Best in Service
Best in Safety

# 2017

## WEL Networks Annual Report

0800 800 935 | wel.co.nz

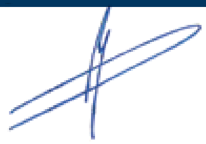
ISSN 2463-4646 (print)

## THIS IS THE ANNUAL REPORT OF WEL NETWORKS LIMITED

Dated this 25th day of May 2017

Signed for and on behalf of the Board of Directors

**MARGARET DEVLIN**
Chairman



**PAUL MCGILVARY**
Chairman Audit and Risk Committee

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# VISION

## "PROVIDING HIGH QUALITY, RELIABLE UTILITY SERVICES VALUED BY OUR CUSTOMERS WHILST PROTECTING AND ENABLING OUR COMMUNITY"

***Best in Service Best in Safety***

# COMPANY PROFILE

## At WEL Networks we've kept the lights on in Waikato communities for nearly 100 years.

Our core focus is to distribute power from the national grid, connecting over 160,000 people to electricity services through 89,000 installation connection points. Each year we invest around $45 million to keep our assets in top condition and our crews work around the clock to maintain our network.

As our communities grow we continue to play an essential role in the region's economic and social development. We identify and invest in new technologies that benefit our people, modernise our network and future proof our communities.

As a major shareholder of Ultrafast Fibre, we deliver ultrafast broadband to urban centres across the North Island. The $300 million fibre network makes up around 13% of the Government's national UFB1 initiative and provides access to fibre for more than 183,000 end users in Waikato and Taranaki towns. Our investment in UFB2 reinforces our commitment to provide innovative energy solutions which contribute to building sustainable communities.

Across Waikato, our Smart Network project has installed 58,000 smart boxes allowing integration of information received from the smart boxes into our asset management decision making processes enabling a more efficient power supply and network utilisation. The installation of WEL Networks electric vehicle fast chargers across the region also highlights our commitment to help expand the electric vehicle footprint across the country.

We're a trusted member of the community employing approximately 240 employees with a range of expertise; from Live Line Mechanics, Faults Technicians and Technical Planners, to in-house Health & Safety professionals, Financial Accountants and Human Resources management.

For every member of our team safety is our highest priority. Our goal – to ensure everyone, staff, contractors and members of the public, makes it home safely every day. We strive to ensure our equipment and practices are industry leading, and we work with key stakeholders to ensure everyone knows how to stay safe around power lines.

WEL operates with strong commercial principles under an experienced Board of Directors chaired by Margaret Devlin. We are fully community-owned, with WEL Energy Trust as our sole shareholder. Hamilton City, Waikato and Waipa District Councils, and ultimately their respective communities, are our capital beneficiaries.

Through WEL's annual discount programme, $293 million (including GST) has been distributed to customers since the programme's establishment in 2003.

# QUICK FACTS

## AS AT 31 MARCH 2017

**STAFF MEMBERS**
234

**ANNUAL REVENUE**
$194 MILLION (BEFORE DISCOUNT)

**MAXIMUM DEMAND**
273 MEGAWATTS

**NETWORK CONNECTIONS (INCLUDING EMBEDDED NETWORKS)**
RESIDENTIAL 89,108
COMMERCIAL/INDUSTRIAL 762

**VOLUME THROUGHPUT**
(WEL TRADITIONAL AREA AFTER TECHNICAL LOSS FACTORS)
1,194 GIGAWATT HOURS

**ANNUAL INVESTMENT IN CAPITAL PROJECTS**
$81.7 MILLION

## KILOMETRES OF LINES

| CATEGORY | KM | % |
|---|---|---|
| Overhead lines | 3,466 | 52% |
| Underground | 3,149 | 48% |
| **Total** | **6,616** | **100%** |

*(Excl. street lighting pilots, fibre and communications lines)*

## OUTAGES

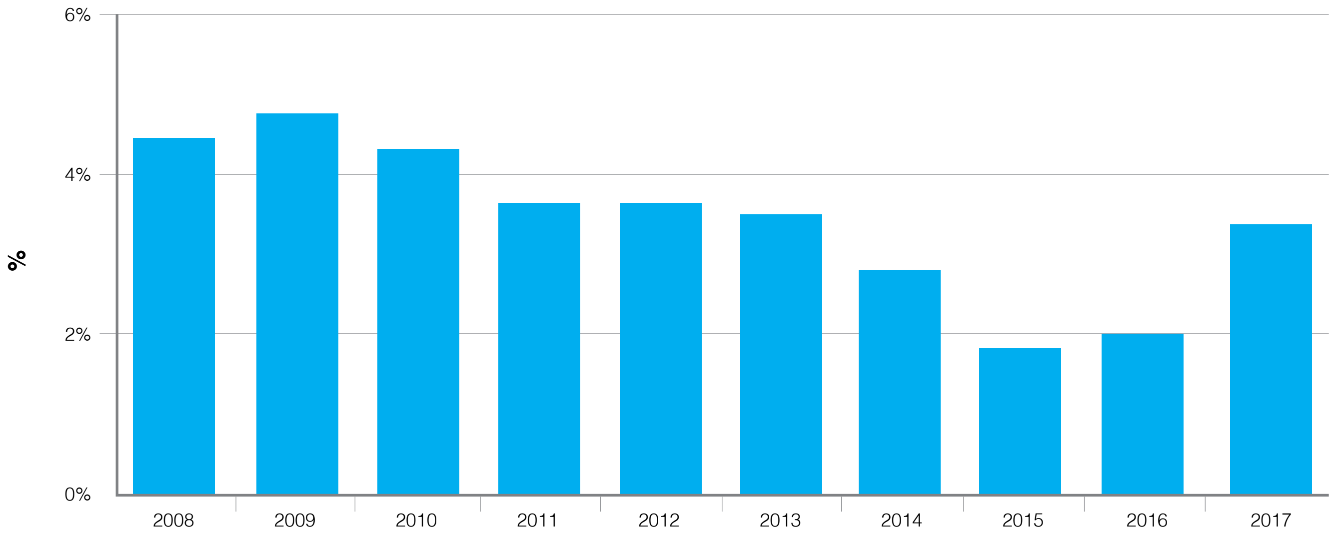
| OUTAGE CAUSES | SAIDI* MINUTES | % OF SAIDI MINUTES |
|---|---|---|
| Equipment faults | 10.11 | 10% |
| Adverse weather and other foreign interference | 33.65 | 33% |
| Vehicle accidents | 13.18 | 13% |
| Planned shutdowns | 32.42 | 32% |
| Insulators and discs | 7.01 | 7% |
| Tree contacts | 5.74 | 6% |
| **Total** | **102.11** | **100%** |
| **Total Regulatory SAIDI**** | **82.63** | **–** |

**SAIDI – System Average Interruption Duration Index (the average number of minutes that customers were without electricity)*

***Regulatory SAIDI = 50% * Planned SAIDI + Unplanned SAIDI (a Commerce Commission calculation plus other normalisation process)*

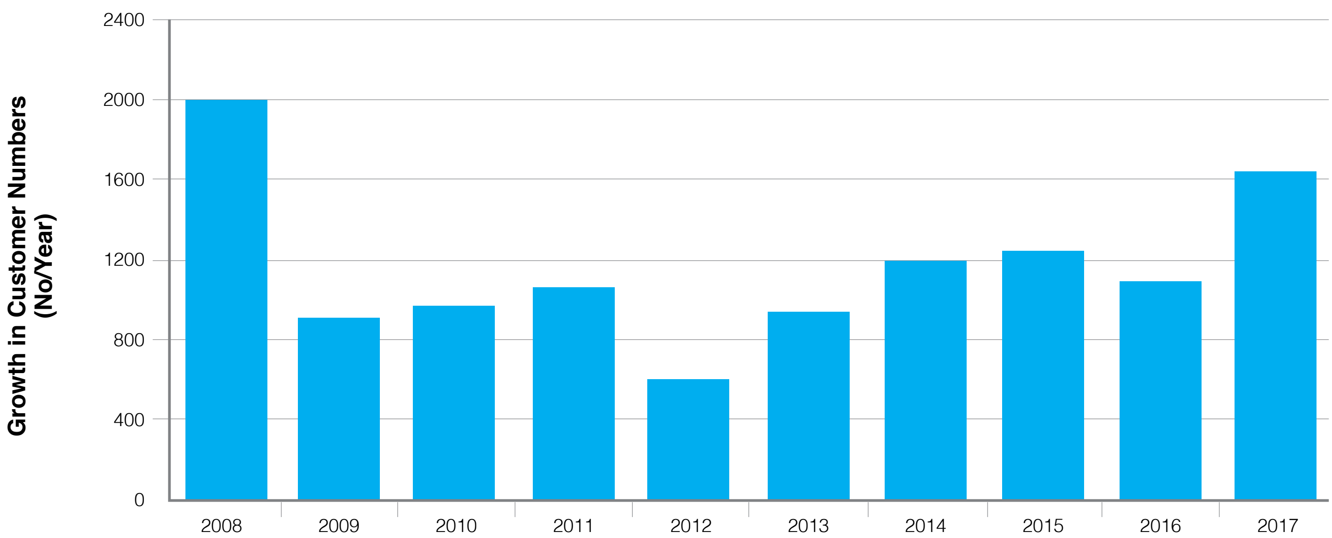
# KEY PERFORMANCE INDICATORS

## RETURN ON ASSETS



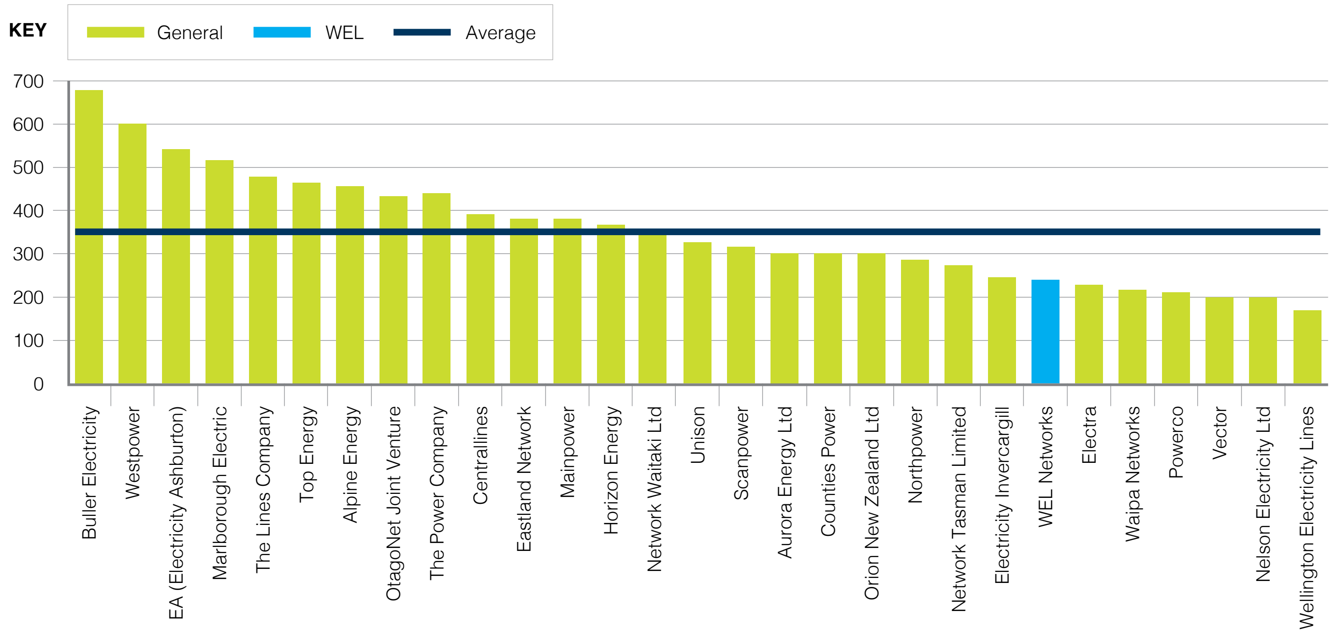

Return on Assets grew due to an increase in NPAT at the same time that WEL's assets base grew.

## ANNUAL GROWTH IN CUSTOMER NUMBERS




WEL has continued to maintain strong growth in customer numbers (both residential and industrial) and the outlook in the building sector remains positive.

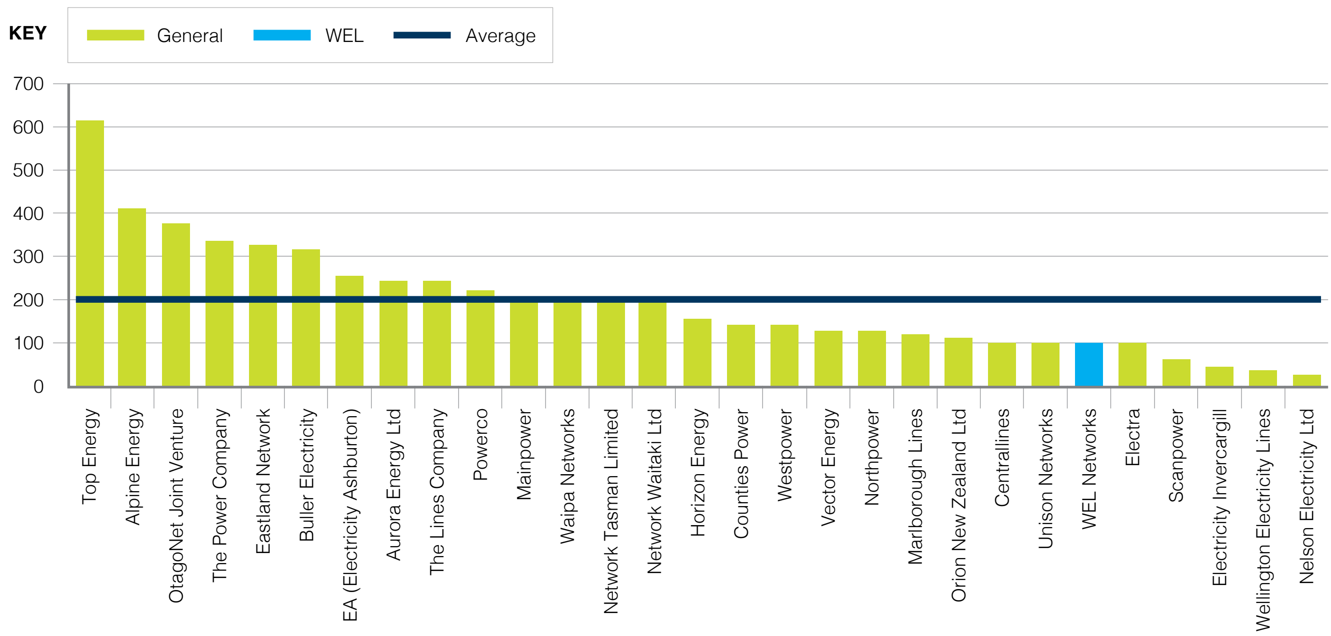
## COST PER CUSTOMER ($/CUSTOMER) YEAR ENDED 31 MARCH 2016




The timing of national benchmarking means that this graph relates to 2016. WEL's cost per customer has increased due to a change in WEL's capitalisation methodology in line with Generally Accepted Accounting Principles (GAAP). However WEL continues to perform well in terms of cost per customer compared with other lines companies.

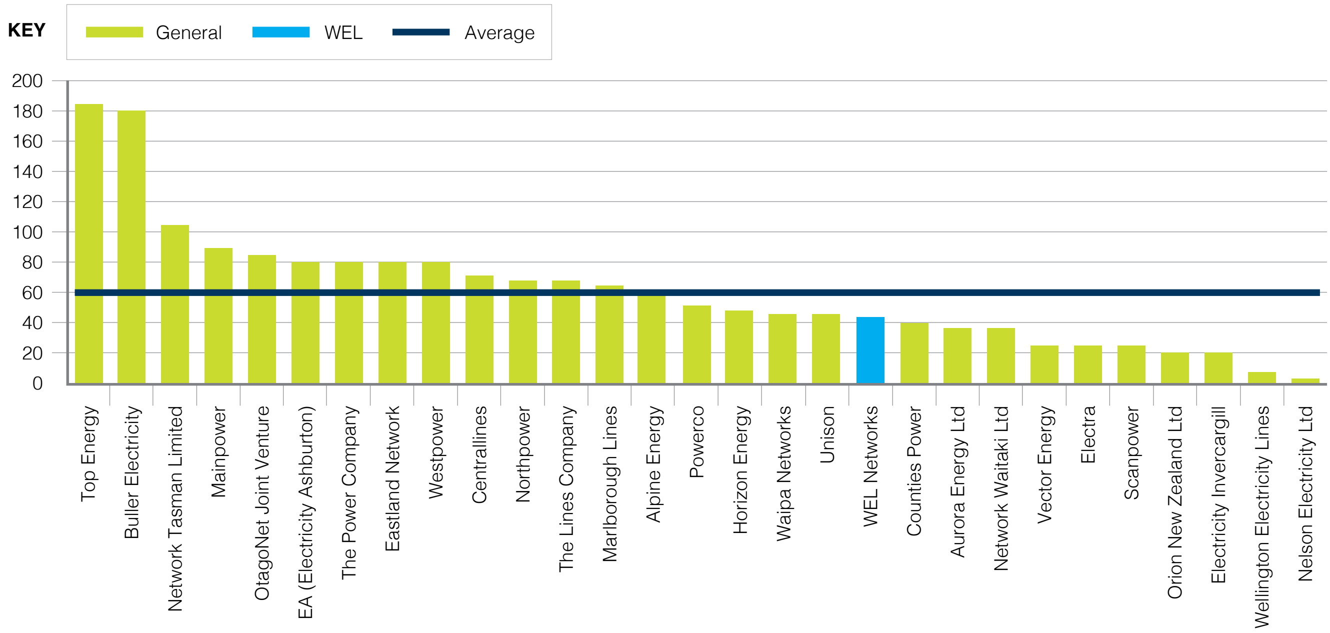
## RELIABILITY OF SUPPLY (TOTAL SAIDI) YEAR ENDED 31 MARCH 2016

### (Average number of minutes that customers were without electricity)



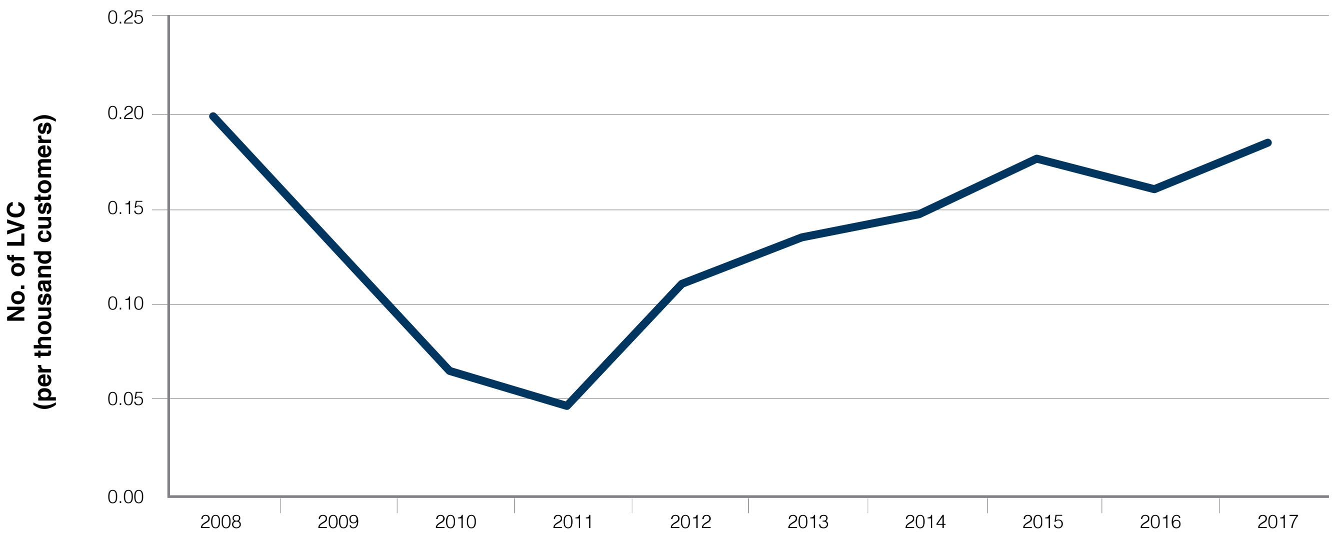

The timing of national benchmarking means that this graph relates to 2016. A continuing high number of vehicle accidents contributed to a worse than target result. However we continue to perform much better than industry average.

## PLANNED OUTAGES YEAR ENDED 31 MARCH 2016



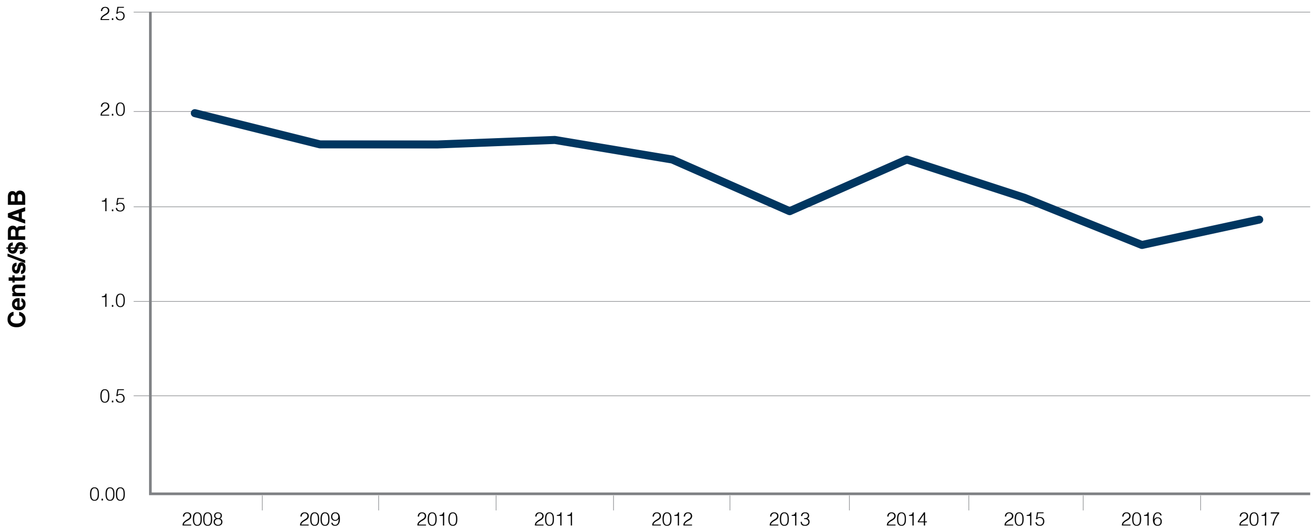

The timing of national benchmarking means that this graph relates to 2016. Planned outages were higher than budget for 2016 due to an increase in planned maintenance work. However, we still remain well under the industry average.

## LOW VOLTAGE COMPLAINTS




Our investment in smart boxes has allowed us to obtain voltage information about the network which we use to proactively address LVCs. Although there was a small increase last year, it is our expectation that the number of LVCs will remain relatively low over time.

## MAINTENANCE EXPENDITURE PER $ OF REGULATORY ASSET BASE




Maintenance expenditure per $ of RAB grew 13% while the regulatory asset base grew by 3%. The increased planned maintenance work was to reduce network risk and improve network performance.

# EXECUTIVE REPORTS

# CHAIRMAN'S REPORT

**The 2016-17 financial year saw the WEL Group continue to grow as a future-focused and innovative infrastructure provider, with a number of strategic initiatives delivered during the year and further work underway on exciting projects such as community solar and data analytics.**

**MARGARET DEVLIN**
**Chairman**

Our vision to expand beyond a traditional lines company has been a key focus over the past 12 months, while maintaining levels of service to our current customers. We successfully executed the first year of WEL Services, our contracting subsidiary, while further investment in Ultrafast Fibre set the stage for us to become a $1 billion multi-utility.

We continue to play a strategic role in the promotion of the national electric vehicle programme through the installation of four fast chargers across the region – sites are operational at Maui Street, Te Kauwhata, Raglan and Waikato Innovation Park. We are working with Hamilton City to install a fifth charger at a central city site.

WEL recognises its role within the Waikato and is fully committed to supporting the economic and social development of the region. We continue to develop and strengthen partnerships with key partners from economic development sectors, local and Central Government and the wider business fraternity.

## INVESTMENTS

In September, WEL Networks Limited announced that we had reached an agreement with Crown Fibre Holdings (CFH) to purchase all of the Government's shares in Ultrafast Fibre Limited. This makes WEL the majority shareholder of Ultrafast Fibre, with partner Waipa Networks Limited retaining a 15% shareholding.

The purchase was an exciting step in WEL's overall growth strategy, and reinforces the business's position as an innovative and future-focused investor in regional infrastructure.

With greater control over our investment we can explore new ways to support economic growth for our business and our communities, both now and into the future.

Ultrafast Fibre successfully bid to extend the Ultra-Fast Broadband (UFB) network to a further 12 central North Island towns. As majority shareholder, WEL, along with partner Waipa Networks, will jointly invest approximately $60 million to fulfil the UFB2 contract. This will bring the total investment in fibre infrastructure to almost $450 million by 2018.

WEL's investment in smart metering in the Top Energy network area is nearing the final stages of the installation phase, with the project due for completion by the end of the 2017-18 financial year.

## FINANCIAL PERFORMANCE

The WEL Group has delivered its first fully consolidated year end results incorporating Ultrafast Fibre Limited. The Net Profit after Tax of $106 million includes the recognition of the fair value gain is $88 million on the previously held interests in UFF. Net profit after tax, exclusive of fair value of $19 million, was $5 million higher than budget due to strong commercial lines consumption, urban development and capitalisation of additional borrowing costs as part of the fibre network build.

## CUSTOMERS

WEL consistently strives to find ways to reduce the cost of electricity to our customers and to share in our company's success. This year we delivered a total of $22 million (including GST) to WEL Networks customers across the region via the annual WEL discount. Over the past 15 years approximately $293 million has been returned to our communities.

In support of our 'Best in Service' vision we have commenced the implementation of an online connection portal which will deliver a more efficient service to our residential and commercial customers.

## SAFETY

At WEL Networks safety is our highest priority. We are committed to ensuring there is sufficient focus on keeping our staff and our community safe. Directors actively participated in work site observation visits which provided an opportunity to observe health and safety at an operational level; this helps strengthen the understanding of Health and Safety in the business. The Board endorsed the Company's Health, Safety and Wellbeing strategy which sets the future direction and ensures that focus is maintained in this area.

## REGULATION

We engage constructively with our regulators and continue to monitor the regulatory environment including recent consultations on the Transmission Pricing Methodology, IRD review of the discount tax status and the extended reserves market.

Whilst WEL is exempt from pricing regulation we remain committed to maintaining our price and quality performance in line with the regulated companies.

## MANAGEMENT AND STAFF

A highlight for our team this year was WEL Networks' Garth Dibley, being named CEO of the Year at the Waikato Chamber of Commerce annual business awards while WEL Networks Asset Management General Manager, Paul Blue, was a finalist in the Emerging Leader of the Year category. Congratulations to Richard Jeffares of Ultrafast Fibre who won this category.

During the year we farewelled three members of the Executive team. Our appreciation and thanks to David van Deventer, General Manager WEL Services (who completed 9 years of service with the business), David Fuller, General Manager People and Performance and Sean Horgan, General Manager Technology.

Congratulations to Vicky Costain, who has been appointed to the position of General Manager, People and Performance.

## LOOKING FORWARD

The Waikato region is enjoying significant growth. WEL continues to take a progressive approach, engaging with key business and community partners to ensure our programme of work will benefit them in the short and long-term and that we will continue to be an innovative business leader and trusted member of the community.

I would like to thank the WEL Board of Directors for their support during my ten year tenure as a Director and in particular for the past three years in my role as Chairman.

To Garth, the Executive team and all WEL staff, I look forward to observing your continued dedication and future successes in delivering innovative energy solutions and helping to build sustainable communities.

# CHIEF EXECUTIVE'S REPORT

**WEL Networks plays an important role in enabling communities across the Waikato by providing essential infrastructure services. The past 12 months have certainly provided a variety of opportunities for our team to enhance our traditional services and grow our business.**

**GARTH DIBLEY**
**Chief Executive**

Safety continues to be a key focus for management and staff and a number of new initiatives to improve safety performance have been developed and introduced.

During the year the Company successfully completed a major transaction by purchasing the Government's shares in Ultrafast Fibre leaving WEL's subsidiary Waikato Networks Limited as the sole shareholder.

At the start of the year we launched WEL Services, our field delivery arm, which is operating as a wholly owned subsidiary. The change was implemented to ensure a more efficient operation with financial transparency.

## FOCUS ON SAFETY

In support of our 'Best in Safety' vision WEL commenced a two year programme to significantly increase our focus on health and safety and improve the engagement of all staff in this vital aspect of our business. The programme is ambitious. It contains five work streams and 40 distinct pieces of work, some of which are quite large standalone projects, which are to be delivered over a two year period (2016-2018). The programme has been one of WEL's key strategic plan delivery streams for the two year period.

Our Public Safety Management System (PSMS) received a successful audit result, based on our network assets being managed efficiently to minimise risk to the public and we again achieved tertiary accreditation in our annual ACC Workplace Safety Management System audit.

As part of our contractor and community safety programme we have also increased industry engagement to promote the need for safety when working on and around our network. Additionally we introduced the first stage of a public safety campaign incorporating traditional print and media channels along with the introduction of social media messaging.

## STRATEGIC INVESTMENTS

The decision to purchase the Government's shares in Ultrafast Fibre reinforced WEL's position as an innovative and future-focused investor in infrastructure.

One key initiative is WEL Smart Services; the programme that is capitalising on our investment in smart metering technology. Following the successful rollout of smart meters in our region WEL has developed in-house data analytics expertise using the smart meter data available to us. This has now developed into a commercial opportunity for WEL as we have started offering data analytics services to other lines companies.

WEL is investigating the opportunity to generate onto its own network and sell directly to customers. The trial phase of this project will see the development of a community solar initiative. 76kW of solar panels are being installed on the WEL Depot roof and will be connected behind WEL's meter so that the energy generated can either be used for WEL consumption or, as a proof of concept, exported to the network as a solar product.

Due to the predicted significant increase in electric vehicles on New Zealand roads we have expanded our electric vehicle infrastructure by installing an additional three electric vehicle fast chargers; one each in Te Kauwhata, Raglan, Waikato Innovation Park with a fourth scheduled for central Hamilton mid 2017.

## PRICING

WEL updated its tariffs this year to emphasise the importance of cost reflectivity and customer education. Large Commercial customer pricing was enhanced through changing the peak metric to more closely align to a customer's impact on our network and introducing a capacity charge. These changes were implemented to improve the cost reflectivity at an individual customer level. A pamphlet detailing the changes was sent out to all Large Commercial customers to increase understanding of the tariffs and the possible impact on customers.

## REGIONAL GROWTH

The Waikato has continued to experience significant growth in the housing and commercial sectors and WEL is playing a key role in supporting that development. This year we produced over 1,100 quotes for potential new work on our network representing a 30% increase on the 12 months prior. This sustained demand for network connections and reconfiguration has resulted in longer lead times for completing work than we would have liked. To address this issue we increased our staff numbers in our Customer Works team and have recently introduced an online application system for new work requests on WEL's network aimed at providing greater efficiency for WEL and our customers.

We are playing a major role in the construction of the Waikato Expressway, undergrounding and relocating WEL assets along the Hamilton, Rangiriri and Huntly sections with additional work programmed for the Long Swamp section in the 2017/18 financial year.

## RELIABILITY

WEL continues to perform strongly when compared with other lines companies for reliability. The 2016 benchmarking results show WEL was ranked in the lowest quartile for outages. WEL's regulated SAIDI result for 2016-17 was 82.63 minutes against a target of 78.55; over target by 4.08 minutes. Unfortunately this result was impacted mainly by the number of car versus pole incidents and significant storm events throughout the Waikato.

## ASSET MANAGEMENT PLAN

WEL's Asset Management Plan (AMP) underwent its annual update earlier this year. Due to the significant changes in the previous two plans only minor changes were required this year. The 2017 update covers the planning period from 1 April 2017 to 31 March 2027 and provides the latest information relating to our key initiatives, performance, forecast network and non-network investments and our long-term strategies for asset management. A copy of the latest AMP can be found on WEL's website.

## IN SUMMARY

Overall the 2016-17 year has been an exciting one for WEL with a number of initiatives being successfully progressed.

Thank you to the Board of Directors for your support this year and especially to our Chairman, Margaret Devlin, who will be standing down from her role at the AGM after ten years on the WEL Board.

Finally, at this year's Waikato Business Awards I had the opportunity to formally acknowledge the hardworking and committed team at WEL Networks. To reiterate that message, I believe that success as a Chief Executive is a reflection of amazing team effort and I feel privileged to lead the WEL team.

# WEL NEWS

# WEL NEWS

01

## 1/4/16

### WEL SERVICES GOES LIVE

The services division of WEL Networks will operate as a wholly owned subsidiary of the parent company under the umbrella, WEL Services.

"The change follows a review of our operating model to better align ourselves with best practice commercial entities. It is also an opportunity to leverage our knowledge and capabilities, allowing us to provide services beyond distribution. The WEL Services name is registered with the companies office but there will be little, if any, visible change. The WEL Networks brand will remain across all assets."

02

## 21/5/16

### MAJOR AUTUMN STORM AFFECTS NETWORK

A one-in-100 year storm is subjecting the WEL network to wind debris and multiple lightning strikes, with the lightning causing the vast majority of power outages across the region. Late on Friday night the Raglan/Te Uku area was hit by multiple lightning strikes and what is being described as a mini tornado, causing widespread outages in the area. "Our crews have attended to these outages all day and the majority of the supply has been restored. We're asking the public to keep themselves safe by staying clear of downed power lines."

03

## 1/6/16

### CHECK THIS MONTH'S POWER ACCOUNT FOR YOUR WEL NETWORKS DISCOUNT

Over $22 million (including GST) has been distributed to customers across the region in WEL's annual dispersement of discount funding.

"As part of WEL's commitment to the region's growth, we're constantly looking for ways to reduce the cost of electricity to the people and businesses of the Waikato. One of our major initiatives is the WEL Discount programme which gives all WEL customer's in the Waikato network area a share of our success."

Nearly $273 million has been distributed since the programme started 14 years ago.

04

## 29/7/16

### STOP FOR SAFETY

Closing the office and downing tools for half a day would send any business into a spin. But that's exactly what we did to ensure everyone understands the role they play in helping their workmates go home safely from work every day.

"The event was highly engaging and definitely hit the mark. Some people spoke about wanting to see their kids at the end of the day, others shared stories of how injuries had affected their work environment and their family. This activity demonstrates our commitment to ensuring everyone makes it home safe every day."

05

15/8/16

## WAIKATO TEAMS POWER UP THE BAY

After severe winter weather hit customers in the Taupo Plains WEL Networks staff were onsite to help Unison restore power to around 200 customers. Limited access to the biggest areas impacted by outages had meant some customers were without power for a couple of weeks.

"Waikato experienced a major weather event earlier in the month which caused significant power outages to our communities so we appreciate how challenging this situation was for our Unison colleagues."

06

7/9/16

## WEL NETWORKS TAKES MAJORITY SHAREHOLDING IN ULTRAFAST FIBRE

WEL Networks Limited reached an agreement with Crown Fibre Holdings to purchase all of the Government's shares in Ultrafast Fibre Limited. This makes WEL the majority shareholder of Ultrafast Fibre, with partner Waipa Networks Limited retaining its current shareholding.

"We are looking forward to a positive future together, and given our experience and track record we are eager to work with the Government and CFH on upcoming initiatives such as UFB2 and the rollout of rural broadband (RBI)."

07

2/12/16

## NEW SITES FOR ECO-SAVVY DRIVERS

The installation of four more electric vehicle fast chargers in the Waikato could encourage the uptake of electric vehicles across New Zealand. WEL Networks Asset Management General Manager Paul Blue says the company is installing additional electric vehicle fast chargers in Te Kauwhata, Raglan and Innovation Park, with another scheduled for installation in central Hamilton in the New Year. Mr Blue says the business decision to install additional chargers around the region highlights WEL's commitment to help expand the electric vehicle footprint.


08

1/2/17

## SMART METER – SMART DATA

The simple task of being able to remotely 'ping' a customer, and understand what's happening at that site, puts WEL Networks into the same customer engagement space as telco networks and positions us to be at the fore of all other lines companies operating in New Zealand.

"We've gained significant expertise in Smart Meter data analytics and we're utilising that data to provide greater value to the network. We're focusing on improving customer service, increasing operational efficiency, providing greater savings on capital expenditure and reducing outage times per customer."

# DIRECTORS & EXECUTIVE MANAGEMENT

# DIRECTOR PROFILES


Margaret is a professional Director operating predominantly in the infrastructure and service sector. Her current governance portfolio is as follows; Chairman of Harrison Grierson, the Waikato Spatial Plan Joint Committee, Titanium Park Limited, Watercare Limited and the Women in Infrastructure Network. Margaret is a Director of City Care Limited, Indepen NZ Limited, Waikato Regional Airport Limited, Meteorological Services of New Zealand Limited and IT Partners Group Limited. She is also a Member of the National Infrastructure Advisory Board, is Chair of the Waikato District Council Audit and Risk Committee and is a member of the University of Waikato Finance and Audit Committee. She is a Chartered Fellow of The Institute of Directors In New Zealand Limited and is a member of the Waikato Branch Committee. Margaret has had significant experience in both the retail and infrastructure sectors. Margaret joined the Board in 2007 and was appointed Chair in 2014.


Paul was the Chief Executive of Tatua Co-operative Dairy Company, based in Morrinsville, from 2008 until the end of 2016. He was also Chairman of the Japan, USA and Shanghai subsidiaries. Tatua's focus is the manufacturing and marketing of complex value added products for the world's food industry. Prior to that he was the Chief Executive of HortResearch, the largest plant and fruit research organisation in the world. Paul's career to date has included business development and general management roles in a number of industries, including science, automotive, infrastructure and food, both in New Zealand and overseas. Paul is currently a Director of Waikato Milking Systems Limited. Paul was appointed to the Board in October 2009.


Mark is currently Chief Executive of the Stevenson Group based in Auckland. He is well known in New Zealand business and has previously held the roles of Chief Executive of Vector Limited and founding Chief Executive of TZ1, the global carbon registry. Mark is also a Director of the Auckland Chamber of Commerce and Industry Limited and a Director of Ultrafast Fibre Limited and a former Director of New Zealand Railways Corporation. Mark has been a member of the Prime Minister's Climate Change Leadership forum and the Australia New Zealand Joint Prime Ministers Leadership Forum. His other senior roles have included; Director of Operations for IBM Global Services Australia/New Zealand, Chief Executive of Interpath Australia and Executive Chairman of OSIX. Mark was appointed to the Board in October 2009.

## ANTHONY (TONY) STEELE

Tony is a Chartered Accountant and has had a career in professional practice. He joined KPMG in 1988. His specialty area was in Business Advisory Services, which included a wide range of commercial and corporate services. Tony retired from the practice in December 2009, after having served 11 years as the Managing Partner of the Hamilton office and a similar term on KPMG's National Management Board. He is a fellow of the Institute of Directors. Tony has been an Independent Director and Chairman of Maisey Group (formerly Forlong and Maisey) Limited since 2002. He also sits on the Boards of several subsidiaries of Maisey Group Limited in both New Zealand and Australia. Since retiring from KPMG, Tony has accepted appointments as an Independent Director of several local private companies including Innovation Waikato Limited, Waikato Innovation Park Limited and Aduro GP Limited. Tony is also a Director of Ultrafast Fibre Limited. Tony was appointed to the Board in October 2010.

## BARRY HARRIS

Barry has extensive governance and executive experience. 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. Barry is currently Chairman of New Zealand Food Innovation (Waikato) Limited and Agricultural Services Limited and is Acting Chairman of Dairy NZ Limited. He is also a Director of Dexcel Limited, Primary ITO, TB Free New Zealand Limited, National Animal Identification and Tracing (NAIT) Limited, Te Awa River Trust Trustee, OSPRI (formerly Animal Health Board) and RMF Limited. Previous boards include CentrePort, RD1, International Nutritionals, Hamilton Riverside Hotels and Local Authority Shared Services. Barry was appointed to the Board in October 2014.

## DAVID WRIGHT

David is a professional company director and business consultant. He has held Chief Executive and senior management positions in the primary production, transport and electricity industries across both the private and state sectors. Previous appointments include Director of the Land Transport Safety Authority, Chairman of Ports Authority Tonga, Chairman and Acting Chief Executive of Tonga Power Limited, Chair of West Coast Energy Pty Limited and Chief Executive of Dairy InSight Incorporated. David is currently independent Chairman of the Air Rescue Group and Establishment Chair of Solomon Islands Airport Corporation Limited. He is a Director of Wellington Water Limited and NZRS Limited and is a Director on the Advisory Board of the Global Safety Index Pty Limited. David was appointed to the Board in October 2014.

# CORPORATE GOVERNANCE

## BOARD OF DIRECTORS

The Board is appointed by the shareholder and is responsible for setting and monitoring the direction of the Company. It delegates day to day management of the Company to the Chief Executive. The Board operates in accordance with the WEL Networks Corporate Governance Charter, adopted in October 2005 and most recently amended in July 2016 after rigorous review by the Board to capture the current governance regime for the Company. Additionally, the Board endorses the principles set out in the IoD Code of Practice for Directors. The Board receives monthly reports from management and meets at least eight times during each financial year. The Constitution specifies that there shall be no less than four and no more than six Directors of the Company at any time.

**The Board has two operating committees:**

(a) The Remuneration Committee; assists the Board to develop the Company's remuneration policy, sets the Chief Executive's and his direct reports' remuneration packages and all other matters relevant to ensuring a committed and competent workforce; and

(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, liaises with the external auditors and reviews internal and external controls relevant to financial reporting, risk management and associated matters, operating under a charter approved by the Board.

## RISK MANAGEMENT

The Audit and Risk Committee of the Board oversees the Company's risk management programme. The Company has an Executive Risk Management Committee which ensures that appropriate risks are identified and mitigated where possible and that all policies and procedures consider risk when drafted. This committee is responsible for providing detailed risk reports to the Audit and Risk Committee of the Board on a six monthly basis, and a summarised report on risk to each full Board meeting. 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 Company's internal audit programme to ensure they are effective in managing or mitigating known risks.

## COMPLIANCE

The Company has a programme in place to review compliance on an ongoing basis across all aspects of its business. To enhance the existing programme ComplyWith a compliance assessment has been introduced 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 2016-17 internal audit programme was provided by KPMG and our internal auditor. During the year specific external reviews were undertaken in the areas of; health and safety governance, works planning, scheduling and dispatch, third party contributions, month end financial processes and a review of historical capitalised costs in assets under construction.

## ENVIRONMENTAL AND HEALTH AND SAFETY ISSUES

The Board recognises the importance of environmental and health and safety issues. It is committed to the highest levels of performance in all areas of the Company. Health and safety and environmental management programmes have been adopted by the Company. The Company also seeks to assess and improve its performance and standards in these areas, to use energy and other natural resources efficiently, and requires the adoption of similar standards by its suppliers and contractors.

## INDEMNIFICATION AND INSURANCE OF OFFICERS AND DIRECTORS

The Company is 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 REGISTER

Directors must identify any potential conflict of interest they may have in dealing with the Company's affairs. 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 affix the seal to any document in which they are interested. The Company maintains an interests register to record particulars of transactions or matters involving Directors. It is available for inspection at the Company's registered office.

Additionally, the Company has in place an interests register for Executive Managers and other Senior Managers to record potential conflicts of interest.

## DIRECTORS' DISCLOSURES OF INTEREST

**New Directorships from 1 April 2016 to 31 March 2017**

**Margaret Devlin (Chairman)**

As Chairman of Watercare Limited and of the Women in Infrastructure Network.

**Anthony (Tony) Steele**

As Director of Aduro GP Limited.

**Paul McGilvary**

As Director of Waikato Milking Systems Limited.

**David Wright**

As Director on the Advisory Board of Global Safety Index Pty Limited and as Establishment Chair of Solomon Islands Airport Corporation Limited.

# EXECUTIVE MANAGEMENT

## AS AT 31 MARCH 2017

### GARTH DIBLEY
**Chief Executive**

Garth has extensive experience in the generation, retail, transmission, and distribution sectors of New Zealand's electricity industry. He took up the position of Chief Executive at WEL Networks in September 2014.

Garth has previously held leadership roles at both Transpower and Meridian Energy. Appointed as General Manager Grid Performance at Transpower in 2010, he led operations and asset maintenance functions of the national grid. Prior to this, Garth was based at Meridian Energy, working as General Manager Markets and Production and then General Manager External Relations.

Garth has a Bachelor of Engineering (Mechanical) from the University of Canterbury and an MBA from Waikato University. He has completed executive training programmes at Kellogg and INSEAD business schools of management.

### PAUL BLUE
**General Manager Asset Management**

Paul brings strong technical and management skills to his role at WEL Networks, which he took up in January 2015.

He is responsible for leading WEL's Asset Management team, which oversees the functions of network planning and design, asset performance, quality and investment and system control. Prior to joining WEL Networks, Paul spent 13 years at Transpower (New Zealand national grid operator) in roles that included project management for the North Island Grid Upgrade project and as Upper North Island Regional Manager.

Paul has an Honours degree in electrical engineering and has recently graduated with an MBA from Auckland University.

### RICHARD BARNARD
**General Manager Commercial**

Richard has led WEL Networks' Commercial arm, incorporating Regulatory Pricing, Procurement and Business Assurance, since he joined the team in August 2015. He also plays a key role in WEL's investor relations, particularly with regard to the implementation of the nationwide Ultra-Fast Broadband (UFB) project.

Richard has proven commercial acumen and skill in implementing business change initiatives. Prior to joining WEL, he provided professional consulting services through PwC and EY and spent seven years at Virgin Mobile and Virgin Media in the UK. His experience in the electricity industry includes managing Transpower's Asset Management transformation programme, which achieved certification in PASS 55/ISO 55000. Richard also supported Meridian Energy to successfully establish and implement its retail electricity company, Powershop.

Richard holds a Bachelor of Arts and Master of Arts in Applied Research from Victoria University.

**BELLA TAKIARI-BRAME**
**General Manager Finance**

Bella is a Chartered Accountant with Global and Financial Controller proficiency. She joined WEL Networks in September 2015, having gained a range of international experience including leading global teams within the world's largest corporate treasury.

Bella is experienced in valuation of corporate financial derivatives, hedge accounting and global process standardisation. She has overseen entities in Europe, USA and Asia with a combined value of US$100 billion.

Before returning to New Zealand in 2013, Bella spent nine years in the United Kingdom working for Shell International. She was a Senior Manager for EY prior to taking up WEL's General Manager Finance role.

With a Masters in Management Studies from Waikato University, Bella is a member of CAANZ and the Association of Corporate Treasurers in the UK. She is a former Director of Portfolio Investments Limited for Te Ohu Kaimoana Group (The Māori Fisheries Trust) and has recently been elected as a Trustee for Maniapoto Māori Trust Board.

**DAVID VAN DEVENTER**
**General Manager WEL Services**

Originally joining the WEL team in 2008, David previously held Human Resources Management positions with Umgeni Water in South Africa and Watercare Services Limited in Auckland.

David was initially WEL's Human Resources Manager and subsequently General Manager Operations, in charge of network operations and maintenance and capital project delivery. He also manages a field force responsible for construction and maintenance of overhead services, underground services and substations.

In April 2016, he was appointed General Manager of WEL Services; the services division of WEL Networks which now operates as a wholly owned subsidiary.

**SEAN HORGAN**
**General Manager Technology**

Sean joined WEL Networks in May 2016, returning to the Waikato after three years as CEO for West Coast Energy Pty Ltd. With over 20 years' of successful business development, strategic management and operational leadership experience within the energy sectors of Asia, UK, Australia and New Zealand. His career includes time with entities such as Northpower, Alstom, Meridian Energy and Mighty River Power. Sean holds a Master of Management Studies from Waikato University (majoring in Management Systems), has completed post graduate courses at INSEAD and London Business School, and in 2012, was a recipient of the NZ Prime Minister's Business Scholarship.

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**VICKY COSTAIN**
**Acting General Manager People & Performance**

Vicky joined WEL Networks in 1998 and has held a number of roles within the organisation; from leading the risk, insurance, business continuity and internal audit functions through to her recent secondment as Acting General Manager for the People and Performance Group. Managing the Human Resources, Organisation Development, Health and Safety, Communications and Customer Services functions in the business she is responsible for ensuring these core business functions align with and support WEL's business strategy, culture and values. Vicky has a Bachelor of Arts degree and a Post Graduate Certificate in Management Studies from the University of Waikato.

# WEL ENERGY TRUST

## AS AT 31 MARCH 2017

**WEL Energy Trust was formed in 1993 for the purpose of holding shares in the lines company, WEL Energy Group. The Trust is governed by a board of up to seven trustees, who are elected every three years.**

Their vision – to support "A forward thinking, vibrant, connected Community" and they do this by being diligent shareholders and investors, and by using its income as effectively as possible to benefit the Community.

Since its inception it has invested over $60 million through community and energy efficiency grants in the Waikato region.

The Trust has eight grants rounds per year and focuses on delivering benefits to the community in these main areas.

*Pictured L-R: Denise Harding (Deputy Chair), Rob Hamill, Mark Ingle (Chair), Brad Chibnall, Kathryn Williams and Charlotte Isaac.*

# FINANCIAL STATEMENTS

# FINANCIAL STATEMENTS

# WEL NETWORKS LIMITED

## Statement of comprehensive income

**For the year-ended 31 March 2017**

| | Notes | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| Revenue | 3 | 176,872 | 204,218 |
| Expenses, excluding finance costs | 4 | (108,355) | (154,427) |
| Earnings before interest, taxes, depreciation and amortisation expenses (EBITDA) and interest in associate | | 68,517 | 49,791 |
| Depreciation and amortisation expense | 4 | (34,511) | (24,698) |
| Earnings before interest and tax (EBIT) and interest in associate | | 34,006 | 25,093 |
| Finance costs – net | 5 | (8,866) | (7,247) |
| Share of net profits/revaluations of existing interest in associates | 20 | 87,234 | (2,160) |
| Profit before income tax | | 112,374 | 15,686 |
| Income tax expense | 6 | (6,509) | (4,807) |
| **Profit for the year** | | 105,865 | 10,879 |
| **Other comprehensive income** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Disposal of property, plant and equipment (net of tax) | 17 | 566 | 773 |
| **Items that may be subsequently reclassified to profit or loss** | | | |
| Cash flow hedges (net of tax) | 17 | 2,452 | (4,439) |
| **Other comprehensive income/(loss) for the year, net of tax** | | 3,018 | (3,666) |
| **Total comprehensive income for the year** | | 108,883 | 7,213 |
| **Profit is attributable to** | | | |
| Owners of WEL Networks Limited | | 93,745 | 12,513 |
| Non-controlling interest | | 12,120 | (1,634) |
| | | 105,865 | 10,879 |
| **Total comprehensive income for the year is attributable to** | | | |
| Owners of WEL Networks Limited | | 96,763 | 8,847 |
| Non-controlling interest | | 12,120 | (1,634) |
| | | 108,883 | 7,213 |

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

# WEL NETWORKS LIMITED

## Balance sheet

As at 31 March 2017

| | Notes | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **5,612** | 4,049 |
| Trade and other receivables | 7 | **19,864** | 24,029 |
| Current tax receivables | 6 | **2,513** | 540 |
| Construction work in progress | 9 | **-** | 32,062 |
| **Total current assets** | | **27,989** | **60,680** |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | **987,772** | 578,068 |
| Intangible assets | 10 | **76,255** | 12,583 |
| Investment in associate | | **-** | 134,455 |
| Derivative financial instruments | 23 | **892** | - |
| **Total non-current assets** | | **1,064,919** | 725,106 |
| **Total assets** | | **1,092,908** | 785,786 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **10,787** | 37,378 |
| Loan from non-controlling interest | 19 | **63,336** | 30,455 |
| Provisions | 12 | **3,811** | 2,282 |
| Deferred income | | **8,952** | - |
| Customer discount payable | | **17,391** | 18,836 |
| **Total current liabilities** | | **104,277** | **88,951** |
| **Non-current liabilities** | | | |
| Borrowings | 14 | **381,707** | 199,859 |
| Provisions | 13 | **481** | 567 |
| Deferred income | | **974** | 1,167 |
| Derivative financial instruments | 23 | **5,457** | 7,972 |
| Deferred tax liabilities | 15 | **82,715** | 75,280 |
| **Total non-current liabilities** | | **471,334** | 284,845 |
| **Total liabilities** | | **575,611** | 373,796 |
| **Net assets** | | **517,297** | 411,990 |
| **EQUITY** | | | |
| Contributed equity | 16 | **150,142** | 150,142 |
| Reserves | 17 | **153,250** | 152,256 |
| Retained earnings | 17 | **205,121** | 112,928 |
| | | **508,513** | 415,326 |
| **Non-controlling interest** | | **8,784** | (3,336) |
| **Total equity** | | **517,297** | 411,990 |

**For and on behalf of the Board:**

**Margaret Devlin**
Chairman
25 May 2017

**Paul McGilvary**
Director
25 May 2017

*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 2017**

| | Notes | Share capital $'000 | Convertible note $'000 | Reserves $'000 | Retained earnings $'000 | Total $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|
| Balance as at 1 April 2015 | | 111,142 | 39,000 | 158,682 | 100,462 | 409,286 | (1,702) | 407,584 |
| **Comprehensive income** | | | | | | | | |
| Profit/(loss) for the year | | - | - | - | 12,513 | 12,513 | (1,634) | 10,879 |
| Movement in revaluation from disposal of distribution network assets (net of tax) | 17(a) | - | - | (1,987) | 2,760 | 773 | - | 773 |
| Cash flow hedges (net of tax) | 17(a) | - | - | (4,439) | - | (4,439) | - | (4,439) |
| **Total comprehensive income** | | - | - | (6,426) | 15,273 | 8,847 | (1,634) | 7,213 |
| **Transactions with owners** | | | | | | | | |
| Interest on convertible note | 17(b) | - | - | - | (2,456) | (2,456) | - | (2,456) |
| Dividends | 17(b) | - | - | - | (351) | (351) | - | (351) |
| **Total contributions by and distributions to owners** | | - | - | - | (2,807) | (2,807) | - | (2,807) |
| Balance as at 31 March 2016 | | 111,142 | 39,000 | 152,256 | 112,928 | 415,326 | (3,336) | 411,990 |

| | Notes | Share capital $'000 | Convertible note $'000 | Reserves $'000 | Retained earnings $'000 | Total $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|
| Balance as at 1 April 2016 | | 111,142 | 39,000 | 152,256 | 112,928 | 415,326 | (3,336) | 411,990 |
| **Comprehensive income** | | | | | | | | |
| Profit/(loss) for the year | | - | - | - | 93,745 | 93,745 | 12,120 | 105,865 |
| Movement in revaluation from disposal of distribution network assets (net of tax) | 17(a) | - | - | (1,458) | 2,024 | 566 | - | 566 |
| Cash flow hedges (net of tax) | 17(a) | - | - | 2,452 | - | 2,452 | - | 2,452 |
| **Total comprehensive income** | | - | - | 994 | 95,769 | 96,763 | 12,120 | 108,883 |
| **Transactions with owners** | | | | | | | | |
| Interest on convertible note | 17(b) | - | - | - | (2,449) | (2,449) | - | (2,449) |
| Dividends | 17(b) | - | - | - | (1,127) | (1,127) | - | (1,127) |
| **Total contributions by and distributions to owners** | | - | - | - | (3,576) | (3,576) | - | (3,576) |
| Balance as at 31 March 2017 | | 111,142 | 39,000 | 153,250 | 205,121 | 508,513 | 8,784 | 517,297 |

*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 2017**

| | Notes | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **165,239** | 203,550 |
| Payments to employees and suppliers | | **(116,123)** | (137,738) |
| Income taxes paid | | **(3,927)** | (2,498) |
| **Net cash inflow / (outflow) from operating activities** | 26 | **45,189** | 63,314 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | **(78,099)** | (42,646) |
| Purchases of intangible assets | | **(3,745)** | (2,588) |
| Purchase of investments (net of cash) | | **(164,621)** | (74,418) |
| **Net cash inflow / (outflow) from investing activities** | | **(246,465)** | (119,652) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **215,281** | 74,893 |
| Interest paid | | **(8,866)** | (8,739) |
| Interest on convertible notes | | **(2,449)** | (2,456) |
| Dividends paid | | **(1,127)** | (351) |
| **Net cash inflow / (outflow) from financing activities** | | **202,839** | 63,347 |
| Net increase (decrease) in cash and cash equivalents | | **1,563** | 7,009 |
| Cash and cash equivalents at the beginning of the financial year | | **4,049** | (2,960) |
| **Cash and cash equivalents at end of year** | | **5,612** | 4,049 |

*The above statement of cashflows should be read in conjunction with the accompanying notes.*

# WEL NETWORKS LIMITED

**Notes to the financial statements**

**For the year-ended 31 March 2017**

## 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 also delivers the Government Ultrafast Fibre roll out programme for fibre services in the Waikato, Tauranga and Taranaki areas.

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 25 May 2017.

Once issued the entity's owners do not have power to amend these financial statements.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements include the consolidated entity consisting of WEL Networks Limited and its subsidiaries.

### (a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS, as applicable for-profit oriented entities. They comply with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS.

The Group presents the statement of comprehensive income to include non GAAP measures of EBIT and EBITDA as they are more appropriate measurements of the operations and covenants requirements of the Group.

#### Statutory base

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

The financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and are a for-profit entity.

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.

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

### New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 April 2017, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- **NZ IFRS 9, 'Financial instruments'**, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group intends to adopt NZ IFRS 9 on its effective date and is currently assessing its full impact.
- **NZ IFRS 15: 'Revenue from contracts with customers'**, NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group intends to adopt NZ IFRS 15 on its effective date. The Group anticipates that application of the new standard will affect the recognition of activation charges, though this is not expected to be material to the financial statements. The Group continues to assess the full impact of the standard.
- **NZ IFRS 16: 'Leases'**, (Effective date: periods beginning on or after 1 January 2019) NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The Group intends to adopt NZ IFRS 16 on its effective date as the current cost of off balance sheet lease obligations have been assess as material for the Group as disclosed in Note 18.
- There are no other NZ IFRSs or NZ IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

**Critical accounting estimates**

The preparation of 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 disclosed in note 2.

### (b) Principles of consolidation

*(i) Subsidiaries*

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

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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

*(ii) 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.

### (c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and GST. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described on the following page.

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

*(i) Electricity Line revenue*

The Group invoices its customers (predominately electricity retailers) monthly for electricity delivery services across the region's lines network. The reported net line revenue includes the provision for the annual customer discounts that are accrued on a monthly basis but only paid to customers once a year. Unclaimed discounts are released against the statement of comprehensive income.

*(ii) Sale of fibre network access services*

The Group recognises revenue as it provides services to retail service providers. Billing for network access services are made on a monthly basis. Unbilled revenue from the date of connection to the billing cycle date 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. Revenue from installations and connections are recognised upon completion of the installation or connection.

*(iii) Sales of services, contracting sales and third party contributions*

Sales of services, contracting sales and third party contributions are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

*(iv) Operating lease revenue*

Operating lease revenue is recognised on a straight-line basis over the term of the lease.

*(v) Interest income*

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

*(vi) Dividend income*

Dividend income is recognised when the right to receive payment is established.

### (d) 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.

# WEL NETWORKS LIMITED

**Notes to the financial statements**

**For the year-ended 31 March 2017 *(continued)***

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 is provided on temporary differences arising on investments in subsidiaries and associates, except for a deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

### (e) Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

### (f) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss component of the statements of comprehensive income within 'other expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the profit and loss component of the statement of comprehensive income.

### (g) Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (h) Property, plant and equipment

Land and buildings are recorded at fair value, based on valuations by external independent valuers, less subsequent depreciation 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 amount. The electricity distribution and

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

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 on at least a triennial period. 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 are stated at historical cost less depreciation. 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 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 will flow to the Group and the cost of 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, connection and software 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.

Increases in the carrying amount arising on 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 income statement.

Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement, and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

Land is not depreciated and assets under construction are not depreciated until the asset is ready for use. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 35 years |
| Distribution 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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within expenses in the statement of comprehensive income.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

### (i) Intangible assets

*(i) Goodwill*

Goodwill arises on consolidation of the Waikato Networks Group due to the acquisition of Ultrafast Fibre Limited

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

by Waikato Networks Limited. Goodwill also arises on the acquisition of the Velocity network assets from Waikato Networks Limited, using predecessor accounting provisions.

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.

*(ii) Computer 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 or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable 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.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed five years.

*(iii) 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).

*(iv) Leasehold Interest*

Long-term leasehold interest in substation land has been recorded at fair value. The assets will be amortised over the period of the leases on a straight-line basis.

### (j) Investments and other financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

#### Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date which is the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss component of the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

transferred substantially all risks and rewards of ownership. Financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value are presented through the profit and loss component of the statement of comprehensive income statement within expenses in the period in which they arise.

Dividend income from financial assets at fair value is recognised in the profit and loss component of the statement of comprehensive income as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

#### Impairment of financial assets

*(i) Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income.

### (k) Financial liabilities

#### Other financial liabilities at amortised cost

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 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.

### (l) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### (m) Trade and other payables

Trade payables are obligations to pay for goods or 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 (or in the normal operating cycle of the business if longer). 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.

### (n) Employee benefits

#### 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 'other payables' 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.

#### 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.

#### Employee benefits

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 a constructive obligation.

### (o) Interest bearing liabilities

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.

### (p) 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.

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

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

### (q) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss 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:

1. hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
2. hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
3. hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 23. Movements on the hedging reserve in other comprehensive income are shown in note 17. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining 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.

*(i) Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss component of the statement of comprehensive income within expenses.

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'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss component of the statement of comprehensive income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss component of the statement of comprehensive income within expenses.

### (r) 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.

### (s) Contract work in progress

For the five months of the financial year up to the date of acquisition of Ultrafast Fibre Limited, contract work in progress was stated at cost less amounts invoiced to customers. Cost includes all expenses directly related to specific contracts and an allocation of general overhead expenses incurred by the Group's contract operations.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Construction contract revenue is calculated on an average cost per premise connected and is recognised when the network is ready to be used by Ultrafast Fibre Limited.

### (t) Dividend distribution

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

### (u) Foreign currency translation

*(i) 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), which is the Group's presentation currency.

*(ii) Transactions and balances*

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.

### (v) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are-measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### (w) Convertible notes

Convertible notes issued by WEL Networks Limited can be converted to non-participating redeemable shares (NPRS) at the option of the issuer, and where 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.

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

### (x) 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.

### (y) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### (z) Changes in accounting policies

There have been no significant changes in accounting policies during the current year. Accounting policies have been applied on a basis consistent with prior year.

# WEL NETWORKS LIMITED

**Notes to the financial statements**

**For the year-ended 31 March 2017 *(continued)***

## 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*(i) Estimated fair value of electricity lines distribution and fibre network assets, substation land and buildings*

The Group estimates the fair value of the distribution network, substation land and buildings and fibre network by using independent valuers. The fair value is based on a discounted cash flow methodology for distribution network assets and buildings. The fair value for land is based on market value for highest and best use. Refer to note 8.

*(ii) Estimated lives of electricity lines and fibre network assets*

The useful lives of the components of the distribution network are estimated based on their respective tenure period. These calculations require the use of estimates. Changes to the underlying assumptions of the valuation in the future could have a material effect on the carrying amount of the distribution network. Refer to note 8.

*(iii) Impairment testing of Goodwill*

The Group is required to test goodwill and other non-amortising intangible assets at least annually for impairment. Determining the receivable amount for impairment testing purposes requires the use of judgement and estimation in relation to future forecast performance of the underlying cash-generating unit. Refer to note 10.

*(iv) Deferred tax asset*

Included in the balance sheet at 31 March 2017 is deferred tax liability of $16.9 million arising principally from the recognition of tax on the revaluation of the network assets and 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 requires to have, within prescribed limits, continuity of ownership through to the period in which the losses are utilised and foreseeable profits to use against.

The shareholders agreement provided for joint and equal control between Crown Fibre Holdings and Waikato Networks Limited throughout the concession period and control is not determined by the number of A shares held. This view was submitted to the Inland Revenue Department together with Enable, Northpower and Crown Fibre Holdings and a non-binding indicative view was received. The purchase of CFH's A shares by WNL 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. Refer to note 15.

*(v) Acquisition of Ultrafast Fibre Limited*

The acquisition of Ultrafast Fibre Limited involves significant judgement and estimation in determining the fair value of the previously held equity interest as well as the fair value of assets acquired and liabilities assumed. Refer to note 20.

The Group has adopted the provisions of NZ IFRS-3 Business Combinations which permits presenting the acquisition of Ultrafast Fibre Limited on a provisional basis.

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

## 3 REVENUE

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Sales revenue** | | |
| Gross line revenue | 121,185 | 117,677 |
| Discount | (17,344) | (18,590) |
| Fibre revenue | 23,113 | – |
| Contracting revenue | 32,414 | 94,021 |
| | 159,368 | 193,108 |
| **Other revenue** | | |
| Third party contributions | 10,178 | 5,096 |
| Operating lease revenue | 2,826 | 2,803 |
| Other income | 4,500 | 3,211 |
| | 17,504 | 11,110 |
| | 176,872 | 204,218 |

## 4 EXPENSES

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Expenses, excluding finance costs, included in the income statement classified by nature** | | |
| Contracting cost of sales | 29,310 | 97,159 |
| Transmission costs | 29,528 | 28,601 |
| Employee benefits | 32,951 | 27,022 |
| Capitalised labour | (20,224) | (20,403) |
| Materials and services | 7,589 | 6,716 |
| Premise networking costs | 4,273 | - |
| Net loss on disposal of property, plant and equipment | 3,030 | 2,629 |
| Operating leases | 842 | 257 |
| Directors fees | 407 | 297 |
| Bad debts written off | 225 | 523 |
| Change in provision for impaired receivables | 42 | (138) |
| Other expenses | 20,382 | 11,764 |
| | 108,355 | 154,427 |
| **Profit before income tax includes the following specific expenses** | | |
| **Depreciation** | | |
| Buildings | 149 | 148 |
| Plant and equipment | 3,565 | 3,818 |
| Fibre network | 9,973 | - |
| Motor vehicles | 208 | 847 |
| Distribution network | 17,408 | 16,597 |
| Computer hardware | 738 | 387 |
| **Total depreciation** | 32,041 | 21,797 |

# WEL NETWORKS LIMITED

**Notes to the financial statements**

**For the year-ended 31 March 2017 *(continued)***

## 4 EXPENSES *(continued)*

| | **2017 $'000** | 2016 $'000 |
|---|---|---|
| **Amortisation** | | |
| Computer software | **2,377** | 2,780 |
| Easements and consents | **93** | 121 |
| **Total amortisation** | **2,470** | 2,901 |
| **Total depreciation and amortisation** | **34,511** | 24,698 |
| **Auditors' fees** | | |
| **(a) Remuneration of auditors – PwC** | | |
| Audit financial statements | **180** | 147 |
| Half year review | **44** | 22 |
| Assurance procedures on disclosure information | **75** | 37 |
| Other reviews | **-** | 8 |
| Total remuneration for assurance services | **299** | 214 |
| **(b) Taxation services – PwC** | | |
| Tax advice | **-** | 49 |
| Total remuneration for taxation services | **-** | 49 |
| **(c) Other services – PwC** | | |
| Provision of license for financial reporting software | **28** | 14 |
| Other advisory services | **6** | 58 |
| Total remuneration for advisory services | **34** | 72 |
| | **333** | 335 |

## 5 FINANCE INCOME AND EXPENSES

| | **2017 $'000** | 2016 $'000 |
|---|---|---|
| **Finance costs** | | |
| Interest and finance charges paid/payable | **15,485** | 9,654 |
| Capitalised interest | **(6,500)** | (2,293) |
| **Total finance costs** | **8,985** | 7,361 |
| **Finance income** | | |
| Short-term bank deposits | **(119)** | (114) |
| **Total finance income** | **(119)** | (114) |
| **Net finance costs** | **8,866** | 7,247 |

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

## 6 INCOME TAX

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **(a) Income tax expense** | | |
| **Current tax** | | |
| Current tax on profits for the year | **1,759** | 2,915 |
| Deferred tax | **4,750** | 1,892 |
| **Total current tax** | **6,509** | 4,807 |
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| Profit from continuing operations before income tax expense | **112,374** | 15,686 |
| Income tax @ 28% | **31,465** | 4,392 |
| **Tax effects of:** | | |
| Non assessable income | **(24,628)** | - |
| Non deductible expenses | **15** | 2 |
| Convertible note interest | **(685)** | (686) |
| Prior period deferred tax adjustment | **140** | 494 |
| Share of loss in joint venture | **202** | 605 |
| **Income tax expense** | **6,509** | 4,807 |
| **(c) Imputation credits** | | |
| Imputation credits available for subsequent reporting periods based on a tax rate of 28% (2016: 28%) | **32,231** | 30,389 |
| | **32,231** | 30,389 |
| **(d) Tax receivable/(payable)** | | |
| Opening balance | **540** | 884 |
| Current tax on profits for the year | **(1,759)** | (2,915) |
| Taxation paid | **3,732** | 2,571 |
| **Closing balance** | **2,513** | 540 |

# WEL NETWORKS LIMITED

**Notes to the financial statements**

**For the year-ended 31 March 2017 *(continued)***

## 7 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Trade receivables | **18,797** | 10,144 |
| Amounts due from customer for contract work | **173** | 194 |
| Provision for doubtful receivables | **(505)** | (308) |
| | **18,465** | 10,030 |
| Related party receivable | **210** | 13,219 |
| **Prepayments** | **1,189** | 780 |
| | **19,864** | 24,029 |

### (a) Impaired receivables

As of 31 March 2017, trade receivables for the Group of $1.7 million (2016: $0.7 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of all trade receivables, net of provisions is as follows:

| | | |
|---|---|---|
| Current | **16,831** | 9,338 |
| Less than one to three months | **174** | 73 |
| Three to six months | **1,460** | 2 |
| Over six months | **-** | 617 |
| | **18,465** | 10,030 |

### (b) 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 24 for more information on the risk management policy of the Group.

# WEL NETWORKS LIMITED

**Notes to the financial statements**

**For the year-ended 31 March 2017 *(continued)***

## 8 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

| | Distribution network $'000 | Fibre network $'000 | Land and buildings $'000 | Plant and equipment $'000 | Motor vehicles $'000 | Computer hardware $'000 | Assets under construction $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| Year ended 31 March 2016 | | | | | | | | |
| Opening net book amount | 506,276 | - | 11,866 | 26,293 | 4,358 | 1,062 | 7,727 | 557,582 |
| Additions | 35,875 | - | - | 7,681 | 1,044 | 165 | 1,333 | 46,098 |
| Disposals | (3,294) | - | - | (170) | (273) | (78) | - | (3,815) |
| Depreciation charge (note 4) | (16,597) | - | (148) | (3,818) | (847) | (387) | - | (21,797) |
| **Closing net book amount** | 522,260 | - | 11,718 | 29,986 | 4,282 | 762 | 9,060 | 578,068 |
| At 31 March 2016 | | | | | | | | |
| **Cost/valuation** | 660,588 | - | 12,236 | 42,550 | 6,762 | 2,235 | 9,060 | 733,431 |
| **Accumulated depreciation** | (138,328) | - | (518) | (12,564) | (2,480) | (1,473) | - | (155,363) |
| **Net book amount** | 522,260 | - | 11,718 | 29,986 | 4,282 | 762 | 9,060 | 578,068 |
| Year ended 31 March 2017 | | | | | | | | |
| Opening net book amount | 522,260 | - | 11,718 | 29,986 | 4,282 | 762 | 9,060 | 578,068 |
| Additions | 31,079 | 35,354 | 531 | 6,551 | 4,479 | 562 | 11,483 | 90,039 |
| Disposals | (4,320) | - | (473) | (2,850) | (4,035) | (17) | (8,461) | (20,156) |
| Acquired through business combination | - | 366,780 | - | - | - | 912 | 4,170 | 371,862 |
| Depreciation charge (note 4) | (17,408) | (9,973) | (149) | (3,565) | (208) | (738) | - | (32,041) |
| **Closing net book amount** | 531,611 | 392,161 | 11,627 | 30,122 | 4,518 | 1,481 | 16,252 | 987,772 |
| At 31 March 2017 | | | | | | | | |
| **Cost/valuation** | 686,419 | 402,134 | 12,293 | 44,764 | 7,740 | 3,328 | 16,252 | 1,172,930 |
| **Accumulated depreciation** | (154,808) | (9,973) | (666) | (14,642) | (3,222) | (1,847) | - | (185,158) |
| **Net book amount** | 531,611 | 392,161 | 11,627 | 30,122 | 4,518 | 1,481 | 16,252 | 987,772 |

The amount of interest capitalised was $6,500,394 (2016: $952,368).

# WEL NETWORKS LIMITED

**Notes to the financial statements**

**For the year-ended 31 March 2017 *(continued)***

## 8 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT *(continued)*

### (a) Revaluations and impairment review

Land and buildings were revalued to market value for highest and best use on a value in use basis, on 31 March 2013 by independent valuers, Telfer Young (Waikato) Ltd Registered Valuers using a comparable sales approach.

The Group's electricity distribution network was revalued as at 31 March 2016 to fair value by independent expert. The fair values were established in accordance with NZ IAS 16 – Property, Plant and Equipment and IFRS 13 Fair Value Measurement. The valuation was prepared using discounted cash flow methodology. It is a level 3 valuation.

| | If measured at cost the carrying values would be: | | |
|---|---|---|---|
| | **Land and buildings $'000** | **Distribution network $'000** | **Fibre network $'000** |
| Cost | 10,020 | 513,016 | - |
| Accumulated depreciation | (518) | (168,050) | - |
| **Net book amount at 31 March 2016** | 9,502 | 344,966 | - |
| Cost | 9,600 | 536,607 | 402,134 |
| Accumulated depreciation | (666) | (177,955) | (9,973) |
| **Net book amount at 31 March 2017** | 8,934 | 358,652 | 392,161 |

**The key assumptions used in the valuation of the Distribution Network as at 31 March 2016 include the following assumptions:**

| **Description** | **Valuation assumptions adopted** | **Low** | **High** | **Valuation impact*** |
|---|---|---|---|---|
| WACC | 6.5% | 6% | 7% | +/- $22m |
| CPI | 2.0% | 1.5% | 2.5% | +/- $24m |
| Real Growth | 2.5% | 1.75% | 2.75% | +/- $4m |

* *impact between the adopted assumption and the low/high assumption.*

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

**The key assumptions used in the valuation of the Fibre Network as at 31 August 2016 include the following assumptions:**

The Group's fibre network was revalued as at 31 August 2016 by Ernst & Young. The fair values were established in accordance with NZ IFRS-3 Business combinations and were deemed cost to WEL Networks Limited. The valuation was prepared using discounted cash flow methodology.

**Key Assumptions include:**

- Weighted Average Revenue Per User (ARPU) of $48.75 in 2016/2017 increasing to $50.81 in 2023 and beyond.
- New Connections of 100,000 over the next 40 years.
- Uptake terminal penetration of 70% reached by 2022.
- Weighted average connection costs of $1,492 in 2016/2017, increasing by inflation over the next 40 years.

# 9 CONSTRUCTION WORK IN PROGRESS

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Amounts expected to be recovered with 12 months | - | 29,492 |
| Amounts expected to be recovered after more than 12 months | - | 2,570 |
| | - | 32,062 |
| **Made up of:** | - | - |
| Layer one | - | 23,062 |
| Layer two | - | (10,812) |
| Connections | - | 19,812 |
| | - | 32,062 |
| **Analysed as:** | - | - |
| Contract costs incurred | - | 312,689 |
| Less: progress billings | - | (280,627) |
| | - | 32,062 |
| | | |
| **Revenue from construction contracts** | - | 82,576 |

# WEL NETWORKS LIMITED

**Notes to the financial statements**

**For the year-ended 31 March 2017 *(continued)***

## 10 NON-CURRENT ASSETS – INTANGIBLE ASSETS

| | Computer software $'000 | Goodwill $'000 | Easements and consents $'000 | Leasehold interest $'000 | Assets under construction $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **At 1 April 2015** | | | | | | |
| Cost | 19,602 | - | 6,985 | 107 | 1,366 | 28,060 |
| Accumulated amortisation and impairment | (14,362) | - | (2,064) | - | - | (16,426) |
| **Net book amount** | 5,240 | - | 4,921 | 107 | 1,366 | 11,634 |
| **Year ended 31 March 2016** | | | | | | |
| Opening net book amount | 5,240 | - | 4,921 | 107 | 1,366 | 11,634 |
| Additions | 2,339 | 2,961 | 249 | - | - | 5,549 |
| Disposals | (878) | - | - | - | (821) | (1,699) |
| Amortisation charge (note 4) | (2,780) | - | (121) | - | - | (2,901) |
| **Closing net book amount** | 3,921 | 2,961 | 5,049 | 107 | 545 | 12,583 |
| **At 31 March 2016** | | | | | | |
| Cost | 19,971 | 2,961 | 7,233 | 107 | 545 | 30,817 |
| Accumulated amortisation and impairment | (16,050) | - | (2,184) | - | - | (18,234) |
| **Net book amount** | 3,921 | 2,961 | 5,049 | 107 | 545 | 12,583 |
| **Year ended 31 March 2017** | | | | | | |
| Opening net book amount | 3,921 | 2,961 | 5,049 | 107 | 545 | 12,583 |
| Additions | 3,518 | - | 184 | - | 43 | 3,745 |
| Acquired through business combination | 3,290 | 59,446 | - | - | - | 62,736 |
| Disposals | (223) | (116) | - | - | - | (339) |
| Amortisation charge (note 4) | (2,377) | - | (93) | - | - | (2,470) |
| **Closing net book amount** | 8,129 | 62,291 | 5,140 | 107 | 588 | 76,255 |
| **At 31 March 2017** | | | | | | |
| Cost | 25,834 | 62,291 | 7,417 | 107 | 588 | 96,237 |
| Accumulated amortisation and impairment | (17,705) | - | (2,277) | - | - | (19,982) |
| **Net book amount** | 8,129 | 62,291 | 5,140 | 107 | 588 | 76,255 |

The carrying value of goodwill relates to Ultrafast Fibre Limited as a single cash-generating unit. The recoverable amount was determined using the fair value less cost to sell approach by reference to an independent valuation of the Ultrafast Fibre Limited business of $407 million. As a result no impairment of goodwill was identified. The approach and key assumptions are consistent with those used to value the fibre network and are disclosed in note 8.

# WEL NETWORKS LIMITED

**Notes to the financial statements**

**For the year-ended 31 March 2017 *(continued)***

## 11 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Trade payables | 9,659 | 35,773 |
| Related party payables | - | 15 |
| Advances received for contract work | 1,128 | 1,590 |
| | **10,787** | 37,378 |

## 12 CURRENT LIABILITIES – PROVISIONS

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Employee benefits | **1,243** | 735 |
| Annual leave | **2,127** | 1,410 |
| Other provisions | **441** | 137 |
| | **3,811** | 2,282 |

## 13 NON-CURRENT LIABILITIES – PROVISIONS

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Employee benefits | **481** | 567 |
| | **481** | 567 |

## 14 NON-CURRENT LIABILITIES – BORROWINGS

| Term borrowings – bank loans | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Maturing between 2 and 3 years | **72,707** | 199,859 |
| Maturing between 3 and 4 years | **250,000** | - |
| Maturing between 4 and 5 years | **59,000** | - |
| | **381,707** | 199,859 |

During the year the Group increased their facility by $200 million to $550 million.

The loans is secured by the assets of the Group. The Group is in compliance with all covenants during the year.

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.

# WEL NETWORKS LIMITED

### Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

## 15 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES/(ASSETS)

| | Accelerated tax depreciation $'000 | Revaluation of property, plant and equipment $'000 | Provisions and other $'000 | Derivative instruments $'000 | Tax Losses $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **At 1 April 2015** | **11,903** | **61,972** | **2,517** | **(505)** | **-** | **75,887** |
| Charged/(credited) to the statement of comprehensive income | 3,152 | - | (1,260) | - | - | 1,892 |
| Charged/(credited) directly to equity – revaluations | - | (773) | - | - | - | (773) |
| Charged/(credited) directly to equity – derivatives | - | - | - | (1,726) | - | (1,726) |
| **At 31 March 2016** | 15,055 | 61,199 | 1,257 | (2,231) | - | 75,280 |
| **At 1 April 2016** | **15,055** | **61,199** | **1,257** | **(2,231)** | **-** | **75,280** |
| Charged/(credited) to the statement of comprehensive income | 4,325 | - | 1,106 | - | (681) | 4,750 |
| Charged/(credited) directly to equity – revaluations | - | (566) | - | - | - | (566) |
| Acquired through business combination | 2,310 | 15,548 | 604 | - | (16,165) | 2,297 |
| Charged/(credited) directly to equity – derivatives | - | - | - | 954 | - | 954 |
| **At 31 March 2017** | 21,690 | 76,181 | 2,967 | (1,277) | (16,846) | 82,715 |

## 16 CONTRIBUTED EQUITY

| **(a) Share capital** | **2017 Shares 000** | 2016 Shares 000 | **2017 000** | 2016 000 |
|---|---|---|---|---|
| Opening balance | **8,153** | 8,153 | **111,142** | 111,142 |
| Shares issued in the year | **-** | - | **-** | - |
| | **8,153** | 8,153 | **111,142** | 111,142 |

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

| **(b) Convertible notes** | | |
|---|---|---|
| Opening balance | **39,000** | 39,000 |
| Notes issued | **-** | - |
| Closing balance | **39,000** | 39,000 |

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

## 17 RESERVES AND RETAINED EARNINGS

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| (a) Reserves | | |
| Property, plant and equipment revaluation reserve | **156,537** | 157,995 |
| Hedging reserve – cash flow hedges | **(3,287)** | (5,739) |
| | **153,250** | 152,256 |
| Movements | | |
| ***Property, plant and equipment revaluation reserve*** | | |
| Opening balance | **157,995** | 159,982 |
| Disposal of distribution network assets | **(2,024)** | (2,760) |
| Deferred tax | **566** | 773 |
| **Net fair value gains/(losses) recognised in revaluation reserve** | **(1,458)** | (1,987) |
| **Closing balance** | **156,537** | 157,995 |
| Hedging reserve – cash flow hedges | | |
| Opening balance | **(5,739)** | (1,300) |
| Fair value gains/(losses) in year | **3,406** | (6,165) |
| Deferred tax | **(954)** | 1,726 |
| **Net fair value gains/(losses) recognised in cash flow hedge reserve** | **2,452** | (4,439) |
| **Closing balance** | **(3,287)** | (5,739) |
| (b) Retained earnings | | |
| Movements in retained earnings were as follows | | |
| Opening balance | **112,928** | 100,462 |
| Net profit for the year | **93,745** | 12,513 |
| Dividends | **(1,127)** | (351) |
| Convertible note interest | **(2,449)** | (2,456) |
| Disposal of distribution network assets | **2,024** | 2,760 |
| **Closing balance** | **205,121** | 112,928 |

# WEL NETWORKS LIMITED

**Notes to the financial statements**

**For the year-ended 31 March 2017 *(continued)***

## 18 COMMITMENTS

### (a) Capital commitments

**Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:**

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Property, plant and equipment | 1,060 | 21 |
| Intangible assets | 14 | - |
| | 1,074 | 21 |

### (b) Operating lease commitments

The Group leases land, premises, vehicles and equipment. Operating leases held over properties give the Group the right to renew the lease subject to a predetermination of the lease rental by the lessor. There are no options to purchase in respect of land and premises held under operating leases.

| | | |
|---|---|---|
| Within one year | 1,070 | 1,299 |
| Later than one year and not later than two years | 777 | 939 |
| Later than two year and not later than five years | 2,109 | 2,696 |
| Later than five years | 10,313 | 4,919 |
| | 14,269 | 9,853 |

## 19 RELATED PARTY TRANSACTIONS

### (a) Transactions with other related parties

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 associated companies.

*(i) Key management compensation*

Key management personnel compensation for the years ended 31 March 2017 and 31 March 2016 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.

| Key management compensation | | |
|---|---|---|
| Salaries and other short-term employee benefits | 3,636 | 2,332 |
| Termination benefits | - | - |
| Post-employment benefits | 109 | 69 |
| Other long-term benefits | - | - |
| Share-based payments | - | - |
| **Total** | 3,745 | 2,401 |

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

*(ii) Related party transactions with WEL Energy Trust*

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Interest on convertible note | **(2,449)** | (2,456) |
| | **(2,449)** | (2,456) |

Total dividends paid during the year were $1,127,000 (2016: $351,000).

*(iii) Related party transactions between Ultrafast Fibre Limited and Waikato Networks Limited for the five months to 31 August 2016 prior to acquisition*

| | | |
|---|---|---|
| Sale of fibre assets and related services | **29,342** | 92,138 |
| Provision for management services | **163** | 570 |
| Fibre access services on Velocity network | **43** | 29 |
| | **29,548** | 92,737 |
| | | |
| Trade receivables | **-** | 13,009 |
| Trade payables | **-** | (15) |

*(iv) Related party transactions with SmartCo Limited*

| | | |
|---|---|---|
| Other income | **482** | 25 |
| | **482** | 25 |

WEL Networks Limited owns 15% of SmartCo Limited. SmartCo Limited is a joint venture company which has been set up to contract with supplier and electricity retailers to rollout advanced electronic meters across SmartCo shareholder networks.

*(v) Related party transactions with Waipa Networks Limited*

| | | |
|---|---|---|
| Interest expense | **2,097** | 1,080 |
| Pole make ready and lease costs | **30** | 30 |
| Loan from shareholders | **63,336** | 30,455 |
| | **65,463** | 31,565 |

Net advances from Waipa are loans that are interest bearing and repayable on demand. Interest is charged at a rate equal to the WEL Parent's average finance expense. The outstanding balance includes interest and advances receivable. The advances are unsecured and have no repayment terms and conditions. The loans are used to fund the investment in Ultrafast Fibre Limited.

# WEL NETWORKS LIMITED

**Notes to the financial statements**

**For the year-ended 31 March 2017 *(continued)***

## 20 BUSINESS COMBINATIONS

On 31 August 2016, the Group acquired the remaining 65% of A shares not already owned by the Group, obtaining full control over Ultrafast Fibre Limited (UFF) to benefit from future synergies. Goodwill relates to the value of operational efficiencies and opportunities for significant growth of the fibre network and long-term profitability.

The following table summarises the provisional consideration and the fair value of assets acquired and liabilities assumed at the acquisition date.

| | 31 August 2016 $'000 |
|---|---|
| **Total consideration transferred** | |
| Consideration paid for remaining A shares acquired | 117,942 |
| Cash consideration | 117,942 |
| Provisional fair value of previously held interest | 267,674 |
| **Total provisional consideration** | **385,616** |
| **Provisional fair value of asset acquired** | |
| Cash and cash equivalents | 6,282 |
| Other current assets | 18,372 |
| Property, plant and equipment | 371,862 |
| Current liabilities | (68,049) |
| Deferred tax liabilities | (2,297) |
| Goodwill | 59,446 |
| **Total identifiable net assets** | **385,616** |

A gain of $87.9 million has been recorded on re-measurement of the previously held interest.

UFF would have contributed revenue and profit after tax of $17.9 million and $(0.5) million for the 7 months to 31 March 2017. Had they been acquired on 1 April 2016 UFF would have contributed revenue and profit after tax of $28.6 million and $0.3 million for the 12-month period.

A loss of $3.4 million was recorded through expenses relating to amounts unable to be settled on pre-existing contractual relationship with UFF following the acquisition. Offsetting this is the release of a provision for costs associated with the same pre-existing contractual relationship amounting to $4.5 million that are now deemed recoverable.

Transaction costs associated with the acquisition amounted to $3.2 million.

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

**Prior to the acquisition of the remaining A shares, UFF was equity accounted as an associate as follows:**

| | $'000 |
|---|---|
| Opening carrying value | 134,455 |
| Acquisition of shares at cost | 40,846 |
| Goodwill | 5,139 |
| (Loss)/gain on deemed disposal of share in joint operation | 220 |
| Share of loss in associate | (914) |
| Gain on re-measurement of previously held interest to fair value | 87,928 |
| Share of net profits and fair value gain in associate | 87,234 |
| De-recognition of equity interest on acquisition | (267,674) |
| **Closing balance** | - |

# 21 CONTINGENCIES

As at 31 March 2017 the Group had a $5 million contingent liability in relation to a guarantee (2016:$Nil).

The Group has a $5 million bond with Crown Fibre Holdings Limited in relation to security to ensure performance of the Group's obligations under the Ultrafast Fibre Network build contract.

# 22 INVESTMENTS IN SUBSIDIARIES

The parent has 85 shares (85% of shares) in Waikato Networks Limited. The shares are fully paid.

| | | | Equity Holdings | |
|---|---|---|---|---|
| | Country of incorporation | Class of shares | 2017 % | 2016 % |
| **Operating Subsidiaries** | | | | |
| Waikato Networks Limited | New Zealand | Ordinary | **85** | 85 |
| WEL Services Limited | New Zealand | Ordinary | **100** | 100 |
| Ultrafast Fibre Limited ** | New Zealand | Ordinary | **85** | **60** |
| **Non Operating Subsidiaries** | | | | |
| WEL Electricity Limited | New Zealand | Ordinary | **100** | 100 |
| WEL Power Limited | New Zealand | Ordinary | **100** | 100 |
| WEL Energy Group Limited | New Zealand | Ordinary | **100** | 100 |
| Waikato Electricity Limited | New Zealand | Ordinary | **100** | 100 |
| WEL Generation Limited | New Zealand | Ordinary | **100** | 100 |

All subsidiaries have balance dates of 31 March.

*** Subsidiary of Waikato Networks Limited*

# WEL NETWORKS LIMITED

**Notes to the financial statements**

**For the year-ended 31 March 2017 *(continued)***

## 23 DERIVATIVE FINANCIAL INSTRUMENTS

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Current assets** | | |
| Interest rate swaps – fair value hedges ((a)(i)) | 892 | - |
| **Total current derivative financial instrument assets** | 892 | - |
| **Non-current liabilities** | | |
| Forward foreign exchange contracts – cash flow hedges ((a)(ii)) | - | 6 |
| Interest rate swaps – fair value hedges ((a)(i)) | 5,457 | 7,966 |
| **Total non-current derivative financial instrument liabilities** | 5,457 | 7,972 |
| | (4,565) | (7,972) |

### (a) Instruments used by the Group

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

*(i) Forward foreign exchange contracts*

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 March 2017 were $19,840 (2016: $991,635).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 March 2017 are recognised in the profit and loss component of the statement of comprehensive income in the period or periods during which the hedged forecast transaction affects the profit and loss component of the statement of comprehensive income. This is generally within 12 months of the end of the reporting period unless the gain or loss is included in the initial amount recognised for the purchase of fixed assets, in which case recognition is over the lifetime of the asset (5 to 10 years).

*(ii) Interest rate swaps*

The notional principal amounts of the outstanding interest rate swap contracts at 31 March 2017 were $200 million (2016: $130 million).

At 31 March 2017, the fixed interest rates vary from 2.25% to 4.18% (2016: 3.905% to 4.18%), and the main floating-rate is BKBM.

Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 31 March 2017 will be continuously released to the income statement within finance cost until the repayment of the bank borrowings.

## 24 FINANCIAL RISK MANAGEMENT

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.

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

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 financial year under review, 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:

### (a) Market risk

*(i) Foreign exchange risk*

Management has set up a policy to require the Group to manage their foreign exchange risk against their functional currency. The Group is required to hedge all transactions greater than $250,000.

To manage their 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 entity's functional currency.

At 31 March 2017 if the currency had weakened / strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been nil (2016: $67,822).

*(ii) 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 minimum and maximum fixed interest rate cover of its borrowings in fixed rate instruments.

Based on the various scenarios, the Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. 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 floating-rate interest amounts calculated by reference to the agreed notional amounts. The swaps are for the duration of the borrowing term.

**As at the reporting date, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:**

| | 31 March 2017 | | 31 March 2016 | |
|---|---|---|---|---|
| | **Weighted average interest rate%** | **Balance $'000** | Weighted average interest rate % | Balance $'000 |
| Interest rate swaps (notional/principal amounts) | **4.40%** | **(200,000)** | 3.85% | (130,000) |
| Interest bearing liabilities | **4.17%** | **381,707** | 4.86% | 199,859 |
| Loan from non-controlling interest | **4.17%** | **63,336** | 4.86% | 30,455 |
| **Net exposure to cash flow interest rate risk** | | 245,043 | | 100,314 |

*(iii) Summarised sensitivity analysis*

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk, foreign exchange risk and other price risk.

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

# 24 FINANCIAL RISK MANAGEMENT *(continued)*

| | | Interest rate risk +/-1% | |
|---|---|---|---|
| **31 March 2017** | **Carrying amount $'000** | **Profit $'000** | **Equity $'000** |
| **Financial Assets** | | | |
| Cash and cash equivalents | 5,612 | 56 | - |
| Trade and other receivables (excluding prepayments) | 18,675 | - | - |
| Derivative financial instruments | 892 | - | - |
| **Financial liabilities** | | | |
| Trade payables | 10,787 | 1 | - |
| Interest bearing liabilities | 381,707 | 1,817 | - |
| Derivative financial instruments | 5,457 | - | - |
| Loan from non-controlling interest | 63,336 | 633 | - |
| Customer discount payable | 17,391 | - | - |
| **Total increase/ (decrease)** | | **2,507** | **-** |
| **31 March 2016** | | | |
| **Financial assets** | | | |
| Cash and cash equivalents | 4,049 | 40 | - |
| Trade and other receivables (excluding prepayments) | 23,249 | - | - |
| **Financial liabilities** | | | |
| Trade payables | 37,378 | 1 | - |
| Interest bearing liabilities | 199,859 | 698 | - |
| Derivative financial instruments | 7,972 | - | - |
| Loan from non-controlling interest | 30,455 | 403 | - |
| Customer discount payable | 18,836 | - | - |
| **Total increase/ (decrease)** | | **1,142** | **-** |

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

### (b) Credit risk

Credit risk is the potential risk of financial loss arising from the failure of a customer or counter party 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 on-going basis via Group's management reporting procedures and internal credit review procedures.

In the normal course of its business, the Group incurs credit risk from trade receivables from energy and fibre customers and transactions with financial institutions. A provision has been set up for trade receivables which are unlikely to be collected.

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 in excess of 22% (2016: 36%) 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 doubtful debts is inherent in the Group's trade receivables.

In respect of the fixed deposits, cash and bank balances 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 (in addition to those mentioned elsewhere in the financial statements), 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, the Group does not provide any other financial guarantees which would expose the Group to credit risk.

### (c) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants (leverage, interest cover capital ratios), 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 balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

# WEL NETWORKS LIMITED

**Notes to the financial statements**

**For the year-ended 31 March 2017 *(continued)***

## 24 FINANCIAL RISK MANAGEMENT *(continued)*

| 31 March 2017 | Less than one year $'000 | Between 1 and 2 years $'000 | Between 2 and 3 years $'000 | Between 3 and 5 years $'000 | Total fair value contractual cash flows $'000 | Carrying amount liabilities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| Interest bearing liabilities | 16,739 | 15,726 | 83,939 | 301,565 | 417,969 | 381,707 |
| Trade and other payables | 10,787 | - | - | - | 10,787 | 10,787 |
| Customer discount payable | 17,391 | - | - | - | 17,391 | 17,391 |
| Loan from non-controlling interest | 63,336 | - | - | - | 63,336 | 63,336 |
| **Total non-derivatives** | **108,253** | **15,726** | **83,939** | **301,565** | **509,483** | **473,221** |
| **Derivatives** | | | | | | |
| Interest rate swaps | | | | | | |
| – Inflow | (8,620) | (8,354) | (7,329) | (11,554) | (35,857) | - |
| – Outflow | 8,803 | 8,593 | 7,784 | 12,589 | 37,769 | 4,565 |
| **Total derivatives** | **183** | **239** | **455** | **1,035** | **1,912** | **4,565** |
| **31 March 2016** | | | | | | |
| **Non-derivatives** | | | | | | |
| Interest bearing liabilities | 9,896 | 9,896 | 9,896 | 220,392 | 250,080 | 199,859 |
| Trade and other payables | 37,378 | - | - | - | 37,378 | 37,378 |
| Customer discount payable | 18,836 | - | - | - | 18,836 | 18,836 |
| Loan from non-controlling interest | 30,455 | - | - | - | 30,455 | 30,455 |
| **Total non-derivatives** | **96,565** | **9,896** | **9,896** | **220,392** | **336,749** | **286,528** |
| **Derivatives** | | | | | | |
| Interest rate swaps | | | | | | |
| – Inflow | (6,318) | (6,318) | (6,318) | (6,318) | (25,272) | - |
| – Outflow | 6,354 | 6,354 | 6,354 | 6,354 | 25,416 | 7,972 |
| **Total derivatives** | **36** | **36** | **36** | **36** | **144** | **7,972** |

# WEL NETWORKS LIMITED

## Notes to the financial statements

**For the year-ended 31 March 2017 *(continued)***

### (d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

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

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

The following table presents the Group's financial assets and liabilities that are-measured at fair value at 31 March 2017 and 31 March 2016.

| **31 March 2017** | **Level 1 $'000** | **Level 2 $'000** | **Level 3 $'000** | **Total balance $'000** |
|---|---|---|---|---|
| **Assets** | | | | |
| **Derivatives used for hedging** | | | | |
| Interest rate contracts | - | 892 | - | 892 |
| **Total assets** | **-** | **892** | **-** | **892** |
| **Liabilities** | | | | |
| **Derivatives used for hedging** | | | | |
| Interest rate contracts | - | 5,457 | - | 5,457 |
| **Total liabilities** | **-** | **5,457** | **-** | **5,457** |
| **31 March 2016** | | | | |
| **Liabilities** | | | | |
| **Derivatives used for hedging** | | | | |
| **Interest rate contracts** | - | 7,972 | - | 7,972 |
| **Total liabilities** | **-** | **7,972** | **-** | **7,972** |

# WEL NETWORKS LIMITED

**Notes to the financial statements**

**For the year-ended 31 March 2017 *(continued)***

## 24 FINANCIAL RISK MANAGEMENT *(continued)*

### (e) Financial instruments by category

| Financial assets as per balance sheet | Loans and receivables $'000 | Assets at fair value through profit or loss $'000 | Derivatives used for hedging $'000 | Available for sale $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **At 31 March 2017** | | | | | | |
| Derivative financial instruments | - | - | 892 | - | - | 892 |
| Trade and other receivables (excluding prepayments) | 18,675 | - | - | - | - | 18,675 |
| Cash and cash equivalents | 5,612 | - | - | - | - | 5,612 |
| | **24,287** | **-** | **892** | **-** | **-** | **25,179** |
| **At 31 March 2016** | | | | | | |
| Trade and other receivables (excluding prepayments) | 23,249 | - | - | - | - | 23,249 |
| Cash and cash equivalents | 4,049 | - | - | - | - | 4,049 |
| | **27,298** | **-** | **-** | **-** | **-** | **27,298** |

| Financial Liabilities as per balance sheet | Liabilities at fair value through profit or loss $'000 | Derivatives used for hedging $'000 | Measured at amortised cost $'000 | Total $'000 |
|---|---|---|---|---|
| **At 31 March 2017** | | | | |
| Interest bearing liabilities | - | - | 381,707 | 381,707 |
| Loan from non-controlling interest | - | - | 63,336 | 63,336 |
| Customer discount payable | - | - | 17,391 | 17,391 |
| Derivative financial instruments | - | 5,457 | - | 5,457 |
| Trade and other payables | - | - | 10,787 | 10,787 |
| | **-** | **5,457** | **473,221** | **478,678** |
| **At 31 March 2016** | | | | |
| Interest bearing liabilities | - | - | 199,859 | 199,859 |
| Loan from non-controlling interest | - | - | 30,455 | 30,455 |
| Customer discount payable | - | - | 18,836 | 18,836 |
| Derivative financial instruments | - | 7,972 | - | 7,972 |
| Trade and other payables | - | - | 37,378 | 37,378 |
| | **-** | **7,972** | **286,528** | **294,500** |

# WEL NETWORKS LIMITED

**Notes to the financial statements**

**For the year-ended 31 March 2017 *(continued)***

### (f) 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 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.

| | **2017 $'000** | 2016 $'000 |
|---|---|---|
| Borrowings (note 14) | **381,707** | 199,859 |
| Loan from non-controlling interest | **63,336** | 30,455 |
| Less: cash and cash equivalents | **(5,612)** | (4,049) |
| **Net debt** | 439,431 | 226,265 |
| **Total equity** | 517,297 | 411,990 |
| **Total capital** | 956,728 | 638,255 |
| **Gearing ratio** | 46% | 35% |

## 25 EVENTS OCCURRING AFTER THE REPORTING PERIOD

### (a) No events occurring subsequent to reporting period

There were no events occurring subsequent to balance date which require adjustment to or disclosure in the financial statements.

# WEL NETWORKS LIMITED

**Notes to the financial statements**

**For the year-ended 31 March 2017 *(continued)***

## 26 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | **2017 $'000** | 2016 $'000 |
|---|---|---|
| Profit for the year | **105,865** | 10,879 |
| Depreciation and amortisation | **34,511** | 24,698 |
| Loss on sale of property, plant and equipment | **3,030** | 2,629 |
| Deferred tax | **4,555** | 1,892 |
| Loss/(gain) on disposal of share in joint venture | **(87,957)** | (1,357) |
| Share of loss of joint venture | **723** | 3,517 |
| (Increase) in receivables and prepayments | **(4,165)** | (3,583) |
| Increase (decrease) in financing costs | **8,866** | 8,739 |
| Increase in provision for income taxes payable | **(1,973)** | (344) |
| (Increase) in construction work in progress | **(32,062)** | 2,785 |
| Increase (decrease) in payables (excluding capital items), accruals and employee provisions | **13,796** | 13,459 |
| **Net cash inflow from operating activities** | **45,189** | 63,314 |

# AUDITOR'S REPORT

# *Independent auditor's report*

To the shareholder of WEL Networks Limited

WEL Networks Limited consolidated financial statements comprise:

- the statement of financial position as at 31 March 2017;
- 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 consolidated financial statements, which include a summary of significant accounting policies.

## *Our opinion*

In our opinion the consolidated 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 2017, 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).

## *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 consolidated 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 advisory services. The provision of these other services has not impaired our independence as auditors of the Group.

## *Information other than the financial statements and auditor's report*

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the consolidated financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 our auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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

## *Responsibilities of the Directors for the consolidated financial statements*

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

In preparing the consolidated 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 consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ 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 consolidated 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://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page7.aspx

## *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 Julian Prior.

For and on behalf of:

PricewaterhouseCoopers.

Chartered Accountants
25 May 2017

Auckland

# DIRECTORS' REPORT / STATUTORY INFORMATION

# DIRECTORS' REPORT / STATUTORY INFORMATION

## 1. DIRECTORS' REMUNERATION

**Directors' fees and other remuneration paid during the year were:**

| | Year Ended 31 March 2017 $ | Year Ended 31 March 2016 $ |
|---|---|---|
| M P Devlin | 85,000 | 85,000 |
| M X Franklin | 59,444 | 42,500 |
| P D McGilvary | 42,500 | 42,500 |
| A V Steele | 59,167 | 42,500 |
| B S Harris | 42,500 | 42,500 |
| D R Wright | 42,500 | 42,500 |
| R H Fisher | 34,375 | - |
| D Dinsdale | 1,869 | - |
| | **367,355** | **297,500** |

## 2. DONATIONS

There were no donations made by the Company during the year.

## 3. 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.

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

## 4. 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.

## 5. EMPLOYEES REMUNERATION

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

| | Year Ended 31 March 2017 |
|---|---|
| **Continuing Employees** | |
| 480,000 - 490,000 | 1 |
| 250,000 - 259,999 | 2 |
| 240,000 - 249,999 | 1 |
| 210,000 - 219,999 | 1 |
| 200,000 - 209,999 | 1 |
| 190,000 - 199,999 | 0 |
| 180,000 - 189,000 | 1 |
| 170,000 - 179,999 | 0 |
| 160,000 - 169,999 | 3 |
| 150,000 - 159,999 | 4 |
| 140,000 - 149,999 | 2 |
| 130,000 - 139,999 | 7 |
| 120,000 - 129,999 | 3 |
| 110,000 - 119,999 | 15 |
| 100,000 - 109,999 | 23 |
| **Discontinued Employees** | |
| 250,000 - 259,999 | 1 |
| 240,000 - 249,999 | 2 |
| 140,000 - 149,999 | 1 |
| 120,000 - 129,999 | 1 |
| 100,000 - 109,999 | 2 |

## 6. SHAREHOLDERS

As at 31 March 2017, the Company's shareholder was

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

# DIRECTORY

# DIRECTORY

## AS AT 31 MARCH 2017

| REGISTERED OFFICE | |
|---|---|
| | 114 Maui Street<br>Te Rapa<br>Hamilton 3240<br>New Zealand<br><br>**Telephone** 64-7-850 3100<br>**Facsimile** 64-7-850 3210<br>**Website** wel.co.nz<br>**Email** connect@wel.co.nz |

| DIRECTORS HOLDING OFFICE | |
|---|---|
| | Margaret P Devlin – *Chairman* |
| | Mark X Franklin |
| | Paul D McGilvary |
| | Anthony (Tony) V Steele |
| | Barry S Harris |
| | David R Wright |

| COMPANY MANAGEMENT | |
|---|---|
| **Chief Executive** | Garth W Dibley – *NZCE, BE, MBA* |

| | |
|---|---|
| **General Manager Asset Management** | Paul R Blue – *BE (Hons), MBA* |
| **General Manager Commercial** | Richard A Barnard – *BA, MA* |
| **General Manager Finance** | Bella L Takiari-Brame – *MMS, CA, (ACT)* |
| **General Manager Technology** | Sean Horgan – *BMS (Hons), MMS* |
| **General Manager WEL Services** | David J van Deventer |
| **General Manager People and Performance (Acting)** | Victoria (Vicky) L Costain – *BA* |
| **Auditors** | PricewaterhouseCoopers, *Auckland* |
| **Solicitors** | Tompkins Wake, *Hamilton*<br>DLA Piper, Auckland |
| **Insurance Brokers** | JLT *New Zealand, Auckland* |

# CREATING AN INNOVATIVE ENERGY FUTURE

*Best in Service*
*Best in Safety*

## CONTACT US

**Freephone:** 0800 800 935
**Main Office:** 07 850 3100

114 Maui St, Te Rapa, Hamilton 3200
PO Box 925, Hamilton 3240

**wel.co.nz**