

# **WEL Networks Limited**

**NZBN 9429039416926**

**Interim Report - 30 September 2020**

**WEL Networks Limited**  
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**30 September 2020**

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WEL Networks Limited  
Statement of profit or loss and other comprehensive income  
For the half-year ended 30 September 2020

		Consolidated 30 September 2020 Unaudited \$'000	30 September 2019 Unaudited \$'000	
Note				
	Revenue from continuing operations	8	70,350	75,699
	Expenses			
	Expenses, excluding finance costs	10	(35,144)	(33,278)
	Earnings before interest, taxes, depreciation and amortisation expenses (EBITDA) and interest in associates from continuing operations		35,206	42,421
	Depreciation and amortisation expense		(13,293)	(12,981)
	Finance expenses	11	(28,091)	(11,346)
	Finance income		8	1
	Profit/(loss) before income tax (expense)/benefit from continuing operations		(6,170)	18,095
	Income tax (expense)/benefit		755	(7,786)
	Profit/(loss) after income tax (expense)/benefit from continuing operations		(5,415)	10,309
	Profit after income tax (expense)/benefit from discontinued operations	5	215,039	10,754
	Profit after income tax (expense)/benefit for the half-year		209,624	21,063
	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		(385)	(3,646)
	Cash flow hedge losses reclassified to profit or loss, net of tax		12,920	-
	Other comprehensive income for the half-year, net of tax		12,535	(3,646)
	Total comprehensive income for the half-year		222,159	17,417
	Profit for the half-year is attributable to:			
	Non-controlling interest		30,038	135
	Shareholder of WEL Networks Limited		179,586	20,928
			209,624	21,063
	Total comprehensive income for the half-year is attributable to:			
	Continuing operations		-	-
	Discontinued operations		30,038	135
	Non-controlling interest		30,038	135
	Continuing operations		7,120	6,663
	Discontinued operations		185,001	10,619
	Shareholder of WEL Networks Limited		192,121	17,282
			222,159	17,417

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

WEL Networks Limited  
Statement of profit or loss and other comprehensive income  
For the half-year ended 30 September 2020

	Consolidated	
	30 September 2020	30 September 2019
Note	Unaudited \$'000	Unaudited \$'000
	Cents	Cents
<b>Earnings per share for profit/(loss) from continuing operations attributable to the shareholder of WEL Networks Limited</b>		
Basic earnings per share	(66.42)	126.44
Diluted earnings per share	(66.42)	126.44
<b>Earnings per share for profit from discontinued operations attributable to the shareholder of WEL Networks Limited</b>		
Basic earnings per share	2,269.12	130.25
Diluted earnings per share	2,269.12	130.25
<b>Earnings per share for profit attributable to the shareholder of WEL Networks Limited</b>		
Basic earnings per share	2,202.70	256.69
Diluted earnings per share	2,202.70	256.69

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

WEL Networks Limited  
Statement of financial position  
As at 30 September 2020

		Consolidated	
		30 September 2020	31 March 2020
	Note	Unaudited \$'000	Audited \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		132,172	987
Trade and other receivables		12,391	22,874
Derivative financial instruments - Assets	12	521	-
Income tax		2,323	-
Total current assets		147,407	23,861
<b>Non-current assets</b>			
Financial assets at fair value through profit or loss	16	189,237	-
Derivative financial instruments - Assets	12	5,788	5,059
Property, plant and equipment	6	644,179	1,203,367
Right-of-use assets		1,579	5,525
Intangibles	7	12,539	90,921
Total non-current assets		853,322	1,304,872
<b>Total assets</b>		1,000,729	1,328,733
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		14,124	23,022
Lease liabilities		114	913
Derivative financial instruments - Liabilities	13	-	816
Income tax		-	271
Employee benefit obligations		3,430	3,894
Contract liabilities		3,335	14,111
Total current liabilities		21,003	43,027
<b>Non-current liabilities</b>			
Borrowings	9	153,591	513,431
Lease liabilities		1,491	4,740
Derivative financial instruments - Liabilities		-	16,594
Deferred tax liabilities	14	87,061	89,474
Employee benefit obligations		100	100
Loan from related party		-	90,810
Contract liabilities		871	886
Total non-current liabilities		243,114	716,035
<b>Total liabilities</b>		264,117	759,062
<b>Net assets</b>		736,612	569,671

The above statement of financial position should be read in conjunction with the accompanying notes

WEL Networks Limited  
Statement of financial position  
As at 30 September 2020

		Consolidated	
		30 September	31 March 2020
	Note	2020 Unaudited \$'000	Audited \$'000
<b>Equity</b>			
Contributed equity		127,142	140,142
Reserves	15	155,775	144,286
Retained profits		453,695	279,364
Equity attributable to the shareholder of WEL Networks Limited		736,612	563,792
Non-controlling interest		-	5,879
<b>Total equity</b>		<b>736,612</b>	<b>569,671</b>



Rob Campbell  
Chairman

26 November 2020



Carolyn Steele  
Director

26 November 2020

*The above statement of financial position should be read in conjunction with the accompanying notes*

WEL Networks Limited  
Statement of changes in equity  
For the half-year ended 30 September 2020

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 after income tax expense for the half-year	-	-	-	20,928	135	21,063
<i>Other comprehensive income for the half-year, net of tax</i>						
Movement in revaluation from disposal of distribution network assets (net of tax)	-	-	(760)	760	-	-
Cashflow hedges (net of tax)	-	-	(3,646)	-	-	(3,646)
Total comprehensive income for the half-year	-	-	(4,406)	21,688	135	17,417
Transactions with non-controlling interests	-	-	-	302	(1,516)	(1,214)
<i>Transactions with owners:</i>						
Repayment of convertible note	-	(10,000)	-	-	-	(10,000)
Interest on convertible notes (note 17)	-	-	-	(965)	-	(965)
Dividends paid	-	-	-	(4,000)	-	(4,000)
Balance at 30 September 2019	111,142	29,000	145,330	264,530	6,529	556,531

Consolidated	Share capital \$'000	Convertible note \$'000	Reserves \$'000	Retained earnings \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 April 2020	111,142	29,000	144,286	279,364	5,879	569,671
Profit after income tax benefit for the half-year	-	-	-	179,586	30,038	209,624
<i>Other comprehensive income for the half-year, net of tax:</i>						
Movement in revaluation from disposal of distribution network assets (net of tax)	-	-	(1,046)	1,046	-	-
Cashflow hedges (net of tax)	-	-	12,535	-	-	12,535
Total comprehensive income for the half-year	-	-	11,489	180,632	30,038	222,159
Disposal of minority interest	-	-	-	-	(35,917)	(35,917)
<i>Transactions with owners:</i>						
Repayment of convertible note	-	(13,000)	-	-	-	(13,000)
Interest on convertible notes (note 17)	-	-	-	(301)	-	(301)
Dividends paid	-	-	-	(6,000)	-	(6,000)
Balance at 30 September 2020	111,142	16,000	155,775	453,695	-	736,612

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

WEL Networks Limited  
Statement of cash flows  
For the half-year ended 30 September 2020

		Consolidated 30 September 2020	30 September 2019
	Note	Unaudited \$'000	Unaudited \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		66,976	70,857
Payments to suppliers and employees		(33,937)	(28,781)
Income taxes paid		(1,751)	(6,805)
Discontinued operations from operating activities	5	26,269	19,709
<b>Net cash from operating activities</b>		<b>57,557</b>	<b>54,980</b>
<b>Cash flows from investing activities</b>			
Payments for investments		-	(1,241)
Payments for property, plant and equipment	6	(20,276)	(20,735)
Payments for intangibles	7	(1,130)	(1,581)
Discontinued operations from investing activities	5	502,029	(43,224)
Proceeds from disposal of property, plant and equipment		99	181
<b>Net cash from/(used in) investing activities</b>		<b>480,722</b>	<b>(66,600)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	35,035
Repayment of borrowings		(361,000)	-
Discontinued operations from financing activities	5	1,493	23,518
Interest paid		(28,051)	(10,878)
Interest on convertible notes		(301)	(995)
Interest on lease liabilities		(51)	(34)
Payments for shareholder loans		-	(20,414)
Dividends paid		(6,000)	(4,000)
Repayment of lease liabilities		(68)	(71)
Repayment of convertible notes		(13,000)	(10,000)
<b>Net cash from/(used in) financing activities</b>		<b>(406,978)</b>	<b>12,161</b>
<b>Net increase in cash and cash equivalents</b>		<b>131,301</b>	<b>541</b>
<b>Cash and cash equivalents at the beginning of the financial half-year</b>		<b>871</b>	<b>1,289</b>
<b>Cash and cash equivalents at the end of the financial half-year</b>		<b>132,172</b>	<b>1,830</b>

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



#### Note 1. Summary of significant accounting policies

These financial statements are for WEL Networks Limited ('the Company') and its subsidiaries (together, 'the Group'). The Group is an electricity networks business delivering energy to customers in the Waikato region and, for the period to 30 September 2020, also delivered the Government Ultrafast Fibre rollout programme and ongoing operations for fibre services in the Waikato, Tauranga and Taranaki regions.

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

These financial statements have been approved for issue by the Board of Directors on 26 November 2020.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 March 2020 and any public announcements made by WEL Networks Limited during the interim reporting period. The same accounting policies and methods of computation have been applied in preparation of the financial statements as were applied in the most recent set of annual financial statements for the year ended 31 March 2020. Where relevant, further information has been either set out below or in the relevant note. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

#### Basis of preparation of financial statements

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

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

The Group presents the statement of comprehensive income to include non GAAP measures of EBITDA as it is a more appropriate measure of the operations and covenant requirements of the Group.

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

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

#### Significant changes and disclosures in the current reporting period

The financial position and performance of the Group was particularly affected by the following events and transactions during the six months to 30 September 2020:

- Dividend payment to WEL Energy Trust of \$6M;
- Convertible note repayment to WEL Energy Trust of \$13M;
- Completion of the sale of shares in UFF Holdings Limited to First Fibre Bidco NZ Limited on 30 September 2020 resulting in a disposal of the Fibre group, consisting of UFF Holdings Limited and Ultrafast Fibre Limited, from the consolidated financial statements with the following impacts of the sale:
  - UFFH being presented as a discontinued operations and a gain of sale of \$210M recognised (refer note 5),
  - Repayment of \$377M balance of bank debt and reduction of bank debt facilities by \$290M to \$125M (refer note 9),
  - Settlement of interest rate swaps on bank debt at a cost of \$17.9M which have been recognised within finance costs (refer note 16),
  - Repayment of Waipa Networks Limited related party shareholder loan of \$89M,
  - Derecognition of tax losses in UltraFast Fibre Limited, of \$6.9M due to loss of shareholder continuity (refer note 14),
  - Redeemable Convertible Preferences shares with a face value of \$200M issued to WEL Networks Ltd by First Fibre Bidco NZ Limited (refer note 16).

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

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

- Non-current - property, plant and equipment (note 6); and
- Financial instruments (note 16).

### Coronavirus (COVID-19) pandemic

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

## Note 3. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		30 September	31 March 2020
		2020 Unaudited %	Audited %
UFF Holdings Limited	New Zealand	-	85.00%
Ultrafast Fibre Limited (UFF) **	New Zealand	-	85.00%
OurPower Holdings Limited	New Zealand	100.00%	100.00%
OurPower Retail Limited	New Zealand	100.00%	100.00%
OurPower Limited	New Zealand	100.00%	100.00%
Smartco Limited (joint venture)	New Zealand	14.00%	14.00%

\*\* Subsidiary of UFF Holdings Limited

On 30 September 2020 WEL's 85% share of UFF Holdings Limited was sold to First Fibre Bidco NZ Limited. See note 5 for further information.

## Note 4. Operating segments

### Identification of reportable operating segments

The Board assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes discontinued operations (comparatives also restated to exclude discontinued operations) and the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal costs 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.

The Board reviews the business from an electricity network perspective and anything not included in this is classified in 'Other' including technology investments (Smartmeters) and the generation and retail business (OurPower Holdings Limited) and the RCP shares.

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.

**Note 4. Operating segments (continued)**

*Operating segment information - continuing operations*

	Electricity network \$'000	Other segments \$'000	Total \$'000
<b>Consolidated - 30 September 2020 Unaudited</b>			
<b>Revenue</b>			
Segment revenue	64,832	6,280	71,112
Intersegment sales	(762)	-	(762)
<b>Total revenue</b>	<b>64,070</b>	<b>6,280</b>	<b>70,350</b>
<b>EBITDA</b>	<b>31,484</b>	<b>3,722</b>	<b>35,206</b>
Depreciation and amortisation			(13,293)
Finance income			8
Finance costs			(28,091)
<b>Loss before income tax benefit</b>			<b>(6,170)</b>
Income tax benefit			755
<b>Loss after income tax benefit</b>			<b>(5,415)</b>
<b>Assets</b>			
Segment assets	654,645	213,912	868,557
<i>Unallocated assets:</i>			
Cash and cash equivalents			132,172
<b>Total assets</b>			<b>1,000,729</b>
<b>Liabilities</b>			
Segment liabilities	22,296	1,169	23,465
<i>Unallocated liabilities:</i>			
Borrowings			153,591
Deferred tax liability			87,061
<b>Total liabilities</b>			<b>264,117</b>

**Note 4. Operating segments (continued)**

	Electricity network \$'000	Fibre network \$'000	Other segments \$'000	Total \$'000
<b>Consolidated - 30 September 2019 Unaudited</b>				
<b>Revenue</b>				
Segment revenue	71,035	-	4,664	75,699
<b>Total revenue</b>	<u>71,035</u>	<u>-</u>	<u>4,664</u>	<u>75,699</u>
<b>EBITDA</b>	<u>39,647</u>	<u>-</u>	<u>2,774</u>	<u>42,421</u>
Depreciation and amortisation				(12,981)
Finance income				1
Finance costs				(11,346)
<b>Profit before income tax expense</b>				<u>18,095</u>
Income tax expense				(7,786)
<b>Profit after income tax expense</b>				<u>10,309</u>
<b>Consolidated - 31 March 2020 Audited</b>				
<b>Assets</b>				
Segment assets	639,997	659,296	23,394	1,322,687
<i>Unallocated assets:</i>				
Cash and cash equivalents				987
Derivative financial instruments				5,059
<b>Total assets</b>				<u>1,328,733</u>
<b>Liabilities</b>				
Segment liabilities	41,008	6,479	179	47,666
<i>Unallocated liabilities:</i>				
Provision for income tax				271
Borrowings				604,241
Deferred tax liability				89,474
Derivative financial instruments				17,410
<b>Total liabilities</b>				<u>759,062</u>

**Note 5. Discontinued operations**

*Description*

WEL Networks Limited (WEL) and Waipa Networks Limited (Waipa) have sold their shares in UFF Holdings Limited, the holding company for Hamilton-based fibre business Ultrafast Fibre Limited (UFF).

On 12 May 2020, First Fibre Bidco NZ Limited agreed to purchase WEL's 85% majority shareholding and Waipa's 15% shareholding for \$854 million 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 Redeemable Convertible Preference shares issued by First Fibre Bidco NZ Limited to WEL Networks that will be redeemed in 18 months time (or prior). If redemption is not completed the put option for conversion can then be initiated by WEL Networks Limited (see note 16 for further information).

Further to the consideration noted above the sale and purchase agreement allows for additional consideration should UFF be able to utilise tax losses earned during the period up to the date of disposal. This consideration is not recognised as current NZ tax legislation does not allow this due to change in shareholder continuity rules.

**Note 5. Discontinued operations (continued)**

The gain on sale recognised is deemed to be provisional due to the consideration which has not been finalised at the date the financial statements are authorised for issue.

This transaction was approved by the Overseas Investment Office (OIO) on 31 July 2020, the sale became unconditional on 14 August 2020 and was completed on 30 September 2020.

All comparative information for the statement of comprehensive income and operating segments has been restated for discontinued operations.

*Financial performance information*

	Consolidated	
	30 September 2020	30 September 2019
	Unaudited \$'000	Unaudited \$'000
Revenue	46,376	39,468
Expenses	(30,959)	(28,887)
Profit before income tax (expense)/benefit	15,417	10,581
Income tax (expense)/benefit	(10,342)	173
Profit after income tax (expense)/benefit	5,075	10,754
Gain on disposal before and after income tax	209,964	-
Profit after income tax (expense)/benefit from discontinued operations	215,039	10,754

*Cash flow information*

	Consolidated	
	30 September 2020	30 September 2019
	Unaudited \$'000	Unaudited \$'000
Net cash from operating activities	26,269	19,709
Net cash from/(used in) investing activities	502,029	(43,224)
Net cash from financing activities	1,493	23,518
Net increase in cash and cash equivalents from discontinued operations	529,791	3

Included in net cash from/(used in) investing activities is cash consideration received from disposal of UFFH of \$528,456,000.

**Note 5. Discontinued operations (continued)**

*Carrying amounts of assets and liabilities disposed*

	30 September 2020 Unaudited \$'000
Cash and cash equivalents	1,451
Trade and other receivables	12,363
Right of use assets	3,694
Property, plant and equipment	577,161
Intangibles	79,389
Total assets	<u>674,058</u>
Trade and other payables	3,168
Provisions	1,687
Other liabilities	40,489
Total liabilities	<u>45,344</u>
Net assets	<u><u>628,714</u></u>

*Details of the disposal*

	30 September 2020 Unaudited \$'000
<i>Consideration received or receivable:</i>	
Cash received	653,478
Fair value of RCP shares	189,237
Total consideration	<u>842,715</u>
Carrying amount of net assets disposed	<u>(628,714)</u>
Total gain on discontinued operation	214,001
Costs of disposal	(4,037)
Gain on disposal before and after income tax	209,964
Attributable to NCI *	<u>(30,714)</u>
Gain on disposal before and after income tax attributable to the shareholder of WEL Networks Ltd	<u><u>179,250</u></u>

\*Waipa Networks Limited have agreed to a discounted sale price to receive full settlement on completion, therefore the amount attributable to non-controlling interest is less than the 15% shareholding.

**Note 6. Property, plant and equipment**

	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
<b>Consolidated</b>								
Balance at 1 April 2020	581,326	563,835	17,737	31,577	4,971	1,443	2,478	1,203,367
Additions	18,396	24,330	-	152	124	218	2,033	45,253
Disposals	(1,643)	(247)	-	(7)	(42)	(4)	-	(1,943)
Sale of discontinued operation	-	(575,419)	-	(711)	(184)	(494)	(353)	(577,161)
Transfers*	3,603	-	(3,628)	670	33	1	(679)	-
Depreciation expense	(9,812)	(12,499)	(132)	(1,897)	(564)	(433)	-	(25,337)
Balance at 30 September 2020	591,870	-	13,977	29,784	4,338	731	3,479	644,179
Cost/valuation	809,605	-	15,445	56,373	9,244	3,442	3,479	897,588
Accumulated depreciation	(217,735)	-	(1,468)	(26,589)	(4,906)	(2,711)	-	(253,409)
Net book amount	591,870	-	13,977	29,784	4,338	731	3,479	644,179

\* Transfers include a reclassification related to substation land from land and buildings to distribution network for \$3.6M

The net book value of the Electricity network includes \$22.4M of work in progress at 30 September 2020 (31 March 2020: \$17.3M).

**Critical accounting judgements, estimates and assumptions**

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. A fair value assessment was undertaken (using updated market data) on 30 September 2020. This indicated that key inputs of market rent at \$870,000 and a capitalisation rate of between 5.25% and 5.75%, provided a valuation, using the midpoint, that was \$2.4M greater than the current carrying value of the Maui St Land and Buildings of \$13.4M. The valuer has noted the significant estimation uncertainty in the basis of the valuation arising from the lack of market transactions in a COVID-19 environment on which to determine fair value. Given the current market uncertainty and its impact on determining fair value and given the estimated uplift on carrying value (which would be taken as unrealised to the asset revaluation reserve) not being qualitatively material to the users of the financial statements the Directors have determined that the current carrying value materially reflects fair value. In line with the Group's accounting policy for land and buildings, a full valuation will be undertaken by independent valuers on 31 March 2021.

It is the Group's Policy to revalue the Electricity Network with sufficient regularity to ensure the carrying value materially reflects the fair value, but on an at least three yearly basis, and as such the Group engaged Deloitte to perform the valuation for the year ended 31 March 2019. This was a Level 3 valuation. An update to this valuation was performed by management as at 31 March 2020 which concluded that the carrying value continued to materially reflect its fair value. There are no significant changes since March 2020 in the key assumptions underpinning the valuation with the only updates being a reduction of the WACC from 5.14% to 5.00% to reflect a lower risk free rate and average annual Distribution Revenue up from \$79.6M to \$81.0M. These offsetting impacts have been evaluated and reviewed by the Directors as at 30 September 2020, with the conclusion that the current carrying value materially reflects the fair value.

**Note 7. Intangibles**

	Internally generated software \$'000	Computer software \$'000	Goodwill \$'000	Easements and consents \$'000	Leasehold interests \$'000	Assets under construction \$'000	Net Book Value \$'000
Opening net book amount as at 1 April 2020	2,056	5,595	74,484	5,318	107	3,361	90,921
Additions	-	498	-	-	-	2,327	2,825
Transfer	-	378	-	61	-	(439)	-
Sale of discontinued operation	-	(2,595)	(74,484)	-	-	(2,309)	(79,388)
Amortisation charge	(198)	(1,605)	-	(16)	-	-	(1,819)
Closing net book amount as at 30 September 2020	<u>1,858</u>	<u>2,271</u>	<u>-</u>	<u>5,363</u>	<u>107</u>	<u>2,940</u>	<u>12,539</u>
Cost	3,723	18,479	-	7,857	107	2,940	33,106
Accumulated amortisation and impairment	<u>(1,865)</u>	<u>(16,208)</u>	<u>-</u>	<u>(2,494)</u>	<u>-</u>	<u>-</u>	<u>(20,567)</u>
	<u>1,858</u>	<u>2,271</u>	<u>-</u>	<u>5,363</u>	<u>107</u>	<u>2,940</u>	<u>12,539</u>

**Note 8. Revenue**

	Consolidated	
	30 September 2020	30 September 2019
	Unaudited \$'000	Unaudited \$'000
<b>From continuing operations</b>		
<i>Revenue from contracts with customers</i>		
Electricity lines revenue	59,266	65,116
Electricity third party contributions	4,804	5,919
Other income	<u>5,186</u>	<u>3,576</u>
	<u>69,256</u>	<u>74,611</u>
<i>Other revenue</i>		
Operating lease revenue	<u>1,094</u>	<u>1,088</u>
Revenue from continuing operations	<u>70,350</u>	<u>75,699</u>



**Note 8. Revenue (continued)**

*Disaggregation of revenue*

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

	Consolidated 30 September 2020 Unaudited \$'000	30 September 2019 Unaudited \$'000
<i>Electricity Network</i>		
Electricity line revenue	59,266	65,116
Third party contributions	4,804	5,919
	<u>64,070</u>	<u>71,035</u>
<i>Other Income</i>		
Other income	5,186	3,576
	<u>5,186</u>	<u>3,576</u>
<i>Timing of revenue recognition</i>		
At a point in time	5,378	6,677
Over time	63,878	67,934
	<u>69,256</u>	<u>74,611</u>

For the purposes of segmental reporting (note 4) other operating segments includes the 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. The lease is for a 25 year initial term with a 25 year right of renewal. There is an ability to extend the lease for an additional period, but there is no certainty that this will be taken up. Early termination of the agreement ensures that a reasonable recovery of costs is achieved.

	Consolidated 30 September 2020 Unaudited \$'000	30 September 2019 Unaudited \$'000
<b>Lessor minimum lease receivable</b>		
Committed at the reporting date but not recognised as assets receivable:		
Within one year	2,204	2,171
One to five years	8,711	8,560
More than five years	52,175	52,077
	<u>63,090</u>	<u>62,808</u>

The carrying value of Electricity Network Assets (as noted in Note 4) that are subject to lessor arrangements is \$9.0M. (March 2020: \$8.4M)

**Note 9. Borrowings**

	Consolidated	
	30 September	31 March 2020
	2020	Audited
	Unaudited	\$'000
	\$'000	
<i>Non-current liabilities</i>		
Maturing between 1 and 2 years	-	100,737
Maturing between 2 and 3 years (includes bond*)	153,591	189,930
Maturing between 3 and 4 years	-	222,764
	<u>153,591</u>	<u>513,431</u>

\*As at 31 March 2020 the bond was included in the debt balance maturing between 3 and 4 years. Refer to note 16 for further information on financial instruments.

*Total borrowings*

The total borrowings are as follows:

	Consolidated	
	30 September	31 March 2020
	2020	Audited
	Unaudited	\$'000
	\$'000	
Non-current borrowings - bank & bond	153,591	513,431
Loan from related party	-	90,810
	<u>153,591</u>	<u>604,241</u>

The sale proceeds received from the sale of shares and repayment of shareholder loan in UFF Holdings Limited have been utilised to repay bank debt and reduce facilities and terminate interest rate swaps associated with the bank debt (refer note 16). During the period total bank facilities reduced to \$125 million of which \$125 million remains available to the Group to be drawn as at 30 September 2020. The facilities expire as follows:

Facility expiry date	Facility available	Total facility
	\$'000	\$'000
31 December 2021	15,000	15,000
30 November 2022	55,000	55,000
30 November 2023	55,000	55,000
	<u>125,000</u>	<u>125,000</u>

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

The carrying value of interest bearing debt is \$153,591,000 (31 March 2020: \$513,432,000). The fair value of contractual cash flow is \$172,050,000 (31 March 2020: \$581,015,000)

**Note 10. Expenses, excluding finance costs**

	Consolidated	
	30 September 2020	30 September 2019
	Unaudited \$'000	Unaudited \$'000
Transmission costs	13,570	14,805
Employee benefits	16,698	15,402
Capitalised labour	(9,151)	(9,756)
Materials and services	3,862	3,644
Contracting services	2,400	2,019
Consultancy	1,035	1,002
Contracting cost of sales	2,102	689
Net loss on disposal of property, plant and equipment	1,589	1,498
Vehicle expenditure	538	612
Directors' fees	174	151
Bad debts written off	18	131
Change in provision for impaired receivables	(95)	-
Other expenses	2,404	3,081
	<u>35,144</u>	<u>33,278</u>

**Note 11. Finance expenses**

	Consolidated	
	30 September 2020	30 September 2019
	Unaudited \$'000	Unaudited \$'000
Interest and finance charges paid/payable	10,115	11,312
Finance expense on leases	32	34
Interest swap termination costs	17,944	-
	<u>28,091</u>	<u>11,346</u>

**Note 12. Derivative financial instruments - Assets**

	Consolidated	
	30 September	31 March 2020
	2020	2020
	Unaudited	Audited
	\$'000	\$'000
<i>Current assets</i>		
Electricity price derivatives	521	-
<i>Non-current assets</i>		
Electricity price derivatives	245	-
Interest rate swaps - fair value hedges	5,543	5,059
	5,788	5,059
	6,309	5,059

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

**Note 13. Derivative financial instruments - Liabilities**

	Consolidated	
	30 September	31 March 2020
	2020	2020
	Unaudited	Audited
	\$'000	\$'000
<i>Current liabilities</i>		
Interest rate swap contracts - cash flow hedges	-	816
<i>Non-current liabilities</i>		
Interest rate swap contracts - cash flow hedges	-	16,594
Total derivative financial instrument liability	-	17,410

Refer to note 16 for further information on financial instruments.

The Group's derivative financial instruments are fair valued at level 2. The level 2 method takes inputs other than quoted prices in active markets that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The swaps have been valued using discounted cash flows methodology using key inputs of forward interest rates and contract interest rates and reflects the credit risk of various counterparties.

**Note 14. Deferred tax liabilities**

	Accelerated tax depreciation/ revaluation of assets \$'000	Provisions and other \$'000	Derivative instruments \$'000	Tax losses \$'000	Total \$'000
As at 1 April 2020	105,591	(966)	(4,874)	(10,277)	89,474
Charged/(credited) to the statement of comprehensive income	482	(328)	-	3,377	3,531
Charged/(credited) directly to equity - derivatives	-	-	4,874	-	4,874
Sale of discontinued operation	(18,168)	450	-	6,900	(10,818)
As at 30 September 2020	87,905	(844)	-	-	87,061

A deferred tax asset of \$6.9M has been derecognised during the period as a result of the sale of WEL's share in UFF Holdings Limited as shareholder continuity has been lost. This is included in the discontinued operations in the profit and loss statement.

**Note 15. Reserves**

	Consolidated	
	30 September 2020 Unaudited \$'000	31 March 2020 Audited \$'000
Revaluation reserve	155,775	156,821
Hedging reserve - cash flow hedges	-	(12,535)
	155,775	144,286

*Hedging reserve - cash flow hedges*

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge. The interest rate swap contracts were terminated on 30 September 2020 and the hedging reserve has been reclassified to the finance expenses in the statement of profit or loss in the current period.

*Movements in reserves*

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

	Revaluation reserve \$'000	Hedging reserve \$'000	Total \$'000
<b>Consolidated</b>			
Balance at 1 April 2020	156,821	(12,535)	144,286
Deferred tax	-	150	150
Disposal of distribution network assets	(1,046)	-	(1,046)
Fair value gains/(losses) in year	-	(535)	(535)
Reclassified to P&L	-	12,920	12,920
Balance at 30 September 2020	155,775	-	155,775

## Note 16. Financial instruments

### Market risk

#### Price risk

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

#### 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.

#### September 2020

Consolidated	Maturity Date	Face value \$'000	Unamortised costs \$'000	Adjustment on hedged risk \$'000	Carrying value \$'000
Bond (4.90%)	Aug 23	150,000	(1,951)	5,543	153,591
Fair value interest rate swaps (2.62%)	Aug 23	(75,000)	-	-	-
		<u>75,000</u>	<u>(1,951)</u>	<u>5,543</u>	<u>153,591</u>

#### March 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)	-	-	-
		<u>351,810</u>	<u>(2,628)</u>	<u>5,059</u>	<u>604,241</u>

The interest rates swaps on bank borrowings were terminated on 30 September 2020 which resulted in the hedging reserve balance loss of \$17,944,000 being reclassified in the statement of profit and loss in finance expenses. As agreed with lenders, the termination costs have been excluded for the purposes of calculating debt covenants.

#### Liquidity risk

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

**Note 16. Financial instruments (continued)**

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

30 September 2020	Less than one year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	5 + years	Total fair value contractual cash flows \$'000	Carrying amount liabilities \$'000
	\$'000	\$'000	\$'000	\$'000	\$'000		
<b>Non-derivatives</b>							
Borrowings - non current	7,350	7,350	157,350	-	-	172,050	153,591
Trade and other payables	13,909	-	-	-	-	13,909	13,909
Lease liabilities	114	89	59	122	1,221	1,605	1,605
<b>Total non-derivatives</b>	<b>21,373</b>	<b>7,439</b>	<b>157,409</b>	<b>122</b>	<b>1,221</b>	<b>187,564</b>	<b>169,105</b>
<b>Derivatives</b>							
<b>Interest rate swaps</b>							
- inflow	3,675	3,675	3,675	-	-	11,025	-
- outflow	(1,907)	(1,784)	(1,785)	-	-	(5,476)	5,549
	<b>1,768</b>	<b>1,891</b>	<b>1,890</b>	<b>-</b>	<b>-</b>	<b>5,549</b>	<b>5,549</b>
<b>31 March 2020</b>	<b>Less than one year \$'000</b>	<b>Between 1 and 2 years \$'000</b>	<b>Between 2 and 3 years \$'000</b>	<b>Between 3 and 5 years \$'000</b>	<b>5 + years \$'000</b>	<b>Total fair value contractual cash flows \$'000</b>	<b>Carrying amount liabilities \$'000</b>
<b>Non-derivatives</b>							
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	-	-	-	99,000	90,810
Lease liabilities	913	893	798	994	2,055	5,653	5,653
<b>Total non-derivatives</b>	<b>51,196</b>	<b>218,745</b>	<b>206,948</b>	<b>229,261</b>	<b>2,055</b>	<b>708,205</b>	<b>632,431</b>
<b>Derivatives</b>							
<b>Interest rate swaps</b>							
- inflow	4,637	4,568	4,567	3,071	46	16,889	-
- outflow	(8,431)	(7,232)	(7,232)	(6,254)	(149)	(29,298)	(12,409)
	<b>(3,794)</b>	<b>(2,664)</b>	<b>(2,665)</b>	<b>(3,183)</b>	<b>(103)</b>	<b>(12,409)</b>	<b>(12,409)</b>

**Critical accounting judgements, estimates and assumptions**

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).

#### Note 16. Financial instruments (continued)

On sale of WEL's share in UFF Holdings Limited, Redeemable Convertible Preference shares ("RCP shares") with a face value of \$200 million were issued to WEL Networks Limited by First Fibre Bidco NZ Limited.

The RCP shares give WEL the ability to appoint two directors and provide certain voting rights. The RCP shares do not give the ability to receive distributions unless agreed by special resolution of shareholders, accordingly no distributions are expected to be made in respect of the RCP shares.

At any time prior to 31 March 2022, at the option of the issuer, the RCP shares can be redeemed for cash or sold to the Purchaser Group. If no notice of redemption or sale is received by WEL prior to 28 February 2022, WEL can initiate the put option for the redemption of the RCP shares. If neither of the above is completed by the issuer then the RCP shares may be converted to ordinary shares.

Due to the ability to appoint two directors and provision of certain voting rights the Group considers that the RCP shares represent significant influence; however the benefits associated with these instruments in substance do not currently give access to the returns associated with an ownership interest and have therefore been accounted for under NZ IFRS 9 Financial Instruments as financial assets measured at fair value through profit and loss.

The RCP shares have been valued using a discounted cash flow (DCF) methodology using a discount rate range of between 3.34% - 4.19% with a midpoint of 3.76% and based on the expected redemption date of 31 March 2022. The discount rate is based on the current market pricing reflecting the counterparty risk. This is a Level 3 valuation.

RCP Shares discount range valuation sensitivity to discount rate	Low \$'000	Mid \$'000	High \$'000
Face value	200,000	200,000	200,000
Discount rate %	3.34	3.76	4.19
Fair value	190,391	189,237	188,068

  

30 September 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total balance \$'000
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#### Assets

Interest rate contracts	-	5,543	-	5,543
Redeemable convertible preference shares	-	-	189,237	189,237
Electricity price contracts	766	-	-	766
	<u>766</u>	<u>5,543</u>	<u>189,237</u>	<u>195,546</u>

31 March 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total balance \$'000
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#### Assets

Interest rate contracts	<u>-</u>	<u>5,059</u>	<u>-</u>	<u>5,059</u>
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#### Liabilities

Interest rate contracts	<u>-</u>	<u>17,410</u>	<u>-</u>	<u>17,410</u>
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#### Note 17. Contingent liabilities

As at 30 September \$11 million of the total contingent liabilities that were recognised at 31 March 2020 are no longer considered applicable to WEL Networks Ltd due to the sale of UFF Holdings Limited.



# **Note 18. Related party transactions**

## *Subsidiaries*

Interests in subsidiaries are set out in note 3.

## *Other transactions with key management personnel or entities related to them*

There have been no changes to key management personnel since 31 March 2020.

## *Significant transactions with other related parties*

### *Related party transactions with WEL Energy Trust*

	Consolidated	
	30 September 2020	30 September 2019
	Unaudited \$'000	Unaudited \$'000
Interest on convertible note	(301)	(965)
Repayment of convertible note	(13,000)	(10,000)
	<u>(13,301)</u>	<u>(10,965)</u>

Total dividends paid during the period ended 30 September 2020 were \$6,000,000 net (30 September 2019: \$4,000,000 net).

### *Related party transactions with Waipa Networks Limited*

	Consolidated	
	30 September 2020	30 September 2019
	Unaudited \$'000	Unaudited \$'000
Current period interest expense	1,746	1,927
Loan from non-controlling interests	-	86,673

With the completion of the sale of UFF Holdings on 30 September 2020 the loan balance for Waipa Networks Limited has been fully repaid.

# **Note 19. Events after the reporting period**

On 24 November 2020, WEL Networks Ltd entered into a conditional agreement to purchase the New Zealand operations of Infratec Limited for a consideration of \$4M. The initial accounting for the business combination is incomplete at the time these financial statements are authorised for issue due to the agreement being conditional, and the short time between the agreement being entered into and the authorisation of this report. The expected completion date of this transaction is 30 November 2020.



## *Independent review report*

To the shareholder of WEL Networks Limited

### *Report on the consolidated interim financial statements*

#### *Our conclusion*

We have reviewed the consolidated interim financial statements of WEL Networks Limited (the Company) and its controlled entities (the Group), which comprise the statement of financial position as at 30 September 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 September 2020, and its financial performance and cash flows for the six months then ended, in accordance with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34).

#### *Basis for conclusion*

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

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

#### *Directors' responsibility for the financial statements*

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

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

Our responsibility is to express a conclusion on the consolidated interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34. A review of consolidated interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.



The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

*Who we report to*

This report is made solely to the Company's Shareholder. Our review work has been undertaken so that we might state to the Company's Shareholder those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Shareholder, for our review procedures, for this report, or for the conclusion we have formed.

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

For and on behalf of:

A handwritten signature in black ink, reading 'PricewaterhouseCoopers', written in a cursive style.

Chartered Accountants  
26 November 2020

Auckland