, many of whom face energy hardship.

For the third year in a row, lines charges have been reduced as part of WEL's continued strategy to lower electricity costs for our residential, small business and commercial customers.

The early completion of the Government's ultra-fast broadband UFB2 and UFB2+ expansion initiatives - two years ahead of schedule - delivered access to 30,000 new premises across a further 27 central North Island towns and urban fringe areas. The UFB initiatives are aimed at delivering improved broadband services to New Zealanders.

Community

Community engagement plays an important role in our long-term business strategy.

Across the Group, we continue to encourage and support opportunities which allow our communities to thrive, grow and develop. Our team has exhibited an unwavering commitment to this which is evident in the projects we have successfully delivered across the country this year. These include an additional 26,000 ultrafast broadband customers and the expansion of our electric vehicle charger network to a total of 22.

We will continue to do the right thing for our communities. Strengthened partnerships and engagement will provide a solid platform for the Group for the ongoing delivery of innovative and sustainable electricity and broadband services.

Health, Safety and Wellbeing

The Board is committed to supporting health, safety and wellbeing initiatives that contribute to ongoing improvement.

Directors participate in work site observation visits which provide an opportunity to observe health and safety at an operational level as well as strengthen the collective understanding of Health and Safety matters.

Sustainability

For the second year we are reporting on our progress towards our identified sustainability goals. The completion of the Toitū carbonreduce (formerly CEMARS) initial audit in late 2019 allowed WEL to formalise its carbon reduction plan and put in place targets that will take the organisation through to 2030. A number of initiatives are already underway to meet these targets and we will continue to report annually on progress.

We are committed to ensuring our governance framework includes a comprehensive approach to sustainability and corporate social responsibility.

Financial Performance

During the financial year the growth across the Waikato Region continued to have a direct effect on our business activities as highlighted in our end of year results.

The Group achieved a positive operating result for the period, with increased revenue from the prior year due to strong urban growth across the region and customer growth across the fibre network.

Financial highlights include revenue of $223 million, ahead of the prior year by $12 million, as reduced electricity line charges were more than offset by continued growth in the number of customers accessing and utilising the electricity and fibre networks and strong urban development via third party contributions.

Total net debt for the Group was $603 million, an increase of $61 million from March 2019, with borrowings relating to the completion of the fibre network.

Governance and Management

We welcomed Paul Connell to the Board of WEL Networks as a Group Director and member of the Audit and Risk Committee.

We farewelled Director Tony Steele and I thank him for his significant contribution to the Group over the past nine years. We also farewelled Group Chief Financial Officer Sue Tindal and I thank her for her contribution. Congratulations to David Barnett, appointed as Chief Financial Officer of WEL Networks and Joel Bettley, Chief Financial Officer of Ultrafast Fibre Limited (UFF).

Ultrafast Fibre Limited Capital Review

In August 2019 we announced a strategic review of the capital structure of our investment in UFF. This has resulted in the recently announced sale of UFF Holdings Limited, the holding company for UFF. The sale is subject to the approval from the Overseas Investment Office.

The sale will enable WEL Networks to strengthen the core electricity business balance sheet, allowing us to pursue new opportunities and invest in innovative energy solutions in accordance with our business strategy. The investment in fibre has delivered both valuable infrastructure to our communities and proved a successful investment for WEL.

COVID-19

As New Zealand entered Alert Level 4 lockdown in the last week of March, an increased reliance was placed on electricity and broadband services across our region. With no major network and infrastructure disruptions experienced, all staff played a key role in ensuring our communities remained connected and continued to receive a reliable supply of both electricity and broadband.

Finally, I'd like to thank all staff across the Group for continuing to demonstrate an unwavering commitment to supporting our communities every day, particularly as New Zealand faced unprecedented times during the COVID-19 response.

WEL Networks Chief Executive Report

Garth Dibley

As a key contributor to supporting the Waikato Region's economic growth and heightened construction activity, 2019-20 has been another busy year as we've continued to identify and invest in new, sustainable technologies that modernise our network and future-proof our region.

In alignment with our strategic plan, we've outlined six key goals designed to support our purpose, our vision, our values and our people. They enable us to; continue to increase the availability, security and supply of our network, ensure our pricing is fair and equitable and increase sustainability to ensure we do the right thing for our environment and our communities.

Optimising WEL's financial position and improving community benefits

Pricing

For the third year in a row, we have reduced the cost of delivering power to local households and businesses.

Last year, we reduced residential lines charges by $5.5 million. This year, we have further reduced our charges by $10 million including $5 million for residential customers. The reduced tariffs follow the end of the electricity discount programme in 2018, and complement a move to increase investment in the community via our shareholder, WEL Energy Trust.

Attracting and retaining capable and innovative people

WEL Educated

Our internal WEL safety initiative 'WEL Educated' received a Workplace Safety Merit Award from the Electricity Engineers' Association. The programme involves reviews of previously learned subjects and material delivered through authentic interview-based online videos. The modern and comprehensive tool includes real life examples explained by WEL staff members on a range of safety related topics.

WEL Balanced

WEL Balanced is our new programme providing wellbeing and wellness initiatives and opportunities to enable and ensure our employees thrive in our communities.

As part of the launch of this programme, which is based on the Mental Health Foundation's five ways to wellbeing – Give, Be Active, Keep Learning, Connect and Take Notice, we gave our employees the opportunity to kick-start their physical activity with a WEL-branded t-shirt and a contribution towards sports equipment. Uptake was extremely positive.

Adopting an operational excellence model to optimise the core business

Operational Excellence

To ensure we continue to improve the way that assets are managed, there are a number of operational efficiency projects underway as part of our two year Operational Excellence Programme. We are one year into the programme that is focussed on enhancing the performance of core business processes and the capability of our staff.

Seven work streams aim to improve planning processes and decision making for asset investment to; ensure that our end-to-end works management and delivery functions are efficient; improve our asset maintenance strategy; provide a governance and quality framework for WEL's ERP system; assess asset management maturity and the viability of ISO 55001 certification.

Becoming a more data driven business

Using data for optimal business outcomes

WEL's investment in Smart Meters has proven to be of great benefit by reducing capital investment due to a more detailed understanding of network loadings. We are continuing to explore ways to further enhance WEL's network reliability, reduce the cost to serve and improve health and safety outcomes for our customers, staff and contractors via meter data.

WEL Networks footprint - a cleaner, fairer place to live

With the electricity sector needing to decarbonise and decentralise, digital technology and partnerships will provide the tools and capability required to respond. Digital technologies are increasingly being applied to energy services; Raglan Local Energy and OurPower are two projects that are embracing digital technologies and partnerships to make the Waikato a cleaner, fairer place to live.

OurPower

OurPower's mission is to end energy hardship in the Waikato. In 2019 OurPower was the third fastest growing power retailer within WEL's network with 1,061 new customers during the year, the majority of whom had been experiencing energy hardship. With an average annual saving of $484 per customer, OurPower has delivered an estimated $750,000 in savings to customers since its inception.

An automated technology platform is what makes OurPower operate successfully. OurPower uses a cloud-based system to automatically bill, receipt and switch customers, with no human interaction. This allows us to create savings which are passed on to customers through a simple, low price model.

The OurPower platform is scalable, and can be used to support other pricing and business models for electricity retail. It is this technology which has allowed us to explore other projects including Raglan Local Energy.

Raglan Local Energy (RLE)

The RLE project is about working with our partners Our Energy and the Raglan community to embrace new technology which will more efficiently utilise solar power with the ultimate benefit of decarbonising the supply of electricity. Currently less than 1% of buildings have solar and for solar to be a commercially viable investment alternative economic models are required.

RLE integrates a real time peer-to-peer (P2P) matching system built by Our Energy using the OurPower retail platform to create a power retailer that focuses on changing customer behaviour to better utilise renewable energy.

The outcome will be a more cost effective system for generators which we hope will encourage further distributed solar installations. The RLE project is in the early stages but we have an ambitious goal of making Raglan New Zealand's first 'zero carbon energy community'.

Operating sustainably

WEL Networks is now a Toitū carbonreduce (formerly CEMARS) certified organisation. The certification programme by Toitū Envirocare requires us to measure and report our greenhouse gas emission footprint as a key part of our sustainability programme.

The initial audit, undertaken in late 2019, provides guidance for our activities through to 2030. One of our sustainability goals, as part of our wider programme, is to reduce our relative greenhouse gas footprint by 20% by 2030 and we're already seeing progress by targeting efficiencies in selected areas to reduce our emissions.

Electric Vehicles

To support the increased uptake of electric vehicles in the Waikato Region, our investment in the electric vehicle charger network has continued to grow with a total of 22 chargers now in place, after new chargers were installed at local Countdown supermarkets, Hampton Downs and at the Mystery Creek Waitomo Fuel Stop.

Funding received from the Energy Efficiency and Conservation Authority's (EECA) Low Emission Vehicles Contestable Fund enabled us to successfully convert a diesel truck to a 132 kWh battery truck with a battery powered elevated work platform - a first for New Zealand. The truck is used for line maintenance work and has received glowing feedback from our field crews.

As part of our continual drive to reduce our greenhouse gas emissions, we've added a further two 100% electric vehicles to our pool car fleet.

Identifying and investing in new sustainable technologies

Micro Grid

The micro grid project which demonstrates one of the ways that WEL is adapting to a changing environment, and our future plans for integrating new technology into the traditional network, formed part of WEL's presentation to industry experts at the All Energy Exhibition and Conference in Australia.

There are four components to our micro grid – the traditional network supply, solar (from PV panels on the depot roof), a diesel generator and the battery energy storage system (BESS).

Industries, utilities and communities are looking for new ways to harness renewable power, bring electricity to remote areas and prepare for climate change. We believe the micro grid delivers a strong alternative option for energy delivery.

"We're thrilled to have been recognised as a finalist in the Deloitte Top 200 Awards Most Improved Performance category."

Health and Safety

At WEL Networks, safety is our highest priority. Our vision is to be the safest company within the electricity industry and as a trusted member of the Waikato community, we're committed to getting everyone – our staff and members of the public – home safe, every day.

We're proud to have been recognised as a finalist in the Safe365 2019 Safest Place to Work Awards' Large Enterprise category. We were one of eight organisations recognised for fostering a positive work culture, worker engagement and delivering all-round excellence in health, safety and wellbeing in the workplace.

We do this in a variety of ways: recruiting an award-winning field services team highly trained in safety, first aid and training; ensuring our equipment and practices are second-to-none; being accountable for our own safety, the safety of our colleagues and the public. Our Stop for Safety event, held in May, was aimed at ensuring everyone across all levels of the business understands the role they play in making their workplace healthy and safe.

We're currently transitioning from the British Health and Safety Standard OHSAS 18001 to the international Standard ISO 45001:2018. This standard focuses on identifying and controlling risks rather than hazards. Certification is expected in June 2020.

Customer Service

As part of the continual improvement of our external service levels, we've seen a significant lift in customer satisfaction across Customer Initiated Works (CIW) and faults services.

A recent CIW customer satisfaction survey of 132 customers showed an improvement across all five survey categories. An average satisfaction score of 7.4/10 represented a significant improvement on last year.

Customer feedback cards for faults services showed that on average 98% of customers were either very satisfied or satisfied with the overall performance, with over 800 cards received during the year.

Celebrating Success

I am extremely proud of the WEL Networks team as we continue to lead by example across the industry and within our communities.

We're thrilled to have been recognised as a finalist in the Deloitte Top 200 Awards Most Improved Performance category. The awards recognise outstanding individual and management team performances among New Zealand's largest companies.

Congratulations to Electrical Fitter Bernard Muzengeza who was recognised as New Zealand's Advanced Trainee of the Year at the Connexis Annual Connection Excellence Awards in September. Bernard was also named the Connexis ITO Overall Trainee of the Year.

WEL's team of linesmen Lenny Te Aho (team leader), Dale Shane, Darcy Page and Ryan Allen finished second overall and won the Electrical Theory award. Ryan Allen also won the Ross Archer Memorial Line Mechanic Safety Award which is sponsored by WEL.

In Summary

Over the next few months, COVID-19 will continue to challenge and change the way we operate as a business. We will continue to focus on addressing energy hardship, developing the safety leadership role we play within our communities and progressing our sustainable energy initiatives.

With the energy sector on the brink of change, we will continue to engage with our customers across the Waikato Region to better understand how we can deliver power that is reliable, affordable, fairly priced and environmentally sustainable.

Ultrafast Fibre Chief Executive Report

John Hanna

Ultrafast Fibre (UFF) has seen a very strong year of subscriber growth with 26,000 new customers added to the network. The main driver for this better-than-expected outcome was the accelerated network build delivering access to 30,000 new premises across 27 towns under the UFB2 and UFB2+ initiative completed in December.

By the end of March, UFF's network was serving 145,000 subscribing customers from the total addressable market of 237,000 customers' premises that can connect – an ultra-fast broadband (UFB) market-leading uptake of over 61%. This means that, across the central North Island region, our network provides a world class broadband service to over 650,000 people. As New Zealand entered Alert Level 4 lockdown in the last week of March, under the COVID-19 pandemic, this level of connectivity proved critical to support families and businesses as they were entertained, worked, learned and stayed connected online.

The demand for fibre broadband continued to exceed all expectations, with the importance of reliability and consistent service emphasised as New Zealand settled in to stream the Rugby World Cup. UFF had prepared well in advance of the tournament to ensure our customers enjoyed an uninterrupted HD-quality viewing experience. From there and into a very different need under COVID-19 lockdown, the dependency on fibre as an essential utility has continued to strengthen. The uptake of work-from-home applications such as Zoom and MSTeams and the increasing switch to on-demand TV, video and gaming content has also underlined how New Zealanders are rapidly embracing the new freedoms of the 'everything at any time' dynamic.

Our performance across a year that was both hugely exciting and challenging for very different reasons is underlined in our growth, our results and our positive outlook.

Focus On Health, Safety and Wellbeing

Always front of mind, our focus on Health, Safety and Wellbeing received an obvious challenge this year as, like all of New Zealand, we responded and adapted to deal with the COVID-19 pandemic. Putting the welfare of our people, our contractors and technicians and the general public first, we managed the entry into lockdown well as we implemented our business continuity and pandemic plans.

Following a detailed external health and safety audit of our business processes and operating environment, UFF has put plans in place to continue to improve general health and safety awareness and engagement.

Regulatory

UFF has continued to make an active contribution to the workstreams managed by the NZ Telecommunications Forum, the Commerce Commission and Government. Key areas include the fibre input methodologies being developed for price-quality and information disclosure requirements under the Telecommunications Act; product and pricing; and COVID-19 response and communications. While we have yet to see uptake of our unbundled offer, we delivered the layer 1 unbundled product set and cost-based, equivalence-of-inputs pricing on 1 January 2020 in accordance with our statutory obligations. We continue to be supportive of the industry maintaining a judicious level of self-regulation that is transparent and allows for the correct competitive settings.

The Market

Despite promotion of 5G and fixed wireless broadband, the reputation and uptake of our UFB products and services strengthened throughout the year. Our network reliability and performance proved resilient during the 2019 Rugby World Cup and the COVID-19 pandemic, where data demand increased by 35% on normal run-rate levels. The UFF network proved to be a vital technology asset enabling people to work, learn, play, be entertained and most importantly stay connected online.

Throughout the year, demand remained strong across the board with late adopters still migrating from copper in our maturing UFB1 markets, while an accelerated UFB2 and UFB2+ build programme unleashed pent up demand in our new network areas. While the 100/20Mbps product remains our headline residential service, the 1Gbps service now regularly accounts for around 30% of monthly net new connections. We also successfully trialled our new and exponentially faster 2Gbps and 4Gbps symmetrical (upload/download) services which will be launched in June 2020, opening the gateway to 10Gbps speeds. Alongside the reliability and consistent performance of fibre, we aim to offer products that are faster than any competing technology.

Our Communities

Our retail service provider Net Promoter Score reached an all-time high this year at +66, which reflects our business commitment and customer-centric core value.

We welcomed new communities to the UFF network family as we completed the UFB2 and UFB2+ network builds in December 2019, two years ahead of schedule. In total, UFB2 and UFB2+ delivered 27 new areas and 30,000 new premises. Hamilton and Tauranga continued to lead the way in UFB1 with overall uptake reaching almost 70% by year end across both areas. In UFB2 areas, there was very fast uptake of services in Stratford, Ngaruawahia and Omokoroa.

UFF responded to our communities' needs as the COVID-19 pandemic hit, remaining operational to support all our essential service partners and end users. UFF worked with Government and retailers to provide relief and keep families connected under hardship. There is more work to do to ensure that all groups in our society can obtain the benefits of fibre broadband.

Network Reliability & Asset Management

Our transition from a network build and connections footing to a regional best-in-class strategic infrastructure management business continues. Our Strategic Asset Management Plan (SAMP) is evolving at pace to ensure we evolve sustainably and are optimally positioned for growth. UFF has a very strong reputation as an 'always on' network services business and this we know is a fundamental customer experience benefit and demand.

Inside the business, we are investing in improving systems and processes to deliver both efficiency and an improved customer delivery experience. Over the next 12 months, the business will transform a series of critical operational and business support systems that will deliver a range of immediate benefits.

In Summary

What a fantastic 12 month period for our business, our customers, our community, our people and our shareholders. UFF has quickly evolved this year, responding to our market and our customers' needs. We again delivered an efficient and high quality network build, grew our customer base by 26,000 connections, successfully met our regulatory obligations, created exponentially faster products and passed every reliability and network performance test we faced with flying colours.

More customers than ever before now have access to world-class broadband. We faced many challenges this year and know without any doubt that the next 12 months will present many more, but our work in 2019-2020 has created a solid platform for growth, investment and continued success. We have the expertise, the team, the network and the innovative spirit required to take UFF to its full potential on all capability levels.

Our relationships within our communities and the telecommunications sector are very strong. We have a solid reputation and our brand continues to attract recognition. Looking ahead we see massive opportunity for collaboration, innovation and industry and community leadership. We are built to compete and will approach the regulatory challenges and alternate technologies ahead with passion, excitement and commitment.

Finally, it is without question that I mark such a fantastic year – indeed my first as Chief Executive – by saying how proud I am to lead this business and our incredible team of people. UFF is a special kiwi business and I look forward to taking us on what is sure to be a successful and exciting journey ahead.

Our Stories

WEL Scoops Top Industry Awards

WEL Networks' award-winning Electrical Fitter Bernard Muzengeza is "thrilled and humbled" after being named Trainee of the Year for New Zealand's Energy and Telecommunications industries for 2019.

The awards were announced as part of Annual Connection, a three-day event that showcases New Zealand's energy sector. Twelve line mechanic teams and nine cable jointers competed in a series of events that replicated the work they do out in the field to ensure New Zealand's power is kept flowing.

To add to the success of the Waikato-based lines company, the team of four WEL Networks' linesmen, Lenny Te Aho (team leader), Dale Shane, Ryan Allen and Darcy Page finished second overall and won the Electrical Theory award.

Ryan Allen also won the Ross Archer Memorial Line Mechanic Safety Award which is sponsored by WEL at Annual Connection.

Bernard, who joined WEL in July 2017, won the Connexis ITO Advanced Trainee of the Year award and was named Overall Trainee of the Year.

"It was humbling. I didn't expect it ... it was a great achievement to be recognised. I was thrilled and excited. I'm really proud of myself and my team. As much as you are the one taking the front and accepting the award ... it's just as much a reflection on the team. They have supported me the entire way.

"When your hard work is recognised you're given this renewed energy to keep going. It gives you that drive to perform and do well. It makes the hard work worth it," he says.

The Excellence Awards celebrate the best and brightest trainees working in the Electricity Supply and Telecommunications industries. They also recognise those who have made a significant contribution to the industry through their enthusiasm and commitment to industry training.

WEL Networks' Technician Elliot McKinnon won the Advanced Trainee of the Year award in 2018, Electrical Fitter Narelle Phillips won Distribution Trainee of the Year and Overall Trainee of the Year in 2017 and Electrical Fitter Josh Matthews was a finalist for Advanced Trainee of the Year in 2016.

Line Mechanic Trainee 'Excited'

"I was happy and excited to start learning," 18-year-old line mechanic trainee Bradley Jackson said after he was given the opportunity to kick-start his career in the electricity industry.

After finishing Year 13 at Hamilton Boys' High School in 2019, Bradley started researching potential career opportunities and found an article about line mechanics and the role they played within the industry.

"I really liked the sound of the type of work they did and the integral role they play within the electricity industry. The practical element, working outside and the exposure to different scenarios really appealed to me. When I applied for the role I didn't think I had a chance – it was such a great opportunity," he says.

Bradley joins a team of six line mechanic trainees.

As part of WEL Networks' proactive approach in addressing the industry's skills shortage by offering opportunities for training, two new line mechanic trainees are selected each year. It takes two years to become a qualified line mechanic with an additional year's worth of practical field work.

As part of the line mechanic traineeship, trainees are also exposed to other parts of Field Services.

"They (trainees) are all at different training levels. We've also increased our line mechanic teams from four to five which allows our trainees to get that one-on-one training from our senior guys. They are great mentors. It's a great learning environment," First Response Faults and LV Lines Supervisor Hamish Thomson says.

With a total of 26 years spent in the industry, Hamish has served 15 of those in his current role at WEL.

"I enjoy seeing our trainees develop and progress their careers within WEL. We're committed to bringing in trainees which is great. It's good to see – not just for WEL Networks but for the industry as a whole," he says.

> “We’re working towards creating an innovative energy future ...”

Relief for Waikato Residents’ Power Bills

In 2019 WEL reduced the cost of delivering power to local households, dropping residential lines charges by $5.5M.

This year, we have further reduced our charges by $10 million including $5 million for residential customers. This complements a move to provide $20M per annum to be invested into the community via shareholder, WEL Energy Trust.

Chief Executive Garth Dibley says the reduced residential tariffs and increased community investment follow the end of the electricity discount programme in 2018, and is a fairer way of distributing funds across our communities.

“We’re working towards creating an innovative energy future, which includes constantly reviewing how we can deliver cheaper energy prices and provide greater returns to our customers. We’re also fully supportive of our shareholder, WEL Energy Trust’s strong focus on social investments which will benefit the Waikato region,” he says.

Lines charges make up approximately 25 per cent (excluding transmission) of a household electricity bill and are charged via retailers based on each customer’s usage. The aim is to continually reduce these charges to the benefit of the consumer.

Public Safety Campaign – Down Means Danger

WEL Networks' latest public safety campaign highlights the potentially deadly outcome of not treating all fallen power lines as live.

The local lines company is educating the public on the correct action to take in the event of a fallen power line – particularly as a result of a car accident.

WEL's First Response Faults and LV Lines Supervisor Hamish Thomson said the campaign centres on the slogan, 'Down means danger'.

"All fallen lines need to be treated as live as electricity is likely still flowing through those cables.

"We have had some instances of people trying to go into the car/leave the car before it is safe to do so – we want to stress that the consequence of this can be deadly."

The correct action to take if the lines come down on your vehicle is to remain inside until you are rescued or it could be fatal. If you must leave the vehicle because of fire or other immediate danger, jump away from the vehicle keeping your feet together when you land.

Vice versa, if you come across a vehicle involved in an accident where power lines have fallen, do not touch the vehicle, the lines or drive over the fallen lines, call 111.

WEL Networks provides specialised training to emergency services on what to do when the lines are down.

"Ultrafast Fibre is proud to support events like Techfest ..."

UFF Supports Local Innovation

Following a successful partnership with Techweek in 2018, UFF continued its support by sponsoring *Techfest*.

Techfest is a one-day expo that provides regional leaders, business, students and the wider community from around the Waikato and New Zealand the opportunity to see, touch and experience innovative technology products and solutions. The event saw strategic partner and sponsor UFF participate in seminars, keynote addresses and demonstrations in support of Waikato's innovation sector.

The Ultrafast Fibre network plays a critical role beyond just managing the services that enable our communities to innovate. Through UFF, the majority of the central North Island acts as a gateway allowing access to perform on a global stage; and, as we saw closer to home during the recent COVID-19 lockdown, fibre broadband binds communities together through connections in the toughest of times.

Ultrafast Fibre is proud to support events like *Techfest* where local technology and innovation can be showcased in an environment encouraging collaboration of like-minded businesses and communities. The interactions we experience at these events confirms our belief that we have a central role to play in New Zealand's digital future.

WEL Networks Sustainability Statement 2020

Background

WEL Networks (WEL) is an electricity distribution business fully community owned by the WEL Energy Trust.

The Management and Board of WEL Networks are committed to running the business in a way that is sustainable and embraces the principles of corporate social responsibility because this is the right thing to do for our staff, our community, our shareholder and our environment.

The wellbeing of our staff and of our community is of upmost importance to us. We demonstrate this through ensuring strong safety performance, being a good employer and providing reliable and low cost electricity to our community.

WEL recognises that the business of network operation and maintenance relies on a vehicle fleet of trucks, utes and cars to service the network geographic area and the corporate offices. The network contains distributed electrical monitoring and control systems at numerous locations across the region. Consequently WEL is an emissions intensive organisation.

Throughout its operations, WEL strives to be an environmentally responsible organisation. This year we have initiated a series of sustainability initiatives to measure and respond to our environmental responsibilities.

Statement of Intent

WEL acknowledges that sustainable business practices are fundamental to our future. We strive to minimise the environmental impact of our operations and embrace initiatives to protect our consumers and reduce energy hardship within our community. WEL operates a diverse and inclusive workplace and actively supports the wellbeing of its employees.

Principles

- WEL recognises that protecting the environment today is essential to the creation of a sustainable business future
- We seek to reduce our impact on the environment over time through the investigation, and where appropriate, the delivery of sustainability initiatives
- Greenhouse gas emissions will be measured, verified and managed through Toitū carbonreduce certification by Toitū Envirocare*
- WEL is committed to reducing its relative greenhouse gas footprint
- We ensure our staff go home safely every day and that our network assets are operated and maintained with public safety as the top priority
- We strive to be an employer of choice offering a great place to work where employees are valued and supported

Strategic Activity Areas

We have chosen to align our activity to four of the United Nations' Sustainability Development Goals (SDGs) where we can make the most impact and generate the most synergy with our strategic direction. In this way we believe we will add the most value and have the largest impact on business performance.

The following strategic activity areas support our Company values and are directly related to the activities encompassed in our strategic plan.

AREA	UN Sustainable Development Goal - SDG
Employee Relations, Welfare, Diversity and Inclusion	Aligned to Good Health and Wellbeing (SDG 3) — 3 GOOD HEALTH AND WELL-BEING

To promote a positive workplace for WEL staff through a commitment to best practice employment processes

- Implementation of a diverse workforce and inclusive work environment
- Monitor and deliver gender equality across the business
- Deliver ongoing wellbeing initiatives for staff and implement an overarching wellbeing framework

AREA	UN Sustainable Development Goal - SDG
Sustainable Community	**Aligned to Affordable and Clean Energy (SDG 7)**

Invest in the future of the local community and address energy hardship through the provision of an affordable, reliable and safe supply of electricity

- Operate the OurPower retail platform to provide cheaper retail electricity to the wider Waikato community
- Reduce the risk of harm in the community through the ongoing effective implementation of a public safety management system across the network assets
- Support the expansion of EV charging infrastructure throughout the network to encourage the uptake of electric vehicles

Resilient Infrastructure	**Aligned to Industry Innovation and Infrastructure (SDG 9)**

Build resilient infrastructure and promote sustainable and innovative development of network assets

- Monitor and reduce SAIDI (customer outage times) through a resilient network
- Develop nano-grid technical infrastructure to better understand how to optimise sources of generation attached to the network
- Install solar panels and a grid battery at the WEL depot in support of the nano-grid
- Investigate options for grid scale renewable energy generation

Greenhouse Gas Emissions	**Aligned to Climate Action (SDG 13)**

WEL has undertaken an initial assessment of its greenhouse gas emissions with a view to reducing the relative impact of its emissions over time. WEL has used the 2018 - 2019 financial year as the baseline against which future appraisals will be compared. All measurements will be validated by Toitū Envirocare. Emissions from vehicles, staff travel and energy consumption form the majority of WEL's emission profile.

- Toitū carbonreduce certification*
- Change over 75% of the WEL pool vehicle fleet to electric vehicles (EV)
- Operate and evaluate the fully electric powered elevated work platform truck (the first 100% electric EWP truck in New Zealand)

**Toitū carbonreduce certification*

WEL became a CEMARS® certified organisation in 2019. Following a rebrand this is now called Toitū carbonreduce certification. WEL believes that the Toitū carbonreduce certification is a positive step towards reducing the company's greenhouse gas emissions and it will encourage staff and contractors to make environmentally responsible decisions every day.

Certification ensures that we measure our greenhouse gas emissions and create plans to manage the emission profile. 2018-2019 was the base year profile for greenhouse gas emissions at WEL, with figures validated and certified to the International Standard ISO 14046-1:2006. Compliance with the programme is independently verified annually to maintain certification.

Sustainability

The reduction and management of greenhouse gas emissions forms a key part of WEL's Sustainability Programme.

By achieving the baseline numbers for our greenhouse gas emission profile, WEL now has an improved understanding of these emission sources. With total WEL emissions (excluding subsidiaries) of 1428 tCO2e (tonnes of CO2 equivalent) this allows us to identify targets within the greenhouse gas reduction plan.

The initial Toitū carbonreduce audit confirmed that more than 85% of WEL emissions come from diesel use in vehicles and generators; and electricity use in the offices and network sites. Addressing these areas for net relative reductions, this year, is a key focus of our greenhouse gas reduction plan.

As part of our pledge to reduce our relative carbon footprint, we've become part of the Climate Leaders Coalition. We've also committed to the Paris Agreement target of keeping global warming below 2 degrees and further pursue efforts to limit the temperature to 1.5 degrees.

While the greenhouse gas reduction plan specifies targets for efficiencies and economies in operating WEL vehicles, in electricity consumption and in personnel behaviours, other initiatives are being introduced across the business to support WEL's Sustainability Programme.

tCO2e by Sources (1 April 2018 to 31 March 2019)

Diesel	905
Diesel commercial	196
Electricity	135
Petrol regular	45
Air travel domestic (average)	35
Waste landfilled LFGR Mixed waste	33
Petrol premium	23
Air travel short haul (econ)	20
Sulphur Hexafluoride (SF6)	15
Private Car average (fuel type unknown)	9
Electricity distributed T&D losses	8

Micro Grid Takes World Stage

The micro grid project, how WEL's adapting to a changing environment and future plans for integrating new technology into the traditional network, formed part of WEL's presentation to industry experts at the All Energy Exhibition and Conference in Australia.

There are four components to our micro grid – the traditional network supply, solar (from PV panels on the depot roof), a diesel generator and the battery energy storage system (BESS).

Industries, utilities and communities are looking for new ways to harness renewable power, bring electricity to remote areas and prepare for climate change. We believe the micro grid is one way forward.

Reducing Electricity Use

With expected power savings of up to 65% on each light fitting, LED lighting has been installed as a replacement for incandescent, metal halide and fluorescent lights across the business as part of WEL's commitment to reduce its electricity use.

The first phase of the LED lighting project has been completed with over 400 LED lights installed throughout Level 1 of WEL's head office, the depot and the distribution centre.

The second phase of the project, which will see a further 114 LED lights installed throughout Level 2 of WEL's head office, is expected to be completed later this year.

This project has been followed up with the placement of sensors in strategic positions to allow banks of lights to turn off when no-one is around.

We're also considering the introduction of daylight harvesting in some areas of the business, this year.

Daylight harvesting systems use daylight to offset the amount of electric lighting needed to properly light a space, in order to reduce energy consumption. This is accomplished using lighting control systems that are able to dim or switch electric lighting in response to changing daylight availability.

Sustainable Energy Solutions

Trialling EV car chargers and solar panels in the car park as well as solar on the bike shed and chargers for our staff's electric bikes are two of the sustainable projects that we're currently implementing.

By installing a solar array in the carpark, we're creating four 'covered' carparks. Four EV chargers will also be installed to allow staff to utilise the solar energy to charge their EVs during the work day. The bike shed will be a similar concept on a smaller scale.

By combining the two technologies, the aim of the trial is to enable us to reduce EV charging at peak evening times, and utilise extra generation from solar at the time it's produced.

Diverting Plastic From Landfill

Reducing waste and its environmental impact are the main drivers behind WEL Networks and Gyro Plastics sustainable initiative to recycle network pillars that are no longer in service.

WEL is the first electricity distributor to partner with Gyro Plastics as part of their Product Stewardship Programme that's aimed at increasing the amount of product collected - diverted from landfill - recycled and reused as recycled raw material.

Since the initiative started in November 150 pillars have been recycled.

As part of WEL's end of job process, once the pillars are removed from the network, any metal or brass is removed, they are rinsed with water and placed into a cage. Once the cage is full, with about 60 pillars, it's sent to Gyro Plastics in Fielding.

The cage is refilled with WEL's pillar replacement order before it's sent back to WEL's Hamilton premises.

"Sustainability is a company-wide focus for WEL and we're always looking at what we can do to improve. The cage goes down full and comes back full. It's been very good and we've had a lot of positive feedback. By diverting our pillars from landfill and working with Gyro Plastics, we're supporting the safe, responsible and sustainable production of infrastructure plastic solutions," Group Manager Procurement Alison Barrow says.

The recycling process starts once Gyro Plastics receive the pillars. Once the process is complete, recycled and repurposed raw materials and components are re-introduced into the manufacturing and assembly process.

"Our product designs allow for a variation in plastic properties giving us the ability to use recycled plastic powder interchangeably with virgin plastic. Our recycled plastic powder is used in any manufacturing where an in-ground item would be traditionally manufactured in black virgin plastic. Within our premium range of pillars which are used by WEL, this typically means that bases (as opposed to lids) can be made from recycled plastic powder.

Diversion from landfill is our immediate goal. With further uptake from the electricity industry, greater resource use, economic and energy savings will be gained," Gyro Plastics Managing Director Trudi Duncan says.

Delivering Efficiency With NZ's First EWP Truck

New Zealand's first EWP electric truck has hit the road as part of WEL Networks' fleet.

Converted from a diesel truck to a 132 kWh battery truck, the vehicle will be used for line maintenance and is powerful enough to operate an elevated work platform and travel 200km on a single charge.

Chief Executive Garth Dibley says sustainable energy and sustainable transport are front of mind for the business.

Charging The Waikato

Working in partnership, two innovative Waikato businesses – Waitomo and WEL Networks - have installed the first rapid electric vehicle (EV) charger on a Waitomo Fuel Stop.

The EV charger joins WEL's network of 22 that are located across the Waikato region. Compatible with any EV, WEL's Rapid chargers are located on Maui Street, Caro Street, Waikato Innovation Park, Hampton Downs, Te Kauwhata and Raglan. Fast chargers are located at Waikato Countdown supermarkets.

Installation of the rapid charger at the Mystery Creek Fuel Stop has been partly funded through an Energy Efficiency Conservation Authority (EECA) grant to grow WEL's electric vehicle network.

Transport is one of the biggest opportunities we have in the energy sector to help New Zealand achieve a low-carbon economy, WEL Networks Commercial Engineering Manager Cameron Chapman says.

"Partnering with another innovative Waikato business like Waitomo Group has allowed us to expand the southern boundary of our EV network. We've already received a positive response from EV drivers about the Mystery Creek location, which connects all areas of our region and allows us to offer new energy solutions to more drivers in our communities," he says.

Waitomo Managing Director Jimmy Ormsby says WEL's a great Waikato business that's passionate about supporting communities in the Waikato region like Waitomo.

"If we can support them (WEL) with their EV strategy, we're stoked to be able to do that. While some might see EV vehicles as competition to our fuel business, we simply see it as complementary. Often EV drivers have a second car for longer distance journeys. We're all about offering Kiwis competition and choice, and by installing an EV charger, we can make Waitomo a one-stop Fuel Stop for all their needs," he says.

The rapid EV charger will enable customers to charge their EVs from low to 80 per cent battery capacity in around 20 minutes - compared to a standard charger which takes around four hours.

"We believe electric vehicles will play a really important part in New Zealand's energy future and by investing in electric trucks, we're not only generating fewer emissions, but also helping to future-proof our business and community.

"Throughout our operations, WEL strives to be an environmentally responsible organisation. This year we are launching structured sustainability initiatives to measure and respond to our environmental responsibilities and having more energy-efficient vehicles is a step in the right direction."

The truck was made possible thanks to co-funding received from the Energy Efficiency and Conservation Authority's (EECA) Low Emission Vehicles Contestable Fund.

"The aim of the Fund is to drive innovation, and grow confidence in an electrified vehicle fleet. Projects like this will show other heavy vehicle operators what's possible and encourage them to invest in decarbonising their fleets," EECA's Manager Programme Partnerships Richard Briggs says.

The truck underwent its transformation at SEA Electric in Melbourne, where the diesel engine was removed from the 10-tonne Isuzu FTR750 and a fully electric SEA-Drive system installed. SEA Electric worked in conjunction with CAL Isuzu (Hamilton) to supply the converted cab and chassis.

Waimea Truck and Crane in Nelson fitted the Elevated Work Platform (EWP). It takes between four to eight hours to fully charge the truck.

Furniture Donation WEL-Received

As part of WEL Networks' head office furniture upgrade, all surplus furniture has been donated to Waikato charitable trusts and organisations to support the work they do in enabling our communities to thrive.

K'aute Pasifika Trust are "overwhelmed" with generosity after receiving a large donation of office furniture.

WEL donated 25 desks, 6 large cabinets, 20 chairs, 20 dividers/partitions, a large filing cabinet, a projector and two screens to the charitable trust.

Based in Hamilton, K'aute Pasifika Trust provides health, education and social services to Pacific communities and all other ethnicities who wish to access the services they provide.

"We were overwhelmed with the generosity of the team at WEL Networks. Your donation of furniture is really appreciated. Our staff are using the desks and furniture which is giving them essential equipment they need to do their job," K'aute Pasifika Chief Executive Rachel Karalus says.

WEL Networks Sustainability and Business Improvement Manager Nick Childs says all furniture that's passed on is in excellent condition and the gifting aligns with WEL's values from both philanthropic and sustainability viewpoints.

"As we upgrade our office space it is heartening to be able to pass our surplus furniture on to local community groups and lower decile schools knowing that it is going to be valued in its new home. All recipients are incredibly grateful for the donations as it allows them to get on with their core purpose rather than diverting valuable funds into furniture purchases."

The Refugee Orientation Centre Trust, Kaitumutumu Marae Trust and Light of All Nations Ministries have also received office furniture donations.


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Corporate Governance

Director profiles as at 31 March 2020

Rob Campbell

Group Chair

Rob has over 30 years' experience in investment management and corporate governance.

Rob is currently Chair of Tourism Holdings Limited, Summerset Group Holdings Limited and SkyCity Entertainment Group Limited. He is also a Director of Precinct Properties Limited and various substantial private companies based in Australia and New Zealand. In addition, Rob is a Director of, or advisor to, a number of hedge and private equity funds in several countries. He is a Member of the NZ Equity Management Investment Committee. He trained as an economist and has worked in a variety of capital market advisory and governance roles over a long period. Rob was appointed to the Board of WEL Networks Limited and UFF Holdings Limited in June 2017 and Ultrafast Fibre Limited in April 2018.

Anthony (Tony) Barnes

Group Director, Innovation and Technology Committee Member

Tony has 30 years' broad business experience in the utilities, media, HR services, technology and cyber security sectors in New Zealand, Australia and the United Kingdom.

Tony is currently CEO of cyber security specialist Cyber Partners. He has previously served as CEO of LSE-listed smart metering pioneer BGlobal PLC, utility market software company Utilisoft, electricity retail outsourcer MBCGlobal, and as COO of ASX-listed HR services provider Chandler Macleod Group. Tony is a Certified Information Systems Security Professional (CISSP) and is a member of the Australian Institute of Company Directors. Tony was appointed to the Board of WEL Networks Limited, UFF Holdings Limited and Ultrafast Fibre Limited in June 2018.

Paul Connell

Group Director, Audit and Risk Committee Member

Paul is an experienced Director and Chair with over 40 years of commercial, governance and financial experience, including 20 years as a professional Director of listed and private companies, community-owned companies and Crown Entities.

Prior to WEL, Paul was a Director of lines company Unison Networks for nine years and has been a Director of technology and telecommunications companies. Paul is currently a Director of ETEL Limited and Telarc Limited and is a Fellow of Chartered Accountants Australia and New Zealand and Chartered Fellow of the Institute of Directors. He chairs Bobux International Limited, The Accreditation Council and The Environmental Protection Authority's Audit and Risk Committee. Paul was appointed to the Board of WEL Networks Limited, UFF Holdings Limited and Ultrafast Fibre Limited in November 2019.

Director profiles as at 31 March 2020

Barry Harris

Group Director, Audit and Risk Committee Member

Barry has extensive governance and executive experience.

Barry is currently Chair of OSPRI (formerly Animal Health Board), TBFree New Zealand Limited, National Animal Identification and Tracing (NAIT) Limited, New Zealand Food Innovation (Waikato) Limited, Wintec, NIWA, McFall Fuel Limited and Waikato Regional Airport Limited. Barry is also a Trustee of the Te Awa River Trust and a Member of the Waikato River Authority. Throughout his career, Barry has held a number of chief executive roles, including Environment Waikato, Greater Wellington Regional Council and Hamilton City Council. He was also a senior executive with Fonterra for five years. Some of Barry's previous directorships include CentrePort, RD1, International Nutritionals, Hamilton Riverside Hotels and Local Authority Shared Services. Barry was appointed to the Board of WEL Networks Limited and UFF Holdings Limited in October 2014 and to Ultrafast Fibre Limited in April 2018.

Candace Kinser

Group Director, Innovation and Technology Committee Chair

Candace has held a number of senior roles in the technology sector including over a decade of experience as a CEO and Director on private, government and listed boards.

Candace is currently an Advisor and non-Executive Director for a number of high growth companies including NZX listed EROAD, bovine genetics technology company Livestock Improvement (LIC) and the Auckland Northland Board of the Cancer Society. Previously, she also served as a Director for Crown SOE entity Quotable Value (QV) and has worked to develop family-owned businesses McCashins Brewing and the Superb Herb Company. She has acted as the NZ Advisor for global analytics company Palantir, and while the CEO of NZTech, founded NZTechWeek and NZTechWomen. She is a Beachheads Advisor for NZ Trade and Enterprise and a Director for Auckland Council's Regional Facilities. Candace was appointed to the Board of WEL Networks Limited, UFF Holdings Limited and Ultrafast Fibre Limited in August 2018.

Geoff Lawrie

Group Director, Remuneration Committee Chair, Innovation and Technology Committee Member

Geoff has 36 years of experience in the technology industry in New Zealand and overseas. He is currently the Chair of Auror Limited, a Director of Obex Medical and Plan B Ltd, and Chair of the Advisory Board at Younity.

Geoff has previously held directorships with Ngai Tahu Farming and Pivot Software Limited, and was the first elected Chairman of the industry body, NZ Tech. Geoff was appointed to the Board of WEL Networks Limited in June 2018, UFF Holdings Limited in April 2018 and Ultrafast Fibre Limited in April 2017.

Director profiles as at 31 March 2020

Carolyn Steele

Group Director, Audit and Risk Committee Chair

Carolyn has substantial experience in capital markets, mergers and acquisitions and investment management.

Carolyn is currently Chair of Halberg Foundation and a Director of Metlifecare Limited and Green Cross Health Limited. Carolyn is also a Trustee of New Zealand Football Foundation. Until 2016, Carolyn was Portfolio Manager at Guardians of New Zealand Superannuation, the Crown entity that manages the New Zealand Superannuation Fund. Prior to joining Guardians in 2010, Carolyn spent ten years in investment banking at Forsyth Barr and Credit Suisse/First NZ Capital. Carolyn was appointed to the Board of WEL Networks Limited and UFF Holdings Limited in June 2017 and Ultrafast Fibre Limited in April 2018.

Keith Goodall

Director of UFF Holdings Limited and Ultrafast Fibre Limited

Keith is a Chartered Accountant in practice in Auckland and is primarily a professional Director sitting on the Boards of companies involved in the energy, health, distribution, construction, tourism and hospitality sectors.

Keith has vast experience in the technology sector having chaired one of New Zealand's first ISPs, iHug Limited and was subsequently appointed Deputy Chair of ASX listed iiNet Pty Limited. Following his resignation from iiNet he joined the Board of Callplus/Slingshot until it was sold in 2015. Keith also acts as an expert witness in the High Court and Family Court on commercial and family matters and has held High Court appointments. Keith is currently the Chairman of St Marks Group Limited, Breastscreen Auckland Limited, Auckland City BMW Limited, Ecovis KGA Limited, Collins Asset Management Limited, Industrial Pacific Limited and subsidiaries and Wilderness Group Limited. He is a Director of Mariposa Restaurant Holdings Limited and Waipa Networks Limited. Keith was appointed to the Board of Ultrafast Fibre Limited in April 2017 and UFF Holdings Limited in April 2018.

Corporate Governance Statement

Boards of Directors

The WEL Networks Board is appointed by the shareholder, the WEL Energy Trust, and is responsible for setting and monitoring the direction of the Company. It delegates day to day management of the Company to the WEL Chief Executive.

The Ultrafast Fibre (UFF) Board is appointed by the shareholders (WEL Networks 85% and Waipa Networks 15%). All of the WEL Networks Directors are members of the UFF Board, with the addition of one Waipa Networks appointed Director. The UFF Board delegates day to day management of the Company to the UFF Chief Executive.

The Boards operate in accordance with the Group Corporate Governance Charter. Adopted initially by WEL in October 2005, the Charter was most recently amended in February 2019 to become a Group Charter after rigorous review by the Board to capture the current governance regime for the Company. Additionally, the Boards endorse the principles set out in the IoD Code of Practice for Directors and the NZX Corporate Governance Code. The Boards receive monthly reports from management and meet at least eight times during each financial year.

The Boards run three Group operating committees:

(a) The Remuneration Committee; assists the Board to develop the Company's remuneration policy, sets the remuneration packages of the Chief Executives and their direct reports. The committee also oversees all other matters relevant to ensuring a committed and competent workforce;

(b) The Audit and Risk Committee; oversees the Company's compliance with legal and regulatory requirements, financial statements, treasury policy, preparation of the annual report, appoints and liaises with the external auditors to review internal and external controls relevant to financial reporting, risk management and associated matters, operating under a charter approved by the Board; and

(c) the Innovation and Technology Committee; assists the Board in its oversight of

  (i) the Group's technology strategy and significant investments in support of such strategy and

  (ii) technology risk, ensuring alignment to the Group's overarching business strategy.

Risk Management

The Audit and Risk Committee oversees the Group's risk management programme. The Companies have risk management programmes in place which ensure that risks are identified and mitigated, where possible, and that all policies and procedures consider risk when drafted. Detailed risk reports are provided to the Audit and Risk Committee of the Board on a six monthly basis. Reporting is immediate in the case of extreme residual risks. In addition to normal risk management practices, key controls are reviewed as part of the Group's internal audit programme to ensure they are effective in managing or mitigating known risks.

Compliance

The Companies have processes in place to review compliance on an ongoing basis across all aspects of their businesses. ComplyWith compliance assessments are in place within both Companies to assist in ascertaining the level of compliance with generic legal and regulatory requirements. The findings from these assessments assist in directing the programme of internal audit. The 2019-20 internal audit programme was provided by Ernst and Young, our internal auditor. During the year specific external reviews were undertaken in the areas of; risk management, being a responsible employer, a detailed transactional analysis review, procurement and inventory management and a review of revenue management processes for OurPower.

Health and Safety, Sustainability and the Environment

The Boards recognise the importance of a strong focus on health and safety, sustainability and the environment. They are committed to the highest levels of performance in all areas of the Group. Health and safety and environmental management programmes have been implemented by the Group and a sustainability framework has recently been developed. The Group also seeks to continuously improve its performance in these areas and requires the adoption of similar standards by its suppliers and contractors.

Indemnification and Insurance of Officers and Directors

The Companies are entitled to indemnify Directors and Officers and to effect insurance for them in respect of certain liabilities arising from their positions (excluding claims by the Company or a related party of the Company). The indemnities and insurances must be given and effected in accordance with the Constitution and the Companies Act.

Information Used by Directors

Information relating to items to be discussed by the Directors at a meeting is provided to Directors prior to the meeting. Directors must not use information received in their capacity as Director, which would not otherwise be available to them, without the prior consent of the Board. Directors are entitled to seek independent professional advice to assist them to meet their responsibilities.

Interests Registers

Directors must identify any potential conflict of interest they may have in dealing with the affairs of the Companies. Where a conflict arises, a Director may still attend a Directors' meeting, but may not be counted in the quorum, partake in the debate or vote on a resolution or sign any document in which they are interested. The Companies maintain interests registers to record particulars of transactions or matters involving Directors together with an interests register for Executive and Senior Managers to record potential conflicts of interest.

Interests Register For The WEL Group

As at 31 March 2020

DIRECTOR	CURRENT DIRECTORSHIPS	ROLE
Campbell, Robert James		
Chairman	Summerset Group Limited	Chairman
	Tourism Holdings Limited	Chairman
	King Tide Asset Management Limited	Chairman
	Serica Partners Asia Limited	Board Member
	Silverfern Group Limited	Investment Committee Member
	Precinct Properties NZ	Director
	Tutanekai Investments Limited	Owner and Director
	RC Custodian Limited	Shareholder
	VGI Partners Advisory Board	Member
	SkyCity Entertainment Group Limited	Chairman
	Our Energy (a start-up peer to peer trading organisation)	Family Association
	Just Move Charitable Health Trust	Member
	NZ Equity Management	Investment Committee Member
Harris, Barry Spence		
	Ospri New Zealand Limited	Chairman
	TBFree New Zealand Limited	Chairman
	National Animal Identification and Tracing (NAIT) Limited	Chairman
	Te Awa River Trust Trustee	Director
	New Zealand Food Innovation (Waikato) Limited	Chairman
	Wintec	Chairman
	Waikato River Authority	Member
	McFall Fuel Limited	Chairman
	National Institute of Water and Atmospheric Research (NIWA)	Chairman
	Waikato Regional Airport Limited	Chairman
Steele, Carolyn Mary		
	Metlifecare Limited	Director
	Halberg Foundation	Chair
	New Zealand Football Foundation	Trustee
	Green Cross Health Limited	Director
	Forsyth Barr Limited	Family Association
	Steele Family Trust	Trustee

Interests Register For The WEL Group

As at 31 March 2020

DIRECTOR	CURRENT DIRECTORSHIPS	ROLE
Lawrie, Geoffrey Alastair		
	Auror Limited	Chairman
	Plan B (via Morgan Holdco)	Director
	Obex (NZ) Limited (via Obex Medical Holdings Pty)	Director
	OXC (NZ) Limited	Director
	Younity Limited Advisory Board	Chairman
Barnes, Anthony (Tony) Paul		
	Cyber Partners Pty Limited	Director
	Cyber Partners Australia Pty Limited	Director
	Cyber Research Pty Limited	Director
	NSpire IT Pty Limited	Director
	Eden River Pty Limited	Director
	Karinya Equity Pty Limited	Trustee
Kinser, Candace		
	EROAD Limited	Director
	EROAD LTI Trust Limited	Director
	Sagitas Consulting Limited	Director; Shareholder
	LIC Agritechnology Limited	Director
	Livestock Improvement Corporation Limited	Director
	New Zealand Trade & Enterprise	Beachhead Advisor
	Auckland Council, Regional Facilities Auckland	Non-Executive Director
	Auckland Northland Board of the Cancer Society	Director
Connell, Paul Anthony		
	ETEL Limited	Director
	Lucky Light Globalindo	Governor
	The Accreditation Council	Chair
	Telarc Limited	Director
	Bobux International Limited	Chair
	The Environmental Protection Authority	Chair of Audit and Risk
	Connell and Associates Limited	Director and Shareholder

Interests Register For The WEL Group

As at 31 March 2020

DIRECTOR	CURRENT DIRECTORSHIPS	ROLE
Goodall, Keith Norman		
	Ecovis KGA Limited	Chairman and Shareholder
	St Marks Group Limited	Chairman
	Breastscreen Auckland Limited	Chairman
	Auckland City BMW Limited	Chairman
	Mariposa Restaurant Holdings Limited	Director
	Waipa Networks Limited	Director
	Collins Asset Management Limited	Chairman
	Industrial Pacific Limited and Subsidiaries	Chairman and Shareholder
	Wilderness Group Limited	Chairman

EXECUTIVE MANAGEMENT	ENTITY	POSITION
Dibley, Garth		
	SmartCo Limited	Director
	Water New Zealand	Director
	Waikato District Council Waters Governance Board	Director
	OurPower Holdings Limited	Director
	OurPower Limited	Director
	OurPower Retail Limited	Director
	Waikato Management School	Member of Advisory Board
Hanna, John		
	Red Moki Limited	Director
	Professionelle	Trustee
	Eat Right Be Right Trust	Chair
	Bright Future Trust	Trustee

Financial Statements
31 March 2020

Contents

WEL Networks Limited

Statement of comprehensive income

For the year ended 31 March 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
Revenue	9	223,250	210,647
Expenses, excluding finance costs	14	(98,832)	(95,598)
Earnings before interest, taxes, depreciation and amortisation expenses (EBITDA) and interest in associates		124,418	115,049
Depreciation and amortisation expense	15	(52,494)	(47,159)
Finance expenses	12	(24,115)	(22,573)
Finance income		32	275
Share of net profits/(losses)/revaluations of existing interest in associates		-	(266)
Profit before income tax expense		47,841	45,326
Income tax expense	16	(12,370)	(13,877)
Profit after income tax expense for the year		35,471	31,449
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax	27	(3,796)	(4,134)
Other comprehensive income for the year, net of tax		(3,796)	(4,134)
Total comprehensive income for the year		31,675	27,315
Profit for the year is attributable to:			
Non-controlling interest		(515)	(722)
Owners of WEL Networks Limited		35,986	32,171
		35,471	31,449
Total comprehensive income for the year is attributable to:			
Non-controlling interest		(515)	(722)
Owners of WEL Networks Limited		32,190	28,037
		31,675	27,315

	Note	Cents	Cents
Basic earnings per share	29	441.4	394.6
Diluted earnings per share	29	441.4	394.6

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

WEL Networks Limited

Balance sheet

As at 31 March 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
Assets			
Current assets			
Cash and cash equivalents	18	987	1,289
Trade and other receivables	19	22,874	19,611
Total current assets		23,861	20,900
Non-current assets			
Derivative financial instruments	30	5,059	2,538
Property, plant and equipment	7	1,203,367	1,128,231
Right-of-use assets	36	5,525	-
Intangibles	8	90,921	89,907
Total non-current assets		1,304,872	1,220,676
Total assets		1,328,733	1,241,576
Liabilities			
Current liabilities			
Trade and other payables	20	23,022	22,791
Borrowings	10	-	99,179
Lease liabilities	37	913	-
Derivative financial instruments	30	816	115
Income tax	16	271	4,142
Employee benefit obligations	21	3,894	3,858
Contract liabilities	23	14,111	14,938
Total current liabilities		43,027	145,023
Non-current liabilities			
Borrowings	11	513,431	363,000
Lease liabilities	38	4,740	-
Derivative financial instruments	30	16,594	12,023
Deferred tax liabilities	16	89,474	84,060
Employee benefit obligations	22	100	92
Loan from related party		90,810	81,170
Contract liabilities	24	886	915
Total non-current liabilities		716,035	541,260
Total liabilities		759,062	686,283
Net assets		569,671	555,293

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

WEL Networks Limited

Balance sheet

As at 31 March 2020

		Consolidated	
	Note	**2020 $'000**	2019 $'000
Equity			
Contributed equity	26	140,142	150,142
Reserves	27	144,286	149,736
Retained earnings	28	279,364	247,505
Equity attributable to the owners of WEL Networks Limited		563,792	547,383
Non-controlling interest		5,879	7,910
Total equity		569,671	555,293

Rob Campbell
Chairman

Carolyn Steele
Director

12 June 2020

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

WEL Networks Limited

Statement of changes in equity

For the year ended 31 March 2020

Consolidated	Share capital $'000	Convertible note $'000	Reserves $'000	Retained earnings $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 April 2018	111,142	39,000	155,268	216,735	7,355	529,500
Profit/(loss) after income tax expense for the year	-	-	-	32,171	(722)	31,449
Movement in revaluation from disposal of distribution network assets	-	-	(1,398)	1,398	-	-
Cash flow hedges (net of tax)	-	-	(4,134)			(4,134)
Total comprehensive income for the year	-	-	(5,532)	33,569	(722)	27,315
Acquired minority interest	-	-	-	-	1,277	1,277
Transactions with owners:						
Interest on convertible notes (note 26)	-	-	-	(2,449)	-	(2,449)
Dividends paid	-	-	-	(350)	-	(350)
Balance at 31 March 2019	111,142	39,000	149,736	247,505	7,910	555,293

Consolidated	Share capital $'000	Convertible note $'000	Reserves $'000	Retained earnings $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 April 2019	111,142	39,000	149,736	247,505	7,910	555,293
Profit/(loss) after income tax expense for the year	-	-	-	35,986	(515)	35,471
Movement in revaluation from disposal of distribution network assets	-	-	(1,654)	1,654	-	-
Cash flow hedges (net of tax)			(3,796)			(3,796)
Total comprehensive income for the year	-	-	(5,450)	37,640	(515)	31,675
Acquisition of minority interest	-	-	-	97	(1,516)	(1,419)
Transactions with owners:						
Repayment of convertible note	-	(10,000)	-	-	-	(10,000)
Interest on convertible notes (note 26)	-	-	-	(1,878)	-	(1,878)
Dividends paid	-	-	-	(4,000)	-	(4,000)
Balance at 31 March 2020	111,142	29,000	144,286	279,364	5,879	569,671

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

WEL Networks Limited

Statement of cash flows

For the year ended 31 March 2020

	Note	Consolidated 2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers		219,495	194,328
Payments to suppliers and employees		(94,813)	(87,025)
Income taxes paid		(9,146)	(4,927)
Net cash from operating activities	35	115,536	102,376
Cash flows from investing activities			
Payments for investments		(1,217)	-
Payments for property, plant and equipment	7	(127,185)	(135,905)
Payments for intangibles	8	(4,387)	(2,574)
Proceeds from disposal of property, plant and equipment		408	565
Net cash from investing activities		(132,381)	(137,914)
Cash flows from financing activities			
Proceeds from borrowings		53,762	-
Proceeds from bond issue		-	150,000
Repayment of borrowings		-	(87,468)
Interest paid		(20,149)	(23,807)
Interest on convertible notes		(1,878)	(2,449)
Payments for leases		(880)	-
Interest paid on lease liabilities		(312)	-
Dividends paid		(4,000)	(350)
Repayment of convertible note		(10,000)	-
Net cash from financing activities		16,543	35,926
Net increase/(decrease) in cash and cash equivalents		(302)	388
Cash and cash equivalents at the beginning of the financial year		1,289	901
Cash and cash equivalents at the end of the financial year	18	987	1,289

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

Notes to the Financial Statements

1. General information

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

The Company is a limited liability company incorporated and domiciled in New Zealand. Its registered office and principal place of business is 114 Maui Street, Hamilton.

During the financial year the principal continuing activities of the Group consisted of:

- The electricity networks business delivering energy to customers in the Waikato Region;
- The fibre business delivering the Government Ultra-fast Broadband roll out programme and delivery of fibre services in the Waikato, Tauranga and Taranaki areas; and
- The generation and sale of wholesale and retail electricity.

The financial statements were authorised for issue, in accordance with a resolution of the Board of Directors, on 12 June 2020. The Board of Directors do not have the power to amend and reissue the financial statements.

2. Basis of preparation

Statutory base

WEL Networks Limited is a Company registered under the Companies Act 1993.

Statement of compliance

These consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP') and the requirements of the Companies Act 1993, the Financial Markets Conduct Act 2013 and the Main Board/Debt Market Listing Rules of NZX Limited. They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS') and other applicable New Zealand accounting standards and authoritative notices, as appropriate for for-profit entities.

The Group presents the statement of comprehensive income to include the non GAAP measure of Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) and Interests in Associates as this is a more appropriate measure of the operations and covenant requirements of the Group.

Historical cost convention

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

Principles of consolidation

Subsidiaries

Subsidiaries are all those entities (including structured 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the profit and loss component of the statement of comprehensive income.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. When necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

WEL Networks Limited – Notes to the financial statements

31 March 2020

2. Basis of preparation (continued)

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the profit and loss component of the comprehensive income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit / (loss) of associates' in the comprehensive income statement.

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each of the entities operate ('the functional currency'). The consolidated financial statements are presented in 'NZD' ($000) (unless otherwise stated), which is the Group's presentation currency.

COVID-19 impacts

The impact of COVID-19 has been considered for all balances and areas of judgements made in relation to the preparation of the group financial statements.

Specifically in relation to the valuation of the electricity network, the Directors consider the impact of a short term reduction in line rental revenue due to lower electricity usage during the shutdown period to be immaterial to the valuation as usage is expected to return to normal levels following the end of the shutdown.

In relation to the fibre network valuation, whilst some connections have been delayed, this has been slightly offset by an increase in the average revenue per connection as customers increase their residential data plans. As a result, there has been no material impact to the fibre network valuation or the goodwill impairment assessment.

As a direct result of COVID-19, the New Zealand Government also enacted changes to the tax legislation reinstating the ability to make tax deductions for building depreciation. This change has been factored into the Group's deferred tax balances as disclosed in note 16 to the financial statements.

We have considered the impact on other areas of the financial statements including the recoverability of debtors, no further material impacts have been identified as a result of COVID-19.

3. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The following Accounting Standards and Interpretations have been adopted for this accounting period and are most relevant to the Group:

WEL Networks Limited – Notes to the financial statements

31 March 2020

3. Significant accounting policies (continued)

NZ IFRS 16 Leases

The Group has adopted NZ IFRS 16 from 1 April 2019. The standard replaces NZ IAS 17 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, these expenses associated with the lease under NZ IFRS 16 will be higher when compared to lease expenses under NZ IAS 17. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, payments relating to both the interest and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption

NZ IFRS 16 was adopted using the simplified transition approach and as such the comparatives have not been restated. The below provides a reconciliation of the previously disclosed operating lease commitments to the opening lease liability on adoption:

	1 April 2019 $000'
Operating lease commitments disclosed at 31 March 2019	14,029
Discounting using the lessee's incremental borrowing rate at application (weighted average interest rate of 5.14%)	(2,157)
Less short term leases	(227)
Less low-value leases	(9,103)
Add additional service contracts now identified as leases	657
Add adjustments as a result of different treatment of extension and termination options	3,283
	6,482

The Group net profit after tax has decreased by $92,000 for 31 March 2020 as a result of adopting these new rules. Adjusted EBITDA used to measure the segment results has increased by $1,192,000, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

Operating cash outflows have decreased and financing cash outflows have increased by $1,192,000 as repayment of the principal portion of the lease liabilities is now classified as cash flows from financing activities.

Government Grants

Government grants relating to the purchase of property, plant and equipment are either included in non-current liabilities as deferred income and then credited to profit or loss on a straight-line basis over the expected lives of the related assets or offset against the total cost of the asset at the date of capitalisation.

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss component of the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Financial Liabilities

Other financial liabilities at amortised cost are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They are included in current liabilities, except for those with maturities greater than 12 months after the reporting date which are classified as non-current liabilities. Other financial liabilities are classified as 'trade and other payables' and 'provisions' in the balance sheet.

3. Significant accounting policies (continued)

Goods and Services Tax ('GST')

The statement of comprehensive income has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Changes in accounting policies

There have been no significant changes in accounting policies during the current year, except for the new accounting standards adopted from 1 April 2019. All other accounting policies have been applied on a basis consistent with the prior year.

New Accounting Standards and Interpretations not yet mandatory or early adopted

There are currently no New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') that have recently been issued or amended. Therefore the Group has not assessed any impact beyond the annual reporting period ended 31 March 2020.

4. Critical accounting judgements, estimates and assumptions

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

- Non-current - property, plant and equipment (note 7);
- Non-current - intangibles (note 8);
- Income tax (note 16); and
- Leases (note 38).

Held for sale and discontinued operations

During the year ended 31 March 2020, a decision was made to pursue the sale of shares in UFF Holdings Limited (UFFH). A disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this classification to be made the sale of that group of assets must be highly probable at balance date. At balance date, the Board of Directors considered whether UFFH met the criteria to be classified as an asset held for sale and discontinued operation in the financial statements for the year ended 31 March 2020. The Board of Directors determined the highly probable criteria had not been satisfied at this time due to shareholder approval being dependent on the outcome of the final bids received, impact assessments completed, further deliberation by the shareholder and uncertainty created around Level 4 lockdown due to COVID-19. Final bids were not due until subsequent to balance date.

5. Operating segments

Identification of reportable operating segments

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

The Board reviews the business from a network perspective and management considers the performance from an electricity network and a fibre network perspective and anything not included in these is classified as 'Other' including technology investments (Smart meters) and the generation and retail business (OurPower Holdings Limited).

5. Operating segments (continued)

The Board assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes discontinued operations and the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event. Interest expenditure is not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

Investments in financial assets that are managed by the central treasury function of the Group are not considered to be segment assets. These are investments in debt and equity instruments that are classified as at fair value through other comprehensive income, fair value through profit and loss and at amortised cost. Income and deferred tax are also not considered to be segment assets as these are managed by the central treasury function of the Group.

Sales between segments are carried out in line with normal terms of trade, consistent with external trade receivable customers. The revenue from external parties is measured in a manner consistent with that in the statement of comprehensive income.

We have revised the way we report operating revenue for each segment which no longer includes interest charged between operating segments as part of total revenues. In addition, due to the amalgamation of WEL Services Limited with WEL Networks Limited, there are no intersegment sales to report. The following tables, including the prior year, have been restated to reflect this.

Consolidated 2020	Electricity Network $'000	Fibre Network $'000	Other $'000	Total $'000
Revenue				
Segment revenue	130,890	82,423	9,937	223,250
Total revenue	130,890	82,423	9,937	223,250
EBITDA and interests in associates	65,034	53,051	6,333	124,418
Depreciation and amortisation				(52,494)
Finance income				32
Finance expenses				(24,115)
Profit before income tax expense				47,841
Income tax expense				(12,370)
Profit after income tax expense				35,471
Assets				
Segment assets	639,997	659,296	23,394	1,322,687
Unallocated assets:				
Cash and cash equivalents				987
Derivative financial instruments				5,059
Total assets				1,328,733
Liabilities				
Segment liabilities	41,008	6,479	179	47,666
Unallocated liabilities:				
Income tax				271
Borrowings				604,241
Deferred tax liabilities				89,474
Derivative financial instruments				17,410
Total liabilities				759,062

WEL Networks Limited – Notes to the financial statements

31 March 2020

5. Operating segments (continued)

Consolidated 2019	Electricity Network $'000	Fibre Network $'000	Other $'000	Total $'000
Revenue				
Segment revenue	134,020	67,062	9,565	210,647
Total revenue	134,020	67,062	9,565	210,647
EBITDA and interests in associates	71,059	39,588	4,402	115,049
Depreciation and amortisation				(47,159)
Finance income				275
Finance expenses				(22,573)
Share of net profits/(losses)/revaluations of existing interest in associates				(266)
Profit before income tax expense				45,326
Income tax expense				(13,877)
Profit after income tax expense				31,449
Assets				
Segment assets	612,142	599,108	26,499	1,237,749
Unallocated assets:				
Cash and cash equivalents				1,289
Derivative financial instruments				2,538
Total assets				1,241,576
Liabilities				
Segment liabilities	29,539	13,077	(22)	42,594
Unallocated liabilities:				
Income tax				4,142
Borrowings				543,349
Deferred tax liabilities				84,060
Derivative financial instruments				12,138
Total liabilities				686,283

6. Interests in subsidiaries and joint ventures

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2.

The parent has 85 shares (85% of shares) in UFF Holdings Limited. The shares are fully paid.

Name	Principal place of business / Country of incorporation	Ownership interest 2020 %	Ownership interest 2019 %
UFF Holdings Limited (UFFH) (formerly Waikato Networks Limited)	New Zealand	85%	85%
Ultrafast Fibre Limited (UFF) *	New Zealand	85%	85%
OurPower Holdings Limited (formerly Opunake Hydro Holdings Limited)	New Zealand	100%	51%
OurPower Retail Limited **	New Zealand	100%	51%
OurPower Limited **	New Zealand	100%	51%
Smartco Limited (joint venture)	New Zealand	14%	14%

** Subsidiary of UFFH Limited*

*** Subsidiary of OurPower Holdings Limited*

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

On 5 September 2019, WEL Networks Limited purchased the remaining 49% minority shareholding of Opunake Hydro Holdings Limited. The impact of the transaction was immaterial to the Group.

The name of the entity was subsequently changed to OurPower Holdings Limited on 20 November 2019.

WEL Networks Limited – Notes to the financial statements

31 March 2020

6. Interests in subsidiaries and joint ventures (continued)

Summarised financial information

Summarised financial information of UFF Holdings Limited with non-controlling interests that are material to the Group are set out below:

	2020 $'000	2019 $'000
Summarised balance sheet		
Current assets	22,901	9,591
Non-current assets	648,010	590,510
Total assets	670,911	600,101
Current liabilities	14,731	14,069
Non-current liabilities*	616,986	543,123
Total liabilities	631,717	557,192
Net assets	39,194	42,909
Summarised statement of comprehensive income		
Revenue	82,423	67,062
Expenses	(79,829)	(71,097)
Profit/(loss) before income tax expense	2,594	(4,035)
Income tax expense	(6,308)	(2,094)
Loss after income tax expense	(3,714)	(6,129)
Other comprehensive income	-	-
Total comprehensive income	(3,714)	(6,129)
Statement of cash flows		
Net cash from operating activities	42,811	44,933
Net cash from investing activities	(81,477)	(92,679)
Net cash from financing activities	38,664	47,765
Net increase/(decrease) in cash and cash equivalents	(2)	19

UFF, a subsidiary of UFFH, is included in the summarised information above. The equity in UFF includes a Government Share, which requires UFF to obtain the prior written approval of the Government Shareholder prior to a transaction which would result in a change in ownership, control or management of the fibre network (included in 'Non-current assets' above) or a material part of it to another party.

*Included in the non-current liabilities balance is the intercompany loan from WEL to UFFH of $515,553,000 and the loan from related party of $90,810,000.

7. Non-current assets - property, plant and equipment

2019	Electricity network $'000	Fibre network $'000	Land and buildings $'000	Plant and equipment $'000	Motor vehicles $'000	Computer hardware $'000	Non-network Assets under construction $'000	Total $'000
Opening net book amount as at 1 April 2018	542,136	435,754	18,159	29,302	5,287	1,033	4,957	1,036,628
Additions	36,908	93,362	-	1,588	958	1,276	2,070	136,162
Acquisitions through business combination	-	-	-	2,524	-	-	-	2,524
Transfers	2,748	-	-	2,138	-	-	(4,886)	-
Disposals	(3,451)	-	-	(45)	(162)	(72)	-	(3,730)
Depreciation charge	(18,362)	(19,458)	(261)	(3,417)	(1,166)	(689)	-	(43,353)
Closing net book amount as at 31 March 2019	559,979	509,658	17,898	32,090	4,917	1,548	2,141	1,128,231
Cost/valuation	750,903	564,480	18,974	53,496	10,220	4,989	2,141	1,405,203
Accumulated depreciation	(190,924)	(54,822)	(1,076)	(21,406)	(5,303)	(3,441)	-	(276,972)
	559,979	509,658	17,898	32,090	4,917	1,548	2,141	1,128,231

2020	Electricity network $'000	Fibre network $'000	Land and buildings $'000	Plant and equipment $'000	Motor vehicles $'000	Computer hardware $'000	Non-network Assets under construction $'000	Total $'000
Opening net book amount as at 1 April 2019	559,979	509,658	17,898	32,090	4,917	1,548	2,141	1,128,231
Additions	44,648	77,256	101	1,525	966	712	1,966	127,174
Transfers	(530)	-	-	1,703	452	4	(1,629)	-
Disposals	(3,639)	-	-	(13)	(214)	(8)	-	(3,874)
Depreciation charge	(19,132)	(23,079)	(262)	(3,728)	(1,150)	(813)	-	(48,164)
Closing net book amount as at 31 March 2020	581,326	563,835	17,737	31,577	4,971	1,443	2,478	1,203,367
Cost/valuation	789,733	641,736	19,075	56,473	10,243	5,270	2,478	1,525,008
Accumulated depreciation	(208,407)	(77,901)	(1,338)	(24,896)	(5,272)	(3,827)	-	(321,641)
	581,326	563,835	17,737	31,577	4,971	1,443	2,478	1,203,367

The amount of capitalised interest was $1,779,000 (2019: $1,452,000).

WEL Networks Limited – Notes to the financial statements

31 March 2020

7. Non-current assets - property, plant and equipment (continued)

Included in the Electricity network assets there are $8.4M (net book value) of assets that are subject to an operating lease (as a lessor), see note 9 for further information.

The net book value of the Fibre network includes $18.2M of work in progress as at 31 March 2020 (2019: $42.7M). The net book value of the Electricity network includes $17.3M of work in progress as at 31 March 2020 (2019: $24.2M).

Borrowing costs

General and specific 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.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings for the year, in this case 5.60% (2019: 5.60%).

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

If measured at cost the carrying values for the revalued assets would be as follows:

	Land and buildings $'000	Electricity network $'000	Fibre network $'000
Cost	10,131	608,015	564,480
Accumulated depreciation	(1,076)	(212,161)	(54,822)
Net book amount as at 31 March 2019	9,055	395,854	509,658

	Land and buildings $'000	Electricity network $'000	Fibre network $'000
Cost	10,232	649,718	641,736
Accumulated depreciation	(1,338)	(230,487)	(77,839)
Net book amount at 31 March 2020	8,894	419,231	563,897

Critical accounting estimates and judgements

Land and buildings were revalued to fair value for highest and best use on 31 March 2018 by independent valuers, SGHU Valuations LP Registered Valuers using a market approach being a Level 3 valuation. Updates to the key inputs as at 31 March 2020 have been reviewed and the Directors have determined that the carrying value remains materially appropriate and within the valuation range below.

Key inputs include market rent at $860,000 and a capitalisation rate of between 5.5% and 6.5% resulting in a valuation range of $13.2M to $15.6M for the Maui St land and buildings, which have a carrying value of $13.5M.

It is the Group's policy to value the respective Electricity Network and Fibre Network every three years, and as such the Group engaged Deloitte, an independent third party valuer, to perform both network valuations for the year ended 31 March 2019. For the purposes of impairment testing as at 31 March 2020, management have updated the key inputs to develop an estimated valuation range for each network and consider the carrying values relative to the respective valuation ranges. These are Level 3 valuations.

Based on the updated estimated valuation range for the Electricity Network of $544M to $595M (based on sensitivity to WACC low/high estimates), the Directors consider that the current carrying value of the network fixed assets of $581M can be retained as carrying value materially reflects estimated fair value. The primary valuation method is the discounted cash flow (DCF) methodology, over a 10 year period, with a terminal value based on the estimated regulatory asset base using a multiple of 1.0x. Key inputs are shown in the table below. The valuation of the fixed assets is consistent with the requirements of NZ IAS 16, which requires the network to be valued based on the existing capabilities, i.e. excluding earnings growth that requires capital expenditure on network expansion but including growth that can be accommodated on the existing network.

7. Non-current assets - property, plant and equipment (continued)

Based on the updated valuation range for the Fibre Network of $546M to $651M (including WIP), the Directors consider that the current carrying value of $564M can be retained as carrying value materially reflects estimated fair value. Directors note that the Fibre Network is facing significant uncertainty regarding the future of regulation being considered by the Commerce Commission (ComCom) as well as uncertain competition from 5G technology.

The primary valuation method is the discounted cash flow (DCF) methodology, over a 10 year period, with a terminal value based on a Gordon growth approach, with key inputs shown in the table below.

The valuations of the Electricity Network and the Fibre Network are sensitive to the inputs in the discounted cash flow model valuations. The table below shows the sensitivities to key inputs of the valuations, which are represented by the valuation ranges.

	Mid-point for valuation	Sensitivity Range	Valuation Range
Electricity Network:			
WACC (Weighted Average Cost of Capital)	5.14%	4.64% - 5.64%	$544M - 595M
Distribution Revenue (excl Transpower)	Avg. $79.6M p.a.	$75.6M - 83.5M	$547M - 591M
Capital Expenditure	Avg. $26.5M p.a.	$21.5M - 31.5M	$564M - 573M
Fibre Network:			
WACC (Weighted Average Cost of Capital)	7.05%	6.47% - 7.63%	$546M - 651M
ARPU (Average Revenue Per User)	Avg. $51.9	$49.9 - $53.4	$549M - 639M
Terminal Growth Rate	0.5%	0.0% - 1.0%	$571M - 620M
Capital Expenditure*	Avg. $21.2M p.a.	$16.2M - 26.2M	$558M - 630M

** The terminal capital expenditure is $28.1M.*

Accounting policy for property, plant and equipment

Land and buildings are recorded at fair value, based on periodic, at least every three years, valuations by external independent valuers, less subsequent depreciation and impairment for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amounts. The electricity distribution and fibre networks are also measured at fair value on the basis of an independent valuation prepared by expert valuers using a discounted cash flow method at least every three years. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of self-constructed assets includes the cost of materials and direct labour and an allowance for overheads. Borrowing costs are capitalised in respect of qualifying assets. For the electricity network qualifying assets are deemed to be those valued at $200,000 or more and which take more than three months to construct. For the fibre network qualifying assets relate to the construction of the fibre network.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit and loss component of the statement of comprehensive income during the financial period in which they are incurred.

Labour is capitalised against network assets. Labour costs are capitalised in the period in which they are incurred and are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Non-network assets under construction include work in progress relating to land and buildings, plant and equipment, motor vehicles and computer hardware.

Increases in the carrying amount arising from the revaluation of land and buildings are credited to other comprehensive income and shown as other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income, and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

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7. Non-current assets - property, plant and equipment (continued)

Land is not depreciated and assets under construction are not depreciated until the asset is ready for use. For the Fibre Network this is on completion of the UFB2+ rollout. Depreciation on other assets is calculated on a straight-line basis to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Buildings	35 years
Electricity network	6-70 years
Fibre network	5-40 years
Computer hardware	2-4 years
Plant and equipment	3-20 years
Motor vehicles	4-20 years

The exception to this is the gas-fired generators (in Opunake) used for generating electricity (plant and equipment) which are depreciated on a units of use basis using the kWh generated per month as a percentage of total kWh available over the assets life. The estimated useful life for each of the generators is as follows:

Gas-fired generation plant and equipment on a usage basis	82,179,750 kWh	Units of use

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained earnings.

8. Non-current assets - intangibles

2019	Internally generated software $'000	Computer software $'000	Goodwill $'000	Easements and consents $'000	Leasehold interests $'000	Assets under construction $'000	Total $'000
Opening net book amount as at 1 April 2018	3,428	7,179	74,484	5,167	107	774	91,139
Additions	823	1,156	-	143	-	452	2,574
Amortisation charge	(1,253)	(2,490)	-	(63)	-	-	(3,806)
Closing net book amount as at 31 March 2019	2,998	5,845	74,484	5,247	107	1,226	89,907
Cost	7,461	27,345	74,484	7,661	107	1,226	118,284
Accumulated amortisation and impairment	(4,463)	(21,500)	-	(2,414)	-	-	(28,377)
	2,998	5,845	74,484	5,247	107	1,226	89,907

2020	Internally generated software $'000	Computer software $'000	Goodwill $'000	Easements and consents $'000	Leasehold interests $'000	Assets under construction $'000	Total $'000
Opening net book amount as at 1 April 2019	2,998	5,845	74,484	5,247	107	1,226	89,907
Additions	625	1,187	-	38	-	2,537	4,387
Disposals	-	(51)	-	-	-	-	(51)
Transfers	121	193	-	88	-	(402)	-
Amortisation charge	(1,688)	(1,579)	-	(55)	-	-	(3,322)
Closing net book amount as at 31 March 2020	2,056	5,595	74,484	5,318	107	3,361	90,921
Cost	8,207	28,674	74,484	7,787	107	3,361	122,620
Accumulated amortisation and impairment	(6,151)	(23,079)	-	(2,469)	-	-	(31,699)
	2,056	5,595	74,484	5,318	107	3,361	90,921

Critical accounting judgements, estimates and assumptions for intangibles

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

The carrying value of goodwill is $74M and relates to Ultrafast Fibre Limited as a single cash generating unit.

The recoverable amount was determined using a 'fair value less cost to sell' method, as this method values the business as a whole, taking into consideration future growth of the network. The 'value in use' methodology only values the existing network, similar to the fibre network valuation. The 'fair value' uses the Discounted Cashflow (DCF) methodology over a 10 year period. A 10 year analysis period has been used, rather than the standard five year period, to more accurately capture ongoing and future connections growth, along with cost and scale efficiencies.

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8. Non-current assets - intangibles (continued)

The key inputs include:

- revenue growth is driven primarily by an increase in network uptake in conjunction with ongoing network build;
- broadly flat costs over the period resulting from CPI of 2% and additional proactive network maintenance costs being largely offset by cost and scale efficiencies;
- a post-tax WACC of 7.05%, which reflects lower risk-free rates;
- terminal cash flow growth of 0.5%;
- terminal capital expenditure of $33M p.a. being the investment required to support the terminal growth above; and
- cost to sell of $15M, which at 2% is in the middle of the range.

The conclusion is that there is no impairment to the goodwill as the analysis above results in $48M of headroom. It would require significant unfavourable changes in the key variables ($1.85 p.m. reduction in ARPU; a $6.2M increase in the terminal value annual Capital Investment; a 0.44% increase in WACC; or a 0.81% reduction in the terminal growth rate) to cause the ‘carrying amount’ to exceed the recoverable amount, resulting in an impairment to be recognised. The assumptions adopted reflect the risk and uncertainty associated with Ultrafast Fibre Limited as at 31 March 2020.

Accounting policy for intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arose on consolidation of the UFF Holdings Limited Group due to the acquisition of Ultrafast Fibre Limited by UFF Holdings Limited. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of ‘value in use’ and the ‘fair value less costs to sell’. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Accounting policy for finite life intangibles

Software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured, this includes direct labour costs and relevant overhead costs.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised on a straight-line basis over their estimated useful lives, which does not exceed five years.

Easements

Acquired easement rights are capitalised on the basis of the costs incurred where the rights have an expiration date. These costs are amortised on a straight-line basis over their estimated useful lives (33 years).

9. Revenue

	Consolidated 2020 $'000	Consolidated 2019 $'000
Revenue from contracts with customers		
Electricity lines revenue	118,862	124,128
Electricity third party contributions	12,028	9,892
Fibre network access services	80,411	64,511
Fibre third party contributions	2,012	2,551
Other income	7,762	7,387
	221,075	208,469
Other revenue		
Operating lease revenue	2,175	2,178
Revenue	223,250	210,647

Disaggregation of revenue

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

	Consolidated 2020 $'000	Consolidated 2019 $'000
Electricity Network		
Electricity line revenue	118,862	124,128
Third party contributions	12,028	9,892
	130,890	134,020
Fibre Network & Other Income		
Fibre network access services	80,411	64,511
Third party contributions	2,012	2,551
Other income	7,762	7,387
	90,185	74,449
Timing of revenue recognition		
Goods transferred at a point in time	15,609	13,005
Services transferred overtime	205,466	195,464
	221,075	208,469

For the purposes of segmental reporting (note 5) other operating segments include the operating lease revenue.

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9. Revenue (continued)

Accounting policy for revenue recognition

The Group's revenue recognition point is when specific criteria have been met for each of the Group's activities, as described below.

Electricity lines revenue

The Company invoices its customers (predominantly electricity retailers) monthly for electricity delivery services across the region's lines network. Customers do not have extended contract terms and can terminate at short notice. Prices are the same across all customers and regulated under the Commerce Act being the Electricity Distribution Services Information Disclosure Determination 2012. WEL Networks Limited's obligation is to provide a single performance obligation of continuous service to which the customer benefits incrementally and consecutively over time, as the service is delivered. The Company makes use of a practical expedient to record revenue monthly being a distinct period that the Company captures usage and price information for invoicing.

Sale of fibre network access services

Ultrafast Fibre Limited (UFF) invoices its customers (predominantly internet service providers) monthly for fibre access services to the fibre network across a range of contract periods varying from immediate termination, and up to two years. Prices are charged in accordance with the Ultrafast Fibre UFB Services Agreement General Terms and Price List. UFF's obligation is to provide a single performance obligation of continuous service to which the customer benefits incrementally and consecutively over time, as the service is delivered. The Group makes use of a practical expedient to record revenue monthly being a distinct period that UFF captures usage and price information for invoicing. Unbilled revenue from the date of the connection to the billing cycle is recognised in the month of service. Revenue is deferred in respect of the portion of the fixed monthly charges that have been billed in advance.

In addition to fibre access services, UFF recognises revenue for ancillary services such as a plan change fee on a point in time basis as they occur. Fees for connecting customers are determined to be separate performance obligations and are recognised when the connection completes. These other services are also charged in accordance with the Ultrafast Fibre UFB Services Agreement General Terms and Price List.

Third party contributions

Third party contributions are charges to the end customer when they request a new or modified connection to either the fibre or the electricity distribution network. Asset title and obligation to maintain resides with the Group and the asset is capitalised as part of the fibre or electricity network. Capital contributions are invoiced in advance and held as contract liabilities to be recognised in the statement of comprehensive income when the customer is connected.

Operating lease revenue

Operating lease revenue is charged to the lessee for the construction, connection and ownership of the Te Uku Wind Farm. The lease is charged on a monthly basis for the term of the lease, being 50 years (25 year initial term and a 25 year right of renewal).

	Consolidated	
	2020 $'000	2019 $'000
Lessor minimum lease receivable		
Committed at the reporting date but not recognised as assets receivable:		
Within one year	2,168	2,175
One to five years	8,528	8,592
More than five years	51,025	53,129
	61,721	63,896

Other income

The majority of other income relates to revenue from OurPower Holdings Limited (formerly Opunake Hydro Holdings Limited).

OurPower generates electricity which is purchased by one customer and any excess electricity is sold back to the grid. The generation revenue is recognised on a monthly basis as it is a continuous service to which the customer benefits incrementally and consecutively over time, as the service is delivered. OurPower makes use of a practical expedient to record revenue monthly being a distinct period that OurPower captures usage and price information for invoicing.

10. Current liabilities - borrowings

	Consolidated	
	2020 $'000	2019 $'000
Bank loans - maturing within 1 year	-	99,179

Refer to note 31 for further information on financial instruments.

11. Non-current liabilities - borrowings

	Consolidated	
	2020 $'000	2019 $'000
Maturing between 1 and 2 years	100,737	(808)
Maturing between 2 and 3 years	189,930	63,216
Maturing between 3 and 4 years (includes bond)	222,764	99,291
Maturing between 4 and 5 years	-	201,301
Total bank and bond borrowings	513,431	363,000

	Consolidated	
	2020 $'000	2019 $'000
Loan from related party	90,810	81,170

The negative amount of $808,000 in the prior year, maturing between 1 and 2 years is due to amortised costs on the bond and bank facilities for that year, with no facilities maturing.

Refer to note 31 for further information on financial instruments.

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

The loans are secured by a negative undertaking of the Group. The Group complied with all covenants during the year (refer note 26).

The Group uses interest rate swaps to manage interest rate risk. Derivatives are fair valued using assumptions from observable market data where possible, in combination with the underlying derivative contracts and documentation. The fair value of the derivative liability at 31 March 2020 is $17,410,000 (31 March 2019: $12,138,000).

The carrying value of interest bearing bank and bond debt is $513,432,000 (31 March 2019: $462,179,000). The fair value of contractual cash flows is $581,015,000 (31 March 2019: $530,738,000). Refer to note 31.

During the year the total bank loan facilities increased to $415 million (31 March 2019: $400 million) of which $54 million remains available to the Group to be drawn down at balance date. The facilities expire as follows:

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11. Non-current liabilities - borrowings (continued)

	Facility available $'000	Total facility $'000
Facility expiry date		
29 April 2020 (Evergreen facility)	30,000	30,000
30 November 2021	-	75,000
31 December 2021	24,000	50,000
30 November 2022	-	190,000
30 November 2023	-	70,000
	54,000	415,000

Bonds

On 28 June 2018 WEL Networks Limited released a Product Disclosure Statement for $125 million (with the ability to accept up to an additional $25 million of oversubscriptions) of subordinated unsecured fixed rate bonds to New Zealand retail investors and institutional investors on the NZX Debt Market. The bond offer was fully subscribed at $150 million on 9 July 2018 and issued on 2 August 2018. The bond issue has a term of five years and matures on 2 August 2023 with a fixed 4.90% coupon rate. Transaction costs associated with the issue of the bond totalling $3.4 million are recognised in the profit and loss using the effective interest rate method over the term of the bond. The bond issue was arranged by Forsyth Barr Limited who were also a participant along with ANZ Bank New Zealand, Deutsche Craigs Limited and First NZ Capital Securities Limited (Joint Lead Managers) and Commonwealth Bank of Australia (Co- Manager) acting through its New Zealand branch.

Accounting policy for borrowings

Interest bearing liabilities are recognised initially at fair value, net of transaction costs incurred. Interest bearing liabilities are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss component of the statement of comprehensive income statement 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. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

12. Finance expenses

	Consolidated 2020 $'000	2019 $'000
Interest and finance charges paid/payable	25,582	24,025
Capitalised interest	(1,779)	(1,452)
Finance expense on leases	312	-
	24,115	22,573

13. Net debt reconciliation

	Consolidated 2020 $'000	2019 $'000
Net debt		
Cash and cash equivalents	987	1,289
Borrowings - repayable within one year (including overdraft)	-	(99,179)
Borrowings - repayable after one year	(604,241)	(444,170)
	(603,254)	(542,060)

	Consolidated 2020 $'000	2019 $'000
Net debt		
Cash and cash equivalents	987	1,289
Gross debt - fixed interest rates	(250,000)	(270,000)
Gross debt - variable interest rates	(354,241)	(273,349)
	(603,254)	(542,060)

	Cash and cash equivalents $'000	Borrowings due within one year $'000	Borrowings due after one year $'000	Total $'000
Net debt as at 1 April 2018				
Opening balance	901	(89,068)	(389,268)	(477,435)
Cash flows	388	(10,932)	(57,440)	(67,984)
Other non-cash movements	-	821	2,538	3,359
Net debt as at 31 March 2019	1,289	(99,179)	(444,170)	(542,060)
Net debt as at 1 April 2019				
Opening balance	1,289	(99,179)	(444,170)	(542,060)
Cash flows	(302)	99,179	(162,699)	(63,822)
Other non-cash movements	-	-	2,628	2,628
Net debt as at 31 March 2020	987	-	(604,241)	(603,254)

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14. Expenses, excluding finance costs

	Consolidated	
	2020 $'000	2019 $'000
Transmission costs	29,520	29,430
Employee benefits	45,647	43,750
Capitalised labour	(19,478)	(18,521)
Materials and services	2,173	838
Premise networking costs	8,409	9,398
Contracting services	4,387	4,801
Consultancy	4,872	3,430
Contracting cost of sales	1,162	3,299
Net loss on disposal of property, plant and equipment	3,527	3,165
Vehicle expenditure	1,364	1,585
Operating leases	1,761	1,999
Directors' fees	636	612
Bad debts written off	294	683
Change in provision for impaired receivables	240	57
Other expenses	14,318	11,072
	98,832	95,598

15. Depreciation and amortisation expense

	Consolidated	
	2020 $'000	2019 $'000
Depreciation		
Buildings	262	261
Plant and equipment	3,728	3,417
Fibre network	23,079	19,458
Motor vehicles	1,150	1,166
Distribution network	19,132	18,362
Computer hardware	813	689
Amortisation		
Computer software	1,579	2,490
Internally generated software	1,688	1,253
Easements and consents	55	63
Right of use assets		
Land and buildings	441	-
Plant and equipment	103	-
Fibre network	464	-
	52,494	47,159

16. Income tax

	Consolidated	
	2020 $'000	2019 $'000
Income tax expense		
Current tax	5,280	7,705
Deferred tax	7,090	6,172
Aggregate income tax expense	12,370	13,877
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	47,841	45,326
Tax at the statutory tax rate of 28%	13,395	12,692
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non deductible expenses	562	40
Convertible note interest	(526)	(686)
	13,431	12,045
	-	-
Prior period deferred tax adjustment	395	789
Prior period tax expense adjustment	11	707
Tax loss offsets	(19)	336
Buildings tax depreciation reinstated*	(1,448)	-
Income tax expense	12,370	13,877

**One off impact due to the tax law changes as a result of COVID-19 and the Group can claim tax depreciation on buildings going forward.*

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16. Income tax (continued)

Deferred tax liabilities/(assets)

	Accelerated tax depreciation/ revaluation of assets $'000	Provisions and other $'000	Derivative instruments $'000	Tax losses $'000	Total $'000
As at 1 April 2018	92,866	4,564	(1,788)	(15,501)	80,141
Charged/(credited) to the statement of comprehensive income	9,834	(5,447)	(2)	1,787	6,172
Charged/(credited) directly to equity - derivatives	-	-	(1,608)	-	(1,608)
Charged/(credited) directly to equity - adjustment for change in accounting policies	(645)	-	-	-	(645)
As at 31 March 2019	102,055	(883)	(3,398)	(13,714)	84,060

	Accelerated tax depreciation/ revaluation of assets $'000	Provisions and other $'000	Derivative instruments $'000	Tax losses $'000	Total $'000
As at 1 April 2019	102,055	(883)	(3,398)	(13,714)	84,060
Charged/(credited) to the statement of comprehensive income	3,536	(83)	-	3,437	6,890
Charged/(credited) directly to equity - derivatives	-	-	(1,476)	-	(1,476)
As at 31 March 2020	105,591	(966)	(4,874)	(10,277)	89,474

Accounting policy for income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss component of the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

16. Income tax (continued)

Critical accounting judgements, estimates and assumptions

Included in the net deferred tax liability at 31 March 2020 is a $10.3 million asset arising principally from the recognition of tax losses in Ultrafast Fibre Limited. NZ IAS 12 Income Taxes requires the recovery of the losses to be probable in order to be recognised in the balance sheet. For the losses to be recoverable, the Group is required to have, within prescribed limits, continuity of ownership through to the period in which the losses are utilised against foreseeable profits.

The shareholders agreement provided for joint and equal control between Crown Fibre Holdings and UFF Holdings Limited throughout the concession period and control is not determined by the number of shares held. This view was submitted to the Inland Revenue Department together with Enable, Northpower and Crown Fibre Holdings and a nonbinding indicative view was received. The purchase of CFH's shares by UFFH is a 50% change in shareholding, and therefore the minimum 49% shareholder continuity requirement has been maintained. On this basis the Group has continued to recognise the total deferred tax asset associated with these losses on the basis that recovery of the losses is probable.

17. Imputation credit account

	Consolidated	
	2020 $'000	2019 $'000
Imputation credits available for subsequent financial years based on a tax rate of 28%	45,969	42,245

The above amounts represent the balance of the imputation credit account as at the end of the financial year, adjusted for:

- Imputation credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date
- Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date

The comparative balance for imputation credits has been updated in line with the above statement to include an additional $4.1M of tax paid during 2020 which related to the prior year as previously this balance only included imputation credits filed for the tax return.

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18. Current assets - cash and cash equivalents

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less and bank overdrafts.

19. Current assets - trade and other receivables

	Consolidated	
	2020 $'000	2019 $'000
Trade receivables	21,420	18,217
Amounts due from customers for contract work	297	344
Less: Allowance for expected credit losses	(886)	(646)
	20,831	17,915
Related party receivable	210	227
Prepayments	1,750	1,386
Other receivables	83	83
	2,043	1,696
	22,874	19,611

Allowance for expected credit losses

The Group has recognised a loss of $240,000 (2019: $57,000) in profit or loss in respect of the expected credit losses for the year ended 31 March 2020.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	Consolidated	
	2020 $'000	2019 $'000
Expected credit losses		
Current 1%	208	124
Between one to three months 11%	105	6
Over three months 37%	573	516
	886	646

Movements in the allowance for expected credit losses are as follows:

	Consolidated	
	2020 $'000	2019 $'000
Opening balance	646	589
Increase in provision	240	57
Closing balance	886	646

19. Current assets - trade and other receivables (continued)

	Consolidated	
	2020 $'000	2019 $'000
Trade receivables		
Current	18,289	16,558
Between one to three months	976	677
Over three months	1,566	680
	20,831	17,915

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security. Refer to note 31 for information on the risk management policy of the Group.

20. Current liabilities - trade and other payables

	Consolidated	
	2020 $'000	2019 $'000
Trade payables	10,133	12,110
Goods and services tax	485	(456)
Other payables	12,404	11,137
	23,022	22,791

Refer to note 31 for further information on financial instruments.

Accounting policy for trade and other payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

21. Current liabilities - employee benefit obligations

	Consolidated	
	2020 $'000	2019 $'000
Annual leave	2,301	2,221
Employee benefits	1,515	1,538
Other	78	99
	3,894	3,858

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value. For termination benefits falling due less than 12 months after the reporting date, the carrying value approximates their fair value.

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick leave expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Bonuses

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where contractually obliged or where there is a past practice that has created constructive obligation.

22. Non-current liabilities - employee benefit obligations

	Consolidated	
	2020 $'000	2019 $'000
Employee benefits	100	92

23. Current liabilities - contract liabilities

The Group has recognised the following revenue related contract liabilities:

	Consolidated	
	2020 $'000	2019 $'000
Contract liabilities - third party contributions - electricity	5,014	7,392
Contract liabilities - third party contributions - fibre	1,901	1,776
Other contract liabilities - fibre connection fees in advance	7,196	5,770
	14,111	14,938

Management expects that 81% of the fibre third party contributions and 73% of the electricity third party contributions relating to the unsatisfied contracts as at 31 March 2020 will be recognised as revenue in the next reporting period. 100% of the other contract liabilities will be recognised as revenue in the next reporting period.

	Consolidated	
	2020 $'000	2019 $'000
Revenue recognised that was included in the contract liability balance at the beginning of the period:		
Third party contributions - electricity	5,414	5,493
Third party contributions - fibre	1,428	1,782
	6,842	7,275

24. Non-current liabilities - contract liabilities

	Consolidated	
	2020 $'000	2019 $'000
Contract liabilities	886	915

Income received from government organisations to fund the undergrounding of some areas of the electricity network is recognised over 45 years which is the life of the asset. Revenue recognised this year of $29,385 (2019: $29,385).

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25. Related party transactions

Parent entity

The ultimate parent of WEL Networks Limited is WEL Energy Trust which owns 100% of the shares.

All members of the Group are considered related parties of WEL Networks Limited. This includes the subsidiaries and entities where the Group has significant influence.

Subsidiaries

Interests in subsidiaries are set out in note 6.

Key management compensation and interests

Key management personnel compensation for the years ended 31 March 2020 and 31 March 2019 is set out below. The key management personnel are all the directors of the Group and the executives with the greatest authority for the strategic direction and management of the Group.

Changes to key management personnel during the 12 months to 31 March 2020 include the appointment of John Hanna in June 2019 as Chief Executive of Ultrafast Fibre Limited. Suzanne Tindal resigned as Group Chief Financial Officer in July 2019. David Barnett and Joel Bettley commenced as Chief Financial Officers of WEL Networks Limited and Ultrafast Fibre Limited respectively in September 2019.

An executive at UFF, Mr R Riley, is a director and shareholder of UFO Limited. UFO Limited has provided provisioning services in the prior year amounting to $79,000 to Ultrafast Fibre Limited. There have been no services provided for the year ended 31 March 2020.

	Consolidated	
	2020 $'000	2019 $'000
Salaries and other short-term employee benefits	5,844	4,656
Post-employment benefits	-	187
Termination benefits	50	493
	5,894	5,336

Receivable from and payable to related parties
Related party transactions with WEL Energy Trust

	Consolidated	
	2020 $'000	2019 $'000
Interest on convertible note (refer note 26)	(1,878)	(2,449)
Repayment of convertible note (refer note 26)	(10,000)	-
	(11,878)	(2,449)

Total dividends paid during the year were $4 million net (2019: $350,000 net).

25. Related party transactions (continued)

Related party transactions with SmartCo Limited

	Consolidated	
	2020 $'000	2019 $'000
Transactions		
Other income	812	846
Operating expense (contract services expenditure)	(518)	(485)
Purchase of plant and equipment	(233)	(732)
Balances		
Advance to related party	210	210

WEL Networks Limited owns 14% of SmartCo Limited. SmartCo Limited is a joint venture company which has been set up to contract with suppliers and electricity retailers to rollout advanced electronic meters across SmartCo shareholder networks.

Related party transactions with Waipa Networks Limited

	Consolidated	
	2020 $'000	2019 $'000
Transactions		
Current year interest expense	3,878	3,302
Pole make ready and lease costs	30	30
Contract Services	160	148
Consulting Services	228	-
Balances		
Total loan from related party	90,810	81,170

In addition to owning 15% of the equity in UFFH, Waipa Networks Limited has extended a shareholder loan. The terms of the loan are set out in the shareholders' agreement between WEL Networks Limited, UFFH, Waipa Networks Limited and UFF. The loan funding provided by Waipa Networks Limited is commensurate with its shareholding in UFFH. The parties have agreed a put and call arrangement whereby should Waipa Networks Limited reduce its shareholding in UFFH to less than 10%, or there is a change in control of Waipa Networks Limited, at the option of WEL Networks Limited, Waipa Networks Limited's shareholding in UFFH can be acquired by WEL Networks Limited at fair value. Waipa Networks Limited also has the option to sell its shares in UFFH to WEL Networks Limited at fair value from the third anniversary from the effective date.

The loan from Waipa Networks Limited is considered non-current as once the option has been exercised there is 18 months until payment is required.

A deed of indemnity exists between WEL Networks Limited and Waipa Networks Limited where both parties offer guarantees over obligations to key suppliers (including related party Waipa Networks Limited).

Interest on the loan from Waipa Networks Limited is charged at a rate equal to the WEL Networks Limited average finance rate. The outstanding balance includes interest and advances. The loan is used to fund the investment in Ultrafast Fibre Limited and the continued fibre network build.

26. Equity - contributed equity

	2020 Shares	2019 Shares	Consolidated 2020 $'000	Consolidated 2019 $'000
Ordinary shares - fully paid	8,153,000	8,153,000	111,142	111,142
Convertible notes	-	-	29,000	39,000
	8,153,000	8,153,000	140,142	150,142

The shares are authorised, issued and fully paid with no par value. Shares carry equal value voting rights.

Convertible notes accounting policy

Convertible notes issued by WEL Networks Limited can be converted to non-participating redeemable shares (NPRS) at the option of the issuer, and as the number of NPRS to be issued does not vary with changes in fair value, are classified as equity. Convertible notes are initially measured at fair value, and are not subsequently re-measured except on conversion or expiry.

The convertible notes will be redeemed in two further tranches over the next two years with $13 million of the convertible notes being redeemed on 30 April 2020 and the remainder of the Notes redeemed on 30 April 2021.

Interest payments on convertible notes are recorded as a distribution through the statement of movements in equity. The interest rate is 6.28% for the period 1 April 2016 to 31 March 2020.

The interest rate beyond 31 March 2020 is 3.31%.

Dividend distribution

Dividend distribution to the Group's shareholder is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio within pre-defined limits. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt. In both years the Group is within its pre-defined limits.

The Group is required to ensure that the following financial covenant ratios for unsecured borrowings are achieved during the financial year:

- the ratio of EBITDA to net interest will be greater than or equal to 2.75 times
- the percentage of net debt to net debt plus equity will be less than or equal to 60%
- the Group undertakes to ensure that the Guarantor Group will comprise no less than 85% of EBITDA and no less than 85% of total assets.

The unsecured borrowings become repayable on demand in the event those covenants are breached or if the Group fails to make interest and principal payments when they fall due. The Group has complied with all covenants and borrowing repayment obligations during the financial year.

26. Equity - contributed equity (continued)

	Consolidated 2020 $'000	Consolidated 2019 $'000
Borrowings - non current	513,432	363,000
Borrowings - current	-	99,179
Loan from non controlling interest	90,810	81,170
Less: cash and cash equivalents	(987)	(1,289)
Net debt	603,255	542,060
Total equity	569,671	555,293
Total capital	1,172,926	1,097,353
Gearing ratio	51%	49%

Accounting policy for contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

27. Equity - reserves

	Consolidated 2020 $'000	Consolidated 2019 $'000
Revaluation reserve	156,821	158,475
Hedging reserve - cash flow hedges	(12,535)	(8,739)
	144,286	149,736

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Revaluation reserve $'000	Hedging reserve $'000	Total $'000
Balance at 1 April 2018	159,873	(4,605)	155,268
Deferred tax	-	1,609	1,609
Disposal of distribution network assets	(1,398)	-	(1,398)
Fair value gains/(losses) in year	-	(5,743)	(5,743)
Balance at 31 March 2019	158,475	(8,739)	149,736
Deferred tax	-	1,476	1,476
Disposal of distribution network assets	(1,654)	-	(1,654)
Fair value gains/(losses) in year	-	(5,272)	(5,272)
Balance at 31 March 2020	156,821	(12,535)	144,286

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28. Equity - retained earnings

	Consolidated	
	2020 $'000	2019 $'000
Retained earnings at the beginning of the financial year	247,505	216,735
Profit after income tax expense for the year	35,986	32,171
Dividends paid	(4,000)	(350)
Disposal of distribution network assets	1,654	1,398
Convertible note interest	(1,878)	(2,449)
Transfer to other reserves	97	-
Retained earnings at the end of the financial year	279,364	247,505

29. Earnings per share

	Consolidated	
	2020 Cents	2019 Cents
Basic earnings per share	441.4	394.6
Diluted earnings per share	441.4	394.6

Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of WEL Networks Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

The Company has no potential ordinary shares that could dilute earnings per shares.

30. Derivative financial instruments

	Consolidated	
	2020 $'000	2019 $'000
Non-current assets		
Interest rate swaps - fair value hedges	5,059	2,538
Current liabilities		
Interest rate swap contracts - cash flow hedges	(816)	(115)
Non-current liabilities		
Interest rate swap contracts - cash flow hedges	(16,594)	(12,023)
	(12,351)	(9,600)

30. Derivative financial instruments (continued)

The notional principal amounts of the outstanding interest rate contracts as at 31 March 2020 were $175 million (2019: $195 million).

As at 31 March 2020, the fixed interest rates vary from 2.28% to 4.90% (2019: 2.28% to 4.90%) and the main floating rate is (Bank bill mid-rate) BKBM.

Accounting policy for derivative financial instruments

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 each reporting date. The accounting for subsequent 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 designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions. Movements in the hedging reserve in the shareholders' equity are shown in note 27. The full fair value of a hedging derivative is classified as a non-current asset or liability when the maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedges

Cash flow hedges are used to cover the Group's exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income through the cash flow hedges reserve in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness at inception and prospectively at each reporting date to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

The Group performs qualitative hedge effectiveness assessments for interest rate swaps to determine that the critical terms of the hedging instrument match exactly with the terms of the hedged item. Hedge ineffectiveness may occur due to:

- the credit value/debit value adjustment on the interest rate swaps not being matched by the loan, and
- differences in critical terms between the interest rate swaps and loans.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and no longer meets the criteria for hedge accounting, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the profit and loss component of the statement of comprehensive income within 'finance income/cost'.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the statement of comprehensive income within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in the statement of comprehensive income within other income or other expenses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

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31. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial and regulatory risks. Financial risks include market risk (including foreign exchange and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group's overall financial risk management objectives are to ensure that the Group creates value and maximises returns to its Shareholders as well as ensuring that adequate financial resources are available for the development of the Group's businesses whilst managing its financial risks. It is, and has been throughout the current financial year, the Group's policy that no trading in derivative financial instruments shall be undertaken. The major areas of the financial risks faced by the Group and the information on the management of the related exposures are detailed below:

Market risk

Foreign currency risk

The Directors' set up a policy to require the Group to manage its foreign exchange risk against its functional currency. The Group is required to hedge all transactions greater than $250,000. To manage its foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group's functional currency.

As at 31 March 2020, if the currency had weakened / strengthened by 10% against the US dollar with all other variables held constant, the impact on post-tax profit for the year would have been nil (2019: nil).

Cash flow and fair value interest rate risk

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

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

The swaps are for the duration of the borrowing term.

31. Financial instruments (continued)

2020

Consolidated	Maturity Date	Face value $'000	Unamortised costs $'000	Adjustment on hedged risk $'000	Carrying value $'000
Bank facilities (variable rates)	Apr 21 - Nov 23	361,000	(562)	-	360,438
Loan from related party (4.51%)		90,810	-	-	90,810
Bond (4.90%)	Aug 23	150,000	(2,066)	5,059	152,993
Fair value interest rate swaps (3.86%)	Aug 23	(75,000)	-	-	-
Interest rate swaps (4.87%)	Mar 21 - Dec 23	(175,000)	-	-	-
		351,810	(2,628)	5,059	604,241

2019

Consolidated	Maturity Date	Face value $'000	Unamortised costs $'000	Adjustment on hedged risk $'000	Carrying value $'000
Bank facilities (variable rates)	Aug 19 - Nov 23	313,000	(374)	-	312,626
Loan from related party (4.41%)		81,170	-	-	81,170
Bond (4.90%)	Aug 23	150,000	(2,985)	2,538	149,553
Fair value interest rate swaps (4.29%)	Aug 23	(75,000)	-	-	-
Interest rate swaps (4.70%)	Dec 19 - Dec 23	(195,000)	-	-	-
		274,170	(3,359)	2,538	543,349

**Weighted average interest rate calculated on current swaps only, not including forward starting contracts. 2019 percentage updated accordingly was previously stated at 4.35%*

Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk. There are no other price risks.

Interest rate risk +/- 1% 31 March 2020	Carrying amount $'000	Profit $'000	Equity $'000
Financial assets			
Cash and cash equivalents	987	10	-
Trade and other receivables	21,124	-	-
Derivative financial instruments	5,059	51	-
Financial liabilities			
Trade and other payables	22,537	-	-
Interest bearing liabilities	513,432	5,134	-
Derivative financial instruments	17,410	-	174
Loan from related party	90,810	908	-
Lease liabilities	5,653	57	-
Total increase/ (decrease)	-	6,160	174

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31. Financial instruments (continued)

31 March 2019	Carrying amount $'000	Profit $'000	Equity $'000
Financial assets			
Cash and cash equivalents	1,289	13	-
Trade and other receivables	19,528	-	-
Derivative financial instruments	2,538	25	-
Financial liabilities			
Trade and other payables	23,247	-	-
Interest bearing liabilities	462,179	4,622	-
Derivative financial instruments	12,138	-	121
Loan from related party	81,170	812	-
Total increase/ (decrease)	-	5,472	121

Credit risk

Credit risk is the potential risk of financial loss arising from the failure of a customer or counterparty to settle its financial and contractual obligations to the Group, as and when they fall due. The credit risk attributable to receivables is managed and monitored on an ongoing basis via the Group's management reporting procedures and internal credit review procedures.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available. See note 19 for further information.

The Group has a credit policy which is used to manage this exposure to credit risk. As part of this policy, limits on exposures with counterparties have been set and are monitored on a regular basis.

The Group has 34% (2019: 32%) of its trade debtors owing from the incumbent retailer, Genesis Energy Limited. This debt is subject to a written agreement that requires an investment grade credit rating to be maintained. If the credit rating falls below investment grade then a bond will be required as collateral.

In the Group's historical experience collection of trade receivables falls within the recorded provisions. Due to these factors, the Directors believe that no additional credit risk beyond amounts provided for in expected credit losses is inherent in the Group's trade receivables.

In respect of the short term fixed deposits, cash and bank balances and derivatives placed with major financial institutions, the Directors believe that the possibility of non-performance by these financial institutions is remote on the basis of their financial strength.

Other than as mentioned above, the Group has no significant concentration of credit risk on its financial assets. The maximum exposures to credit risk are represented by the carrying amounts of other financial assets in the balance sheets. Except for the financial guarantees given by the Group (note 32), the Group does not provide any other financial guarantees which would expose the Group to credit risk.

Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants as set out in note 26, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group was in compliance with covenants during the year.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at financial year end to the contractual maturity date.

31. Financial instruments (continued)

31 March 2020	Less than one year $'000	Between 1 and 2 years $'000	Between 2 and 3 years $'000	Between 3 and 5 years $'000	5 + years $'000	Total fair value contractual cash flows $'000	Carrying amount liabilities $'000
Non-derivatives							
Borrowings - non current	23,651	122,947	206,150	228,267	-	581,015	513,431
Trade and other payables	22,537	-	-	-	-	22,537	22,537
Loan from related party	4,095	94,905	-	-	-	99,001	90,810
Lease liabilities	913	893	798	994	2,055	5,653	5,653
Total non-derivatives	51,196	218,745	206,948	229,261	2,055	708,206	632,431
Derivatives Interest rate swaps							
- inflow	4,637	4,568	4,567	3,071	45	16,889	-
- outflow	(8,431)	(7,232)	(7,232)	(6,254)	(149)	(29,298)	(12,409)
	(3,794)	(2,664)	(2,665)	(3,183)	(104)	(12,409)	(12,409)

31 March 2019	Less than one year $'000	Between 1 and 2 years $'000	Between 2 and 3 years $'000	Between 3 and 5 years $'000	5 + years $'000	Total fair value contractual cash flows $'000	Carrying amount liabilities $'000
Non-derivatives							
Borrowings - non current	6,787	16,061	79,380	317,670	-	419,898	363,000
Borrowings - current	110,840	-	-	-	-	110,840	99,179
Trade and other payables	23,247	-	-	-	-	23,247	23,247
Loan from related party	3,580	84,750	-	-	-	88,329	81,171
Total non-derivatives	144,454	100,811	79,380	317,670	-	642,314	566,597
Derivatives Interest rate swaps							
- inflow	6,690	6,534	6,534	10,537	1,274	31,569	-
- outflow	(9,182)	(9,071)	(8,714)	(12,471)	(1,711)	(41,169)	(9,600)
	(2,492)	(2,537)	(2,180)	(1,934)	(437)	(9,600)	(9,600)

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31. Financial instruments (continued)

Accounting policy for financial instruments

Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through Other Comprehensive Income (OCI) or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Recognition

Regular way purchase and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three classifications, amortised cost, FVOCI and FVPL.

Amortised cost assets are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, and are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

Fair value of financial instruments

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

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

31 March 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
Assets				
Interest rate contracts	-	5,059	-	5,059
Liabilities				
Interest rate contracts	-	17,410	-	17,410

31 March 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
Assets				
Interest rate contracts	-	2,538	-	2,538
Liabilities				
Interest rate contracts	-	12,138	-	12,138

31. Financial instruments (continued)

Categories of financial assets and liabilities

Consolidated - 2020	Financial assets at amortised cost $'000	Financial assets and liabilities at fair value through OCI or P&L $'000	Financial liabilities at amortised cost $'000	Total $'000
Assets				
Cash and cash equivalents	987	-	-	987
Trade receivables	21,124	-	-	21,124
Derivative financial instruments (at fair value through profit and loss)	-	5,059	-	5,059
Total financial assets	22,111	5,059	-	27,170
Liabilities				
Trade and other payables	-	-	22,537	22,537
Borrowings - non current	-	-	513,431	513,431
Lease liability	-	-	5,653	5,653
Derivative financial instruments (at fair value through OCI)	-	17,410	-	17,410
Loan from related party	-	-	90,810	90,810
Total financial liabilities	-	17,410	632,431	649,841

Consolidated - 2019	Financial assets at amortised cost $'000	Financial assets and liabilities at fair value through OCI or P&L $'000	Financial liabilities at amortised cost $'000	Total $'000
Assets				
Cash and cash equivalents	1,289	-	-	1,289
Trade receivables	18,225	-	-	18,225
Derivative financial instruments (at fair value through profit and loss)	-	2,538	-	2,538
Total financial assets	19,514	2,538	-	22,052
Liabilities				
Trade and other payables	-	-	23,247	23,247
Borrowings - non current	-	-	363,000	363,000
Borrowings - current	-	-	99,179	99,179
Derivative financial instruments (at fair value through OCI)	-	12,138	-	12,138
Loan from related party	-	-	81,170	81,170
Total financial liabilities	-	12,138	566,596	578,734

WEL Networks Limited – Notes to the financial statements

31 March 2020

32. Contingent liabilities

As at 31 March 2020 the Group had a total of $12.78 million contingent liabilities to support contracts entered into (2019: $12.78 million).

A breakdown of the contingent liabilities are as follows:

Beneficiary	Amount $'000	Supporting
Crown Fibre Holdings Limited	5,000	Ultrafast Fibre Broadband (UFB1) Contract
Crown Fibre Holdings Limited	5,000	Ultrafast Fibre Broadband (UFB2/UFB2+) Contract
Energy Clearing House Limited	1,750	OurPower Electricity Retailing
NZX Limited	30	Listing Fees associated with the subordinated bond issue
Powerco Limited	1,000	Standby letter of credit - Carrier Access Agreement

These contingent liabilities may be called upon in the event of either non-performance or non-payment as defined by the terms of the underlying contract signed with the Beneficiary.

The Group has identified areas of non-compliance with some leasehold arrangements relating to the overhead portion of the fibre network in Ultrafast Fibre, which require remediation works to occur. The Group has multiple options to remedy the non-compliances and has made a provision for $800,000 within FY20 as it feels it can reliably estimate these costs at this stage. None of this provision has been utilised in the current year. Given the remedial options available and further negotiations that are required to resolve the non-compliances, the Group has estimated a further contingent liability of approximately $2.2M.

33. Commitments

Capital commitments

Ultrafast Fibre Limited has no committed capital expenditure as at 31 March 2020 (2019: $20 million). This expenditure was a contracted commitment with Crown Infrastructure Partners Limited (formerly Crown Fibre Holdings) for the second phase of the Fibre Network build, which is now complete.

34. Events after the reporting period

Sale of UFF Holdings Limited

On 23 April 2020, upon completion of its due diligence, the Group's shareholder provided formal approval to proceed with negotiating a sale with interested bidders. On 11 May 2020, a sale and purchase agreement was signed with First State Investments (known as First Sentier Investors in Australia) for $854M of which a consideration of $200 million payable to WEL is deferred for 18 months from completion. The $200 million deferred payment is supported by obligations enforceable against the Purchaser.

The transaction is subject to Overseas Investment Act consent and change of control approvals.

In these financial statements for the period ending 31 March 2020, operations relating to UFFH are presented under the Fibre Network segment for the purposes of segment reporting in note 5. The financial information of UFFH that is material to the Group has been summarised in note 6 of these financial statements. The deferred tax asset, see note 16 for further information, will be impacted by the sale as the losses will no longer be recoverable once the transaction has been completed and the deferred tax asset will need to be derecognised. Given the proximity to the date of authorising the financial statements, being 12 June 2020, further estimates on the financial effect of the sale are yet to be determined.

35. Cash flow information

Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2020 $'000	2019 $'000
Profit after income tax expense for the year	35,471	31,449
Adjustments for:		
Depreciation and amortisation	52,494	47,159
Net loss on disposal of property, plant and equipment	3,527	3,165
Share of loss - associates	-	266
Financing costs	24,083	20,846
Change in operating assets and liabilities:		
Increase in trade and other receivables	(2,532)	(2,192)
Decrease in provision for income tax	(3,871)	-
Decrease in trade and other payables	(731)	(10,665)
Increase in provision for income tax	-	2,045
Increase in deferred tax liabilities	7,095	10,303
Net cash from operating activities	115,536	102,376

36. Non-current assets - right-of-use assets

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Land and buildings $'000	Plant and equipment $'000	Fibre network $'000	Total $'000
Initial recognition of right of use assets 1 April 2019	2,733	499	3,250	6,482
Additions	-	-	51	51
Depreciation expense	(441)	(103)	(464)	(1,008)
Balance at 31 March 2020	2,292	396	2,837	5,525

Accounting policy for right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

37. Current liabilities - lease liabilities

	Consolidated	
	2020 $'000	2019 $'000
Lease liability	913	-

38. Non-current liabilities - lease liabilities

	Consolidated	
	2020 $'000	2019 $'000
Lease liability	4,740	-

Total cash outflow for leases is $1,192,000 for 31 March 2020

38. Non-current liabilities - lease liabilities (continued)

Accounting policy for lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right- of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

The Group leases various properties, equipment and network assets. The length of the contracts depends on the underlying assets being utilised. 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, but leased assets may not be used as security for borrowing purposes.

The Group has considered on a lease by lease basis, the extension options available to it under its agreements. For strategic leases, the maximum available term has been used in determining the lease liability and corresponding right-of-use assets.

	31 March 2020 $'000
Current lease liability	913
Maturing between 1 and 2 years	893
Maturing between 2 and 3 years	798
Maturing between 3 and 4 years	490
Maturing between 4 and 5 years	504
Beyond 5 years	2,055
	5,653

Critical estimates and judgements

In relation to the lease commitments of specific spaces on transmission poles, which comprises $9.1 million of the $14 million lease commitment as at 31 March 2019, the Group has considered the space on each pole as a separately identifiable asset. This is because we have the right to control and receive the benefits of the use of that identified asset (space) and each space is not highly dependent or highly related to other assets. On that basis and as permitted by NZ IFRS 16, the Group has applied the practical expedient for leases, classifying the underlying asset as low value.

39. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the Company, its network firms and unrelated firms:

	Consolidated	
	2020 $'000	2019 $'000
Audit services - PwC		
Audit financial statements	363	246
Audit financial statements - 2018	-	70
Half year review	46	49
	409	365
Assurance and audit related services* – PwC		
Assurance procedures on disclosure information	73	63
Additional fees in relation to the assurance procedures on the 2019 disclosure information	58	-
Agreed upon procedures for disclosure information - 2019	6	-
Assurance procedures on the telecommunications development levy 2019	5	-
	142	63
Other services - PwC		
Regulatory advice	97	54
Industry updates	44	-
Vendor due diligence**	360	-
	501	54

**PwC perform assurance procedures and agreed procedures in their capacity as auditors over disclosure information required to be submitted to the Commerce Commission. An additional $58,000 was charged in 2020 in relation to additional assurance procedures required as a result of changes to the required information disclosures.*

***PwC performed vendor due diligence work to assist a potential purchaser in its due diligence relating to the sale of UFF Holdings Ltd, refer note 34 for further information.*

Independent Auditor’s Report

Independent auditor's report

To the Shareholder of WEL Networks Limited

We have audited the financial statements which comprise:

- the balance sheet as at 31 March 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which includes significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements of WEL Networks Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2020, its financial performance and its 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).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of assurance procedures on disclosure information, assurance procedures on the telecommunications development levy, agreed upon procedures for disclosure information, regulatory advice, industry updates, and vendor due diligence. The provision of these other services has not impaired our independence as auditor of the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Key audit matter	How our audit addressed the key audit matter
Valuation of Electricity Network and Fibre Network Network assets are carried at $582m for the electricity network and $564m for the fibre network as at 31 March 2020. As disclosed in note 7 to the financial statements, a full revaluation of the electricity and fibre networks were carried out by an independent valuer in the previous financial year. At 31 March 2020, the directors have reviewed and updated the significant valuation assumptions to estimate a valuation range for each network, and assessed whether the carrying values of the networks continue to materially reflect their estimated fair values. The directors have determined that no revaluation is required as the carrying values of the electricity and fibre networks are within the updated valuation ranges and were not materially affected by COVID-19. The valuation of the electricity and fibre networks involve significant estimates and assumptions including weighted average costs of capital, capital expenditure, revenue growth rates (electricity), average revenue per user (fibre) and terminal growth rate (fibre), which involve significant judgments about the future. Given the significance of the value of the electricity and fibre networks and the judgments applied to determine that changes to significant valuation assumptions do not warrant a revaluation at 31 March 2020, this was a significant area of focus for our audit.	Our procedures included: • Testing the mathematical accuracy of the model by re-performing the calculations based on the stated estimates and assumptions. • Assessing the reasonableness of the inputs (including cash flow forecasts) used in the Director's assessment based on our understanding of the businesses. • Considering the accuracy of historic forecasts by performing look back procedures consisting of comparing the current year actual results with those previously budgeted. • Considering the impact COVID-19 may have on the valuations due to potential changes relating to short term fluctuations in revenue cash flows by comparing budgeted cash flows to actual cashflows. • Engaging our internal industry valuation experts to evaluate whether significant assumptions used in the valuations were reasonable, including: – revenue growth rates, by comparison to industry data, connection demand and fibre roll out for the electricity and fibre networks respectively; – terminal growth rate, by comparison to economic forecasts; – the weighted average cost of capital, by assessing the discount rate used against comparable external data in the sector and expert knowledge of the industry; and – capital expenditure by assessing against our knowledge of the industry and the current growth stage of the businesses. • Assessing the suitability of the valuation ranges that have been used by considering reasonably possible changes to key assumptions. • Assessing the judgements made in the context of upcoming fibre regulation and competition and its impact on the valuation adopted. • Performing a cross check against the Group's regulated asset base to assess the overall appropriateness of the electricity valuation. • Performing sensitivity analysis on the significant assumptions. • Considering the adequacy of the Group's disclosures. There are no matters to report as a result of our procedures.

pwc

Key audit matter	How our audit addressed the key audit matter
Goodwill Impairment Assessment Goodwill relates to Ultrafast Fibre Limited as a single cash generating unit and has a carrying value of $74m as at 31 March 2020, as disclosed in note 8 to the financial statements. An impairment test is carried out annually by the Directors by comparing the carrying value of the cash generating unit to its recoverable amount based on the higher of value in use and a fair value less cost of disposal. This involves significant estimates and assumptions including revenue growth, average revenue per user, weighted average cost of capital, terminal cash flow growth and terminal capital expenditure, which involve significant judgements about the future. The Directors have used a fair value less costs of disposal approach to conclude that no impairment exists and the carrying value of goodwill remains appropriate. In addition, as outlined in note 34 to the financial statements, the Group entered into a conditional sale and purchase agreement for the shares of UFF Holdings Limited. The sales price also supports the Group's impairment conclusion. Given the significance of the value of goodwill recognised by the Group and the judgments applied in the impairment assessment this was an area of focus for our audit.	Our procedures included: • Understanding the strategic objectives of the business to enable us to evaluate the impairment assessment performed by management. • Testing the mathematical accuracy of the model by re-performing the calculation of the recoverable amount of the business, based on the same estimates and assumptions used by management. • Challenging the composition of management's future cash flow forecasts, and understanding the process by which they were prepared. • Considering the accuracy of historic forecasts by performing look back procedures, comparing the current year actual results with those previously budgeted. • Using the assistance of our internal industry valuation expert to evaluate whether significant assumptions used were reasonable including: – terminal cash flow growth rates, by comparing them to economic forecasts; – cash flow forecasts, by evaluating key inputs such as revenue and expenses against our knowledge of the business and wider industry; – terminal capital expenditure, by evaluating management's estimates and historical spend; and – the weighted average cost of capital, by assessing against suitable external data for comparable organisations. • Performing sensitivity analysis on the key assumptions. • Considering the subsequent sale of UFF Holdings Limited, by comparing the sales price to the carrying value of the cash generating unit to which the goodwill belongs. • Considering the adequacy of the Group's disclosures. There are no matters to report as a result of our procedures.

Key audit matter	How our audit addressed the key audit matter
Classification of UFF Holdings Limited Assets' As disclosed in note 34 to the financial statements, the Group made the decision to actively pursue a buyer for sale of the fibre business, UFF Holdings Limited (UFFH) during the year. A conditional sale and purchase agreement was entered into subsequent to balance date. The carrying value of the UFFH net assets excluding intercompany debt at year end is $646m. A disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this classification to be made the sale of that group of assets must be highly probable at balance date. Assessing the probability of a sale requires the application of significant judgment. As outlined in note 4 to the financial statements, the Directors have considered that the sale was not highly probable at balance date, on the basis of shareholder approval being dependent on the outcome of final bids received and impact assessments still being completed for further deliberation by the shareholder and an uncertain environment at balance date with New Zealand having recently gone into level 4 lockdown in response to the incidence of Covid-19. Due to the significance of the value of the fibre business, the judgment involved in concluding whether the fibre business was held for sale at year end and the impact of disclosing this business as a disposal group would have had on the presentation of the financial statements, this assessment was an area of focus for our audit.	Our procedures included: • Obtaining a detailed timeline of events and corroborating the fact pattern supporting the Directors' assessment as to whether a sale is highly probable at balance date through: – Examination of Board minutes of the Company – Review of correspondence between the Company's shareholder and the Company – Discussion with management, the Directors and the shareholder's Trustees both pre and post balance date. • Review of the sale and purchase agreement. • Assessing the evidence against the criteria of the accounting standard with the assistance of our own internal accounting experts. • Review of the disclosures in the financial statements outlining the significant judgments in relation to the sale. We have no matters to report as a result of our procedures.

Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: $2,800,000, which represents 2.25% of Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA).

We chose EBITDA as the benchmark because, in our view:

- EBITDA is reported in the financial statements as an alternative non-GAAP measure to assess performance;
- The Group has a significant asset base, of which approximately half relates to the fibre network, which is still in the growth stage; and
- Certain debt covenants are based on EBITDA measures

Materiality
The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope
We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industries in which the Group operates.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, 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 the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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, except that not all other information was available to us at the date of our signing.

Responsibilities of the Directors for the financial statements

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

In preparing the financial statements, the Directors are responsible 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 Directors 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 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 conducted in accordance with ISAs (NZ) and ISAs 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:
https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's Shareholder. Our audit work has been undertaken so that we might state those matters which 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 Company and the Company's Shareholder for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is John (Jolly) Morgan.
For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
12 June 2020

Auckland

Directors’ Report and Statutory Information

1. Directors' Remuneration

	Remuneration	Committee Fees	Other Benefits	Total Remuneration	Reimbursement of Expenditure
Rob Campbell	143,640			143,640	1,464.95
Tony Steele (ceased 28.6.19)	18,900	2,500	2,354.17	23,754.16	
Tony Barnes	75,458		4,000	79,458	
Carolyn Steele	75,600	7,500		83,100	
Barry Harris	75,600			75,600	207.72
Geoff Lawrie	75,600	5,000		80,600	770.44
Paul Connell (commenced 1.11.19)	31,500			31,500	
Candace Kinser	75,600	7,083.35		82,683.35	2,963.24
Keith Goodall (UFF Only)	36,000			36,000	
	607,898	22,083.34	6,354.17	636,335.51	5,404.35

2. Directors' Indemnities and Insurance

The Deeds of Indemnity given by the Company in favour of those Directors who held office at the beginning of the financial year to which this report relates, and to Directors appointed since the beginning of the financial year and who still hold office as Directors of the Company, remain in full force and effect on the same terms and conditions under which they were given. As permitted by, and to the extent permitted by, the Company's Constitution, the Company has effected insurance for Directors and officers which, together with the Deeds of Indemnity, generally ensures that the Directors will not incur any monetary loss as a result of actions undertaken by them as Directors. The Directors and officers insurance comprises a primary layer of $25 million and an excess layer of $10 million for defence costs.

Statutory liability insurance with a limit of $1,000,000 per claim and in the aggregate has also been effected.

3. Directors' Transactions

All transactions in entities in which Directors disclosed an interest have been conducted on an 'arm's length' basis in the normal course of business.

4. Employee Remuneration

The number of employees (excluding Directors) whose income was within specified bands is as follows:

Year Ended 31 March 2020

$ Band	WEL Continuing Employees	WEL Discontinued Employees	UFF Continuing Employees	UFF Discontinued Employees
830,000 - 839,000	1			
360,000 - 369,999	3			
350,000 - 359,999			1	
300,000 - 309,999			1	
260,000 - 269,999	1			
250,000 - 259,999	1		1	
230,000 - 239,999		1		
220,000 - 229,999	2		1	
210,000 - 219,999	1			
190,000 - 199,999	1	1	1	1
180,000 - 189,999	2		1	
170,000 - 179,999	3		1	
160,000 - 169,999	4		1	1
150,000 - 159,999	1		2	
140,000 - 149,999	8		2	
130,000 - 139,999	4		6	
120,000 - 129,999	23	1	2	
110,000 - 119,999	25	1	10	1
100,000 - 109,999	34	1	9	2

Chief Executives' Remuneration

WEL Networks Chief Executive remuneration for year ended 31 March 2020

Base Salary	Short Term Incentives	Other Benefits	Total Remuneration
$ 694,994	$ 143,875 (FY 18-19 paid in May 2019)	-	$ 838,869

Note 1: The performance hurdles for the short term incentives related to; health and safety performance, cost efficiency targets, progression of the strategic direction of the Company, achievement of customer satisfaction metrics.

Note 2: Base salary includes a wrap up of the short term incentive into base salary as at 01 April 2019.

Ultrafast Fibre Chief Executive remuneration for year ended 31 March 2020

Base Salary	Short Term Incentives	Other Benefits	Total Remuneration
Geoff Lawrie			
$ 360,576	-	-	$ 75,120
John Hanna			
$ 622,048	-	-	$ 519,299

Note 1: Geoff Lawrie interim Chief Executive until 03 June 2019

Note 2: John Hanna started as Chief Executive on 04 June 2019

Note 3: The performance hurdles for the short term incentives related to; health and safety programme performance, achievement above budgeted EBITDA and connection numbers, achievement of target Net Promoter Score and network build targets.

5. Shareholders

As at 31 March 2020, the Company's shareholder was

	No. of shares
WEL Energy Trust	8,153,000
Total Shares on Issue:	8,153,000

6. Gender composition of the Group's Directors and Officers

	2020		2019	
	Female	Male	Female	Male
Board of Directors	2	6	2	6
Officers	3	13	3	10

Top 20 Bond Holders’ Report

Top Holders Report

As At Date: 31 March 2020

Report Generated: 25 May 2020 - 14:04pm

Register	Security	Rank	Holder Number	Investor Name	Address	In NZCSD Sub-Reg	Total Units	% Issued Capital
NZL	WEL010	1	225060002	Forsyth Barr Custodians Limited	Private Bag 1999 Dunedin 9054	No	39,622,000	26.41%
NZL	WEL010	2	333082527	FNZ Custodians Limited	PO Box 396 Wellington 6140	No	22,454,000	14.97%
NZL	WEL010	3	220001091	New Zealand Central Securities Depository Limited	PO Box 5240 Wellesley Street Auckland 1141	No	15,099,000	10.07%
NZL	WEL010	4	220023800	Custodial Services Limited	PO Box 13155 Tauranga Central Tauranga 3141	No	7,590,000	5.06%
NZL	WEL010	5	220023796	Custodial Services Limited	PO Box 13155 Tauranga Central Tauranga 3141	No	5,643,000	3.76%
NZL	WEL010	6	220023788	Custodial Services Limited	PO Box 13155 Tauranga Central Tauranga 3141	No	4,128,000	2.75%
NZL	WEL010	7	330091011	Investment Custodial Services Limited	PO Box 35 Shortland Street Auckland 1140	No	3,747,000	2.50%
NZL	WEL010	8	220023770	Custodial Services Limited	PO Box 13155 Tauranga Central Tauranga 3141	No	3,442,000	2.29%
NZL	WEL010	9	220037681	Forsyth Barr Custodians Limited	Private Bag 1999 Dunedin 9054	No	2,876,000	1.97%
NZL	WEL010	10	220039790	Custodial Services Limited	PO Box 13155 Tauranga Central Tauranga 3141	No	2,155,000	1.44%
NZL	WEL010	11	220039056	Forsyth Barr Custodians Limited	Private Bag 1999 Dunedin 9054	No	1,240,000	0.83%
NZL	WEL010	12	333326825	Masfen Securities Limited	PO Box 2757 Shortland St Auckland 1140	No	1,200,000	0.80%
NZL	WEL010	13	220039633	Custodial Services Limited	PO Box 13155 Tauranga Central Tauranga 3141	No	1,195,000	0.80%
NZL	WEL010	14	330388340	JBWere (NZ) Nominees Limited	Private Bag 92085 West Auckland 1142	No	1,002,000	0.67%
NZL	WEL010	15	333082560	FNZ Custodians Limited	PO Box 396 Wellington 6140	No	687,000	0.46%
NZL	WEL010	16	330388340	Woolf Fisher Trust Inc	PO Box 17084 Greenlane Auckland 1546	No	622,000	0.41%
NZL	WEL010	17	332995979	Sports Car World Limited	310 Kohimarama Road St Heliers Auckland 1071	No	525,000	0.35%
NZL	WEL010	18	330603887	J M Butland Limited	PO Box 62661 Greenlane Auckland 1546	No	480,000	0.32%
NZL	WEL010	19	R602265528	Mei Chu Ho	9FL NO 2 Alley 6 Lane 485 Section 1 Kung Fu Road Hsin Chu City Taiwan	No	450,000	0.30%
NZL	WEL010	20	333082543	FNZ Custodians Limited	PO Box 396 Wellington 6140	No	425,000	0.28%

Directory

As at 31 March 2020

Group Registered Office	
	114 Maui Street Te Rapa Hamilton 3240 New Zealand **Telephone** 64-7-850 3100 **Facsimile** 64-7-850 3210 **Website** www.wel.co.nz **Email** connect@wel.co.nz
Directors Holding Office - Group	
	Robert (Rob) J Campbell – Group Chair **Anthony (Tony) P Barnes** – WEL Networks, UFF Holdings Limited and Ultrafast Fibre Limited **Paul A Connell -** WEL Networks, UFF Holdings Limited and Ultrafast Fibre Limited **Barry S Harris** – WEL Networks, UFF Holdings Limited and Ultrafast Fibre Limited **Candace Kinser** – WEL Networks, UFF Holdings Limited and Ultrafast Fibre Limited **Geoffrey (Geoff) A Lawrie** – WEL Networks, UFF Holdings Limited and Ultrafast Fibre Limited **Carolyn M Steele** – WEL Networks, UFF Holdings Limited and Ultrafast Fibre Limited **Keith N Goodall** – UFF Holdings Limited and Ultrafast Fibre Limited
WEL Networks Limited	
Chief Executive	**Garth W Dibley** NZCE, BE, MBA
Ultrafast Fibre Limited	
Chief Executive	**John Hanna** NZCE
Auditors	
	PricewaterhouseCoopers, Auckland
Lawyers	
	Tompkins Wake, Hamilton Russell McVeagh, Auckland
Securities Registrar	
	Link Market Services Level 11, Deloitte Centre, 80 Queen Street, Auckland 1010 **Telephone** +64 9 375 5998


ISUZU

WELGroup.

Freephone: 0800 800 935
Main Reception: 07 850 3100

PO Box 925, Hamilton 3240

Physical Address
114 Maui Street, Pukete, Hamilton

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